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28 October 2021

## **Honeycomb Investment Trust plc**

Honeycomb Investment Trust plc (the “Company” or “Honeycomb”) announces that the Investment Manager’s monthly factsheet for 30 September 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 30 September 2021 on a cum-income basis was 1,018.4 pence, based on a NAV of £359.1 million, and on an ex-income basis was 1,017.9 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 “HONY”) delivered a NAV return of 0.66% for the month of September, or 8.0% annualised. This completes a strong quarter for Honeycomb with a Q3 annualised NAV return of 8.3%.

Net Investment Assets decreased in the month by £30m from £619.5m at the end of August to £589.2m at end of September, predominantly driven by two repayments in the structured consumer portfolio. The first was the repayment of a senior-secured facility backed by unsecured consumer loans which has refinanced into a new larger syndicated facility with Honeycomb participating but resulted in net cash inflow, which will then draw again over the coming months. The second was the £16m repayment in full of a senior-secured credit cards facility at the end of its term.

The pipeline of new opportunities is strong with £500m of well progressed deals including a number of upsizes to existing clients. Total pipeline exceeds £1bn. The current pipeline has a strong positive social and environmental impact focus, including five transactions totalling c.£210m in the renewable / electric mobility space, reflective of our continued focus on supporting innovative lending partners who focus on lending in areas that will accelerate environmental and social initiatives.

The net debt-to-equity in the month reduced to 63.4% from 69.8% as reduction in Net Investment Assets facilitated a £12m repayment of the main leverage facility and increase in cash balance from £21m to £33m.

### **Market dynamics driving compelling investment opportunities**

Non-bank lending is now an integral part of the lending landscape, providing financing to millions, including those that are underserved by high street banks.

The lending market has seen an increase in seasoned underwriters and originators setting up specialised lending platforms, giving customers access to a team of experts who maintain longstanding relationships, execute and close quickly, and thus benefit from repeat business.

We have seen first-hand the importance of deep sector expertise to navigate the non-bank lending market, by building a network of long-term industry relationships enabling a diverse and differentiated deal flow. We recognise the importance of these businesses and have focused our strategy on this growing market through providing finance, typically on a senior secured basis.

Due to the fragmented nature of the market and the relationships we build, most of our investments are sourced internally and negotiated bi-laterally, with diligence and structuring done in-house by our expert team creating high barriers to entry for other capital providers and more sustainable risk and returns. We believe that lenders often prefer to partner with a finance provider that has deep expertise and industry knowledge and who has demonstrated a commitment to the market through several cycles.

Our asset-based credit strategy provides finance to the non-banks, predominantly on a senior basis, secured directly against their loan portfolio with priority over the customer cash flows. The diversification and granular nature of the underlying loan portfolios provides significant risk protection meaning predictable cashflows that support our loan repayments.

Fundamentally, our approach combines the structuring and credit disciplines of Asset-Based Finance “ABF” with those of direct lending. The loans are fully covenanted at asset performance and corporate level and are structurally super-senior to the majority of the business’ operational expenses.

Whilst public securitisation may at times be used as a comparable strategy versus our offering, from a risk reward perspective it is worth highlighting some differentiating factors. Our facilities are predominantly the most senior in the capital structure, ensuring we receive ‘the first dollar’ of interest or principal on any facility.

Negotiated bilaterally, we are able to precisely tailor our facility with conservative leverage ratios that meet our detailed macro- economic stress testing and we are able to ensure we structure a comprehensive suite of covenants and have full recourse to both the asset collateral as well as the issuing entity together with parental guarantees if required.

On an on-going basis, through proprietary systems, we are able to monitor cash collections on a daily basis, control underwriting and adjust our facilities where necessary.

### **Topics on the horizon**

There are a number of macroeconomic risks and concerns in the market currently, and though some may only be transitory, it is worthwhile highlighting a few that we are currently monitoring closely. Overall, as we witnessed during the Covid pandemic, the Honeycomb Investment Trust portfolio proved to be resilient through the economic turmoil of 2020, and able to continue to collect cash and pay dividends.

Looking ahead and towards 2021, the potential impact of inflation across all sectors is worthy of note. On the Consumer side, this could lead to borrowers’ affordability worsening, insofar as wage growth inflation outpaces price inflation, which could lead to increasing arrears. We are mitigating this by ensuring lenders affordability assessments are being updated to reflect higher non-discretionary spending. We are also protected as the underlying consumer loan pools are relatively short duration and amortising so the portfolios turnover quickly.

For the SME portfolio, the impact of inflation is expected to be minor given our SME exposure is predominantly backed by loans benefiting from government guarantees (through the Coronavirus Business Interruption Loans Scheme “CBILS” and the Recovery Loan Scheme “RLS”) or short duration working capital loans which provide important protection against stress to the underlying borrowers due to rises in operational costs resulting from wage inflation.

On the real estate side, inflationary pressures have grown as supply restrictions imposed by Brexit and the coronavirus pandemic has led to building material cost inflation, putting strain on the construction industry both in the UK and across Europe. While this inflation is likely to put pressure on development lending, we expect the Honeycomb development portfolio (15% of Net Investment Assets) to remain resilient to these factors, supported by robust structural protections, the fixation of build costs upfront and strong developer-supplier relationships. All development loans are structured with a buffer in the loan amount to absorb cost overruns (~5% of build costs), beyond which this cost is borne by the first loss equity, providing a strong buffer in the event of cost overruns. Furthermore, over 50% of the development loans collateralising our exposures relate to complete builds or builds with fewer than 6 months remaining; for these most costs have already been incurred or agreed. For the remaining portfolio, costs are typically covered by fixed price contracts, preventing the supply price inflation being passed through to the development costs. In the rare occasion that costs are not subject to fixed contracts, we have seen minimal passthrough of cost increases to our development partners owing to their long-standing relationships with suppliers.

Looking across to the Energy sector, we would highlight that we have no direct exposure to conventional Energy backed assets, and therefore we expect that the impact of price rises in this sector to have limited impact to the portfolio performance.

At a macro level it seems clear that interest rate rises are now on the horizon in both the short and medium term. Honeycomb is well positioned with a good natural hedge of floating rate assets and debt. In addition, the Honeycomb portfolio generates strong cashflow distributions – approximately £290m in 2019 & 2020 and over £150m YTD in 2021. This allows us to reinvest the Honeycomb portfolio at current market rates, as yields and returns adjust accordingly.

Integral to our portfolio management approach is our on-going detailed monitoring process, through our proprietary systems, integrated into our lending partners, to provide us with live performance updates. As we saw through 2020, this proactive and rigorous approach to the Honeycomb portfolio holds us in good stead as markets face uncertainty, and we believe the portfolio continues to offer strong diversification with downside protection for our shareholders.

As we now look ahead to the developing macroeconomic environment post-Covid, we remain confident that our dedicated approach and expert team are ever vigilant and prepared for the challenges and opportunities to come.

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