# Interim Report and Unaudited Financial Statements

Honeycomb Investment Trust

For the period 1 January 2021 to 30 June 2021

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# Strategic Report

# The Company

Honeycomb Investment Trust plc ("the Company" or "Honeycomb") is a UK listed investment trust dedicated to providing investors with access to asset backed lending opportunities that Pollen Street Capital Limited ("Pollen Street" or the "Investment Manager") believes have potential to generate high income returns together with strong capital preservation.

# Investment Objective

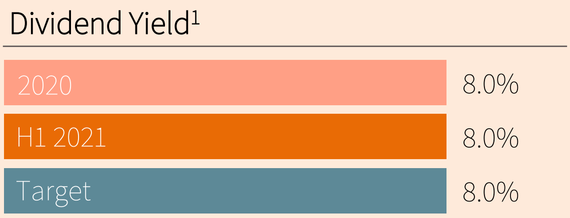
The Company and its subsidiaries (together, "the Group") operate an asset backed credit strategy that delivers stable income alongside strong downside protection through providing predominantly senior lending to non-bank lenders secured on their underlying loan portfolios. The investment strategy is supported 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.

The strategy is focused on generating positive impact around five 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 Manager

Pollen Street serves as the Company's investment manager. Pollen Street is an independent, alternative investment management company specialising in the financial services sector and has extensive experience investing in both credit and private equity strategies across both banks and non-bank lenders.

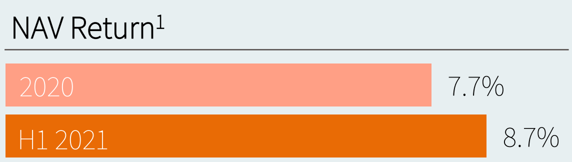
# Performance Highlights

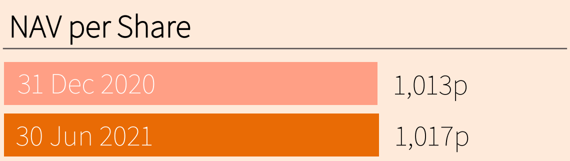



*Dividend yield stable at 8.0 per cent of IPO issue price - in line with the published target*

*Note - target dividend is not a profit forecast*

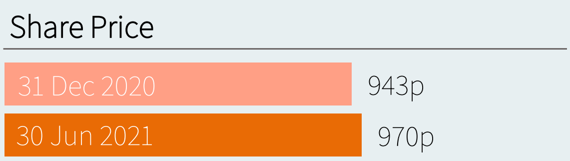
*NAV return building on the resilience shown through Covid-19*




*NAV per share stable*

*Share price closed the period at 970p*




[1]See section 5 for reconciliation to Alternative Performance Measures

# Chairman's Statement

I am pleased to present the 2021 interim results for Honeycomb Investment Trust plc, covering the period 1 January 2021 to 30 June 2021.

The Company is a UK listed company dedicated to providing investors with access to the critically important non-bank lending market which is structurally growing. Within this market, the Investment Manager identifies lending opportunities that it believes have the potential to provide attractive, high-income returns together with strong capital preservation.

The investment provided by Honeycomb Investment Trust to our credit partners across SME, Property and Consumer has a critical role to play in enabling lending products that can accelerate progress in financial inclusion, affordable housing, green finance and reducing carbon emissions from property.

## PERFORMANCE

The focus on proactive portfolio management throughout 2020 positioned the Company strongly for new opportunities in 2021. The Company has performed well in the first six months of 2021, delivering an annualised NAV return of 8.7 per cent[1] (H1 2020: 8.2 per cent) for the period. The intensive portfolio management approach of the Company proved invaluable throughout the uncertainty of the Covid-19 pandemic. Having seen strong cash collections through 2020, the Company was able to take advantage of new exciting opportunities during the first six months of 2021.

## ASSET PORTFOLIO

The performance of the underlying Credit Assets has remained consistent throughout the first six months of 2021. Net Investment Assets[2] have increased from £569 million to £594 million as the Company has been able to access new attractive opportunities that reflect the overall asset-backed strategy of the Investment Manager. With mainstream banks increasingly focused on commoditised lending markets, the non-bank lending sector is increasingly critical to support the economy.

The Manager also believes opportunities to continue to support lending into SMEs through government backed schemes will offer compelling returns. To date the Company has supported the Coronavirus Business Interruption Loan Scheme ("CBILS") lending and expects opportunities to deploy further capital supporting the Recovery Loan Scheme ("RLS") lending. A new senior credit card receivable facility was signed during the first six months of 2021, and in addition, senior loans were added in the property sector where the Investment Manager believes security and leverage ratios continue to offer attractive returns for shareholders with highly resilient senior security.

## IMPAIRMENT & ASSET VALUATIONS

The interim results show a reduced level of expected credit loss ("ECL") provision charges under IFRS 9, against the same period in 2020. The ECL charge for the first half of 2021 was £0.5 million (30 June 2020: £6.7 million, 31 December 2020 full year: £5.6 million).

The portfolio benefits from the Investment Manager's continued shift to structurally secured assets with greater protection from adverse credit losses.

The investment assets are now 93 per cent structurally secured.

## GEARING

Gearing has remained relatively stable with net debt to equity increasing slightly from 59.1 per cent[1] to 66.1 per cent over the period as new assets have been deployed. The borrowings as at 30 June 2021 are £265 million, against £274 million at 31 December 2020.

## DIVIDENDS

The Company has continued to meet its dividend target of 20.00 pence per share per quarter, in line with the target dividend yield of 8.0[1] per cent annualised on the issued share price at the Company's initial public offering.

## SHARE PRICE AND BUYBACKS

The market volatility experienced throughout 2020 from Covid-19 has reduced and allowed the share price to stabilise and improve, closing at 4.6[1] per cent below NAV (30 June 2020: 26.0 per cent discount, 31 December 2020: 7.0 per cent discount).

[1] See section 5 for reconciliation to Alternative Performance Measures

[2] Net Investment Assets includes equity assets held at fair value through profit or loss, credit assets held at amortised cost and credit assets held at fair value through profit or loss

During 2020, the Board responded to this volatility by announcing a buy back initiative and commitment to continue buybacks until the shares traded at less than a 5 per cent discount to NAV, with the share price responding and improving. No buybacks have taken place since November 2020.

## OUTLOOK

The Company's strong performance through the first six months of 2021 builds on a successful 2020. The Investment Manager's decisions early on during the 2020 Covid-19 pandemic, and proactive approach to managing the portfolio, put the Company in a strong position going into 2021 and we are pleased to see the strategy continue to deliver targeted returns and dividend yields.

The Board were pleased to see that following the Company's Annual General Meeting on 8 June 2021, all the resolutions set out in the Notice of Annual General Meeting were passed by the requisite majority, with the exception of resolution 16 for which shareholders voted for continuation of the Company as recommended by the Board.

Going into 2021, the Company continues to deliver strong performance by investing and partnering with lenders that offer senior secured investment returns, coupled with impact driven investments that align with the Investment Manager's impact goals.

Robert Sharpe

Chairman
14 September 2021

# Investment Manager's Report

The Investment Manager, Pollen Street Capital Limited, is an independent asset manager working across credit and private equity strategies. Pollen Street was formed in 2013 and possesses a strong and consistent track record within the financial and business services sectors.

Pollen Street has significant experience in lending markets. Its strategy is focused on providing finance to the non-bank lending sector enabling these businesses to grow and support their customers with strong product propositions. The Investment Manager believes there is a significant opportunity to earn attractive returns from lending to a broad range of businesses focused on different subsets of the lending market. Pollen Street has built deep expertise in lending to non-bank lending businesses.

The Investment Manager provides the Group with access to an established network of these specialist lenders. The relationship with these partners extends beyond Pollen Street being simply providers of capital. As investment manager, it deploys expertise to enable these to outperform across all stages of the credit cycle. The relationships and expertise created are difficult to replicate and help provide more stable and attractive returns. The Investment Manager works closely with its partners to define attractive customer centric lending offerings with strong resilient performance.

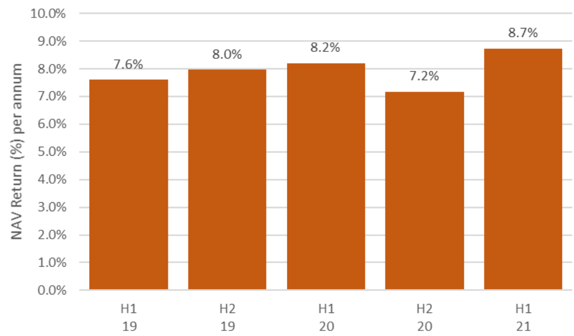
## H1 2021 HIGHLIGHTS

The Company has delivered 8.7[1] per cent annualised NAV return for the first six months of the year (30 June 2020: 8.2 per cent), which is in excess of the 8.0 per cent target. This builds on a 7.7 per cent NAV return FY2020 and continues the strong performance of the Company through turbulent times.

Following proactive portfolio management in 2020, the Manager started 2021 well positioned to target new investment opportunities with credit asset returns at approximately 9.8 per cent. The portfolio remains stable, with further advances invested in existing facilities, and Pollen Street continues to focus the portfolio on more structured and secured loans and away from consumer whole loans. This reduces the risk of underperformance in the portfolio.

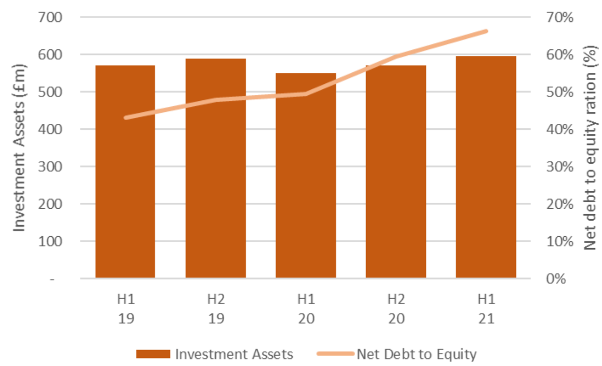
We continue to adopt a proactive and prudent approach and our deep relationships have helped our partners to maintain and develop their businesses sustainably. Further partners have been on-boarded which have supported this growth while the profile of risk and return remains robust.

## HALF YEARLY NAV RETURN



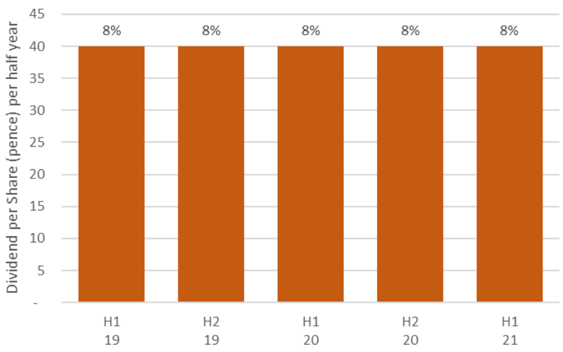

Profit for the first 6 months of the year was £15.5 million (30 June 2020: £9.5 million), which translated into a basic earnings per share of 43.9p[1] (30 June 2020: 25.6 pence). This is equivalent to an annualised NAV return of 8.7[1] per cent (30 June 2020: 8.2 per cent), showing significant improvement against the height of the Covid-19 crisis in early 2020. The growth is driven by an increase in investment assets combined with a reduction in the ECL charge, from £6.7 million to £0.5 million, reflecting the move to structurally secured assets with greater downside protection and the improving economic outlook.

Investment Assets and Net Debt to Equity Ratio




The net debt to equity ratio closed the period at 66.1[1] percent (30 June 2020: 49.4 percent) driving an increase in net investment assets from £551 million to £594[2] million. In September 2020 the Company completed a new £250 million three-year facility with a global bank, increasing the liquidity position and allowing an increase in investment assets despite a NAV reduction following buybacks made throughout 2020, whilst remaining within the gearing limits set.

Dividend Per Share and Annualised Dividend Yield




Since its IPO in December 2015 the Company has delivered a NAV return equivalent of 45.6[1] per cent (including dividends declared or paid) with NAV per share (cumulative of income) of 1,017.0 pence per ordinary share as at 30 June 2021.

## PORTFOLIO

The Covid-19 pandemic accelerated structural change in the industry and the opportunity for non-bank lenders. NAV returns for the Company were back to pre-Covid levels by January 2021. The pipeline of above-hurdle investment opportunities was strong throughout H1 2021, with an average pipeline of over £1bn, well diversified by asset class with 37 per cent relating to SME lending, 36 per cent to property backed and 27 per cent to consumer.

As at 30 June 2021, the portfolio of structured loans consisted of 18 facilities with an average balance outstanding per facility of £17 million. The facilities have an average effective advance rate of 69 per cent and typically benefit from robust covenants. The facilities are collateralised by over 270,000 underlying loans and receivables. The Group's portfolio of direct loans consists of 22 deals with an average balance outstanding per relationship c.£12.2 million, 75 per cent of direct loans are secured on property, with an average loan to value ("LTV") of 64 per cent, providing high recoverability and significant downside protection. A well-seasoned portfolio of direct consumer loans constitute the majority of the remaining 3 per cent of the portfolio and have run-off significantly over the past 24 months.

## ESG

We were delighted to win the award for Best Responsible Alternative Investment Team UK 2021 by CFI, recognising the team's progress in "responsible portfolio development" and an approach which prioritises "lasting impact".

Furthermore, the team has played an integral role in launching the Invest in Women Hub, the latest in a series of initiatives from the Council for Investing in Female Entrepreneurs ("CIFE") aiming to accelerate female entrepreneurship and support female founders.

We are excited to combine the delivery of attractive risk adjusted returns, with a strategy that generates a long term sustainable positive impact for investors, partners and wider society.

## OUTLOOK

Honeycomb has a track record of consistent credit performance and dividends. The Covid-19 pandemic was a test of both the resilience of the strategy and our portfolio management approach as Investment Manager. The stability of the NAV performance reflected the prudent approach, discipline and high standards of governance of the Investment Manager's established business model. The strategy for 2021 continues, coupled with an approach that aims to generate a long term sustainable positive impact for investors, partners and wider society.

The Investment Manager will continue to work with the Board to support the discount management programme, which is aiming to reduce the discount between the NAV and share price.

## CONCLUSION

In our guidance issued at the time of the Company's initial public offering, we stated that we were targeting a dividend yield of at least 8.0 per cent (based on issue price). We are proud to have met their guidance, particularly through 2020, and the first six months of 2021

Pollen Street

14 September 2021

# Top Ten Holdings

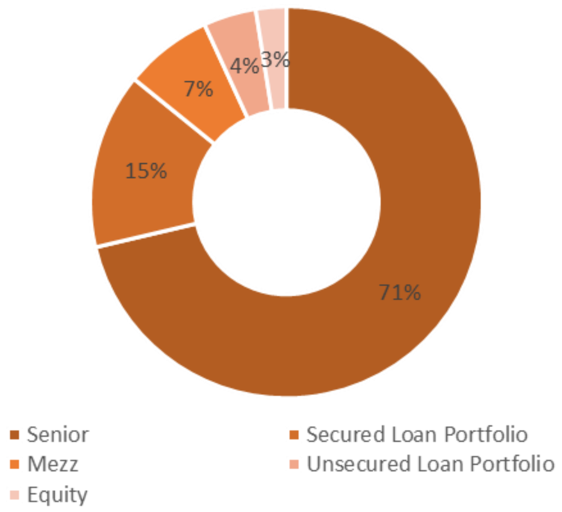
| | | Country | Deal Type | Structure | Sector | Value of holding at period-end (£m)[1] | LTV | Percentage of assets[2] |
|---|---|---|---|---|---|---|---|---|
| 1 | UK Agriculture Limited | United Kingdom | Direct Portfolio | Senior | Property | 54.7 | 50% | 9.2% |
| 2 | Creditfix Limited | United Kingdom | Structured | Senior | Discounted Fee Receivables | 50.1 | 39% | 8.4% |
| 3 | Sancus Loans Limited | United Kingdom | Structured | Senior | Property | 47.4 | 54% | 8.0% |
| 4 | Nucleus Cash Flow Finance Limited | United Kingdom | Structured | Senior | SME CBILS | 46.1 | 96% | 7.8% |
| 5 | Oplo Direct Portfolio | United Kingdom | Direct Portfolio | Loan Portfolio | Secured Consumer | 41.6 | 81% | 7.0% |
| 6 | Oplo Structured | United Kingdom | Structured | Mezzanine | Secured Consumer | 40.3 | 95% | 6.8% |
| 7 | GE Portfolio | United Kingdom | Direct Portfolio | Loan Portfolio | Secured Consumer | 35.8 | 61% | 6.0% |
| 8 | 118118 Loans | United Kingdom | Structured | Senior | Unsecured Consumer | 25.5 | 75% | 4.3% |
| 9 | Downing Development Loans | United Kingdom | Direct Portfolio | Senior | Property | 24.9 | 63% | 4.2% |
| 10 | Propfin Limited | United Kingdom | Structured | Senior | Property | 20.9 | 60% | 3.5% |

1 Direct portfolios have been aggregated by originator and servicer
2 Percentage of total investment assets of the Group (investment assets calculated as the carrying balance of all credit assets at amortised cost, credit assets held at fair value through profit or loss and equity investments held at fair value through profit or loss).

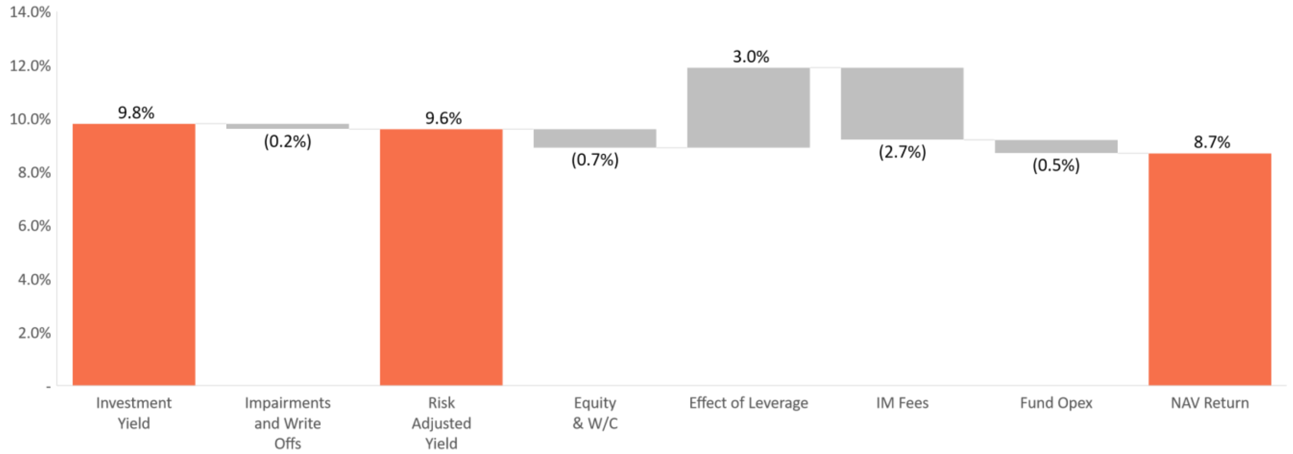
As at 30 June 2021 the value of the top 10 assets totalled £387.3 million (June 2020: 221.3 million, 31 December 2020: £359.2 million) which equated to 65.2 per cent (2020: 63.2 per cent) of investment assets (investment assets calculated as the carrying balance of all credit assets at amortised cost and credit and equity investments held at fair value through profit or loss).

# Portfolio Composition

Loan Book[2] Stratification by Structure




# Returns Bridge H1 2021




The above chart shows the composition of the NAV returns. See section 5 for reconciliation to Alternative Performance Measures.

# ESG Programme

# ESG Programme

**As Investment Manager, Pollen Street Capital believes in the potential for positive impact through the work that we are passionate about. We are committed to maintaining and enhancing our focus on actions that generate positive impact for our investors, people, portfolio companies and wider society.**

There can be no denying the impact of the Covid-19 pandemic on all our lives over the past year. Amongst the many changes seen as a result of the emergence of Covid-19 is a sharpened appetite for sustainability at local, national and global levels. This renewed focus is driving companies to embed sustainable behaviour and consider their duty of care to employees, customers, stakeholders, and planet.

Pollen Street are pleased with the progress and impacts we are seeing across the ESG agenda, combined with external recognition of our efforts.

2021 cfi.co BEST RESPONSIBLE ALTERNATIVE INVESTMENT TEAM WINNER UK

Earlier this year Pollen Street Capital were named Best Responsible Alternative Investment Team UK 2021 by Capital Finance Magazine (CFI.co). The award recognises the firm's efforts in responsible investing.

## ESG in the investment process

The Investment Manager has embedded Environmental, Social and Governance as a core part of its investment process – from identifying ESG risks pre-acquisition, through to working with credit partners post-acquisition to embed this ESG framework, drive value creation and monitor performance against key criteria - and operates on a continuous-improvement basis.

Through up front due diligence, Pollen Street identifies how strong the prospective credit partner’s ESG programme is, and where we can support them as they develop their ESG policies and practices as they join the portfolio. The assessment covers areas such as ESG risks, along with the focus areas in our impact framework.

## Governance and Oversight

Since 2019, Pollen Street has extended the use of the Pollen Street Hub to encompass the ESG agenda. The Hub aims to drive the practical application of ESG issues with a focus on core areas of impact, along with reporting and sharing of best-practice. Pollen Street has an ESG committee which is responsible for setting the strategy, framework and processes to ensure that effective ESG policies are implemented and overseen.

# Engagement and embedding ESG within Pollen Street

Pollen Street seeks to increase awareness of the potential for positive impact in financial services to all its stakeholders. Pollen Street uses the United Nations' Sustainable Development Goals to seek to ensure  all investments meet minimum standards, while generating strong returns for its investors. Our Environmental, Social and Governance Policy explains how we think, behave and invest responsibly. This includes how we can help drive impact in the counterparties we invest through and the companies we invest in. Our policy also explains how we consider the principal adverse impacts of investment decisions on sustainability factors, aligned to the Sustainable Finance Disclosure Regulation ("SFDR").

The Manager provides regular training and education to teams to help them understand and identify the relevance and importance of ESG factors in investment activities.

# Sustainable Development Goals


*Signatory of:*

PRI Principles for Responsible Investment

The Investment Manager is a signatory to the United Nations' Principles of Responsible Investment and seeks to drive continued improvement through  the ESG initiatives that it has in place across the portfolio.

Pollen Street publishes an annual ESG Report which provides progress and highlights from its ESG strategy. The report also includes details on Pollen Street's Ten Years' Time philanthropy program partners. The program aims to connect ESG impact with Pollen Street and its incredible people and expertise.

**Find out more here:** www.pollencap.com/responsible-investing/

## Monitoring of ESG Impacts

Pollen Street Capital collects data across its Credit portfolio, tracking impact against the 5 key areas where we believe we can make a meaningful difference. We aim to measure progress to support:

- Regional economic growth
- Affordable housing
- Financial inclusion
- Reduction in carbon footprint of homes and transport
- Embedding the highest standards of governance in lending.

### ESG in action

Recent examples of how Pollen Street Capital's credit facilities have supported a tangible ESG impact include:

ONTO

**POSITIVE ENVIRONMENTAL IMPACT**

### Helping real people go green

Reducing the carbon footprint and energy consumption of homes is one of the key ways that individuals can have a real positive impact on the environment. Our lenders help finance home improvements that improve energy efficiency, and we are now also focused on the electrification of transport options.

Pollen Street has recently announced a new £75 million senior asset backed credit facility with all-inclusive electric vehicle (EV) subscription service **Onto**. The facility will enable Onto to significantly expand its electric vehicle fleet with capacity to acquire in excess of 3,000 vehicles.

**In 2020, Onto's electric cars:**

**2,467,220 miles driven**

saving 609 tonnes of $CO_2$,

**10,355 trees grown**

the equivalent of 10,355 trees grown for 10 years, or

**26,192 bags**

bags of rubbish recycled

**FINANCIAL INCLUSION**

### Helping SMEs through the Covid crisis

Pollen Street has provided £195m, via our Credit partners, to support SMEs through the Coronavirus Business Interruption Loan Scheme (CBILS). CBILS were designed to provide financial support to smaller businesses across the UK to survive the challenges of the coronavirus pandemic and recover afterwards.

**£195m**

provided, 80% outside London

# Principal Risks and Uncertainties

The Group faces a number of both principal and emerging risks, and as a result, the management of the risks we face is central to everything we do. These risks could have a material impact on financial performance and position and could cause actual results to differ materially from expected and historical results.

The Board has carried out a robust assessment of its principal and emerging risks and considers the controls in place help to mitigate the risks on a regular basis. It maintains a risk register that identifies the risks facing the Group, classifying the probability of the risk and the potential impact that an occurrence of the risk could have on the Group. The risk register was last reviewed by the Risk Committee and Board on 7 September 2021. It was previously reviewed by the Risk Committee on 21 April 2021. The main changes to the register since the prior year are related to revisions to the potential impact of Covid-19 and the anticipated discontinuation of LIBOR. The day-to-day risk management functions of the Group have been delegated to the Investment Manager, which reports to the Risk Committee.

## INVESTMENT RISKS

### Achievement of the Investment Objective

There can be no assurance that the Investment Manager will continue to be successful in implementing the Company's investment objective.

#### Mitigation

The Group's investment decisions are delegated to the Investment Manager. Performance of the Group against its investment objectives is closely monitored on an ongoing basis by the Investment Manager and the Board and is reviewed in detail at each Board meeting. The Board has set investment restrictions and guidelines which the Investment Manager monitors and reports on quarterly to the Board. In the event it is required, any action required to mitigate underperformance is taken as deemed appropriate by the Investment Manager. We expect the economic environment to create some compelling new opportunities for the Group which the Investment Manager will selectively review and deploy capital into.

### Fluctuations in the market price of Issue Shares

The market price of the Group's shares may fluctuate in response to different factors and there can be no assurance that the Group's shares will be repurchased by the Group even if they trade materially below their Net Asset Value. Similarly, the shares may trade at a premium to Net Asset Value whereby the shares can trade on the open market at a price that is higher than the value of the underlying assets. There can be no assurance, express or implied, that shareholders will receive back the amount of their investment in the Group's shares.

#### Mitigation

The Investment Manager and the Board closely monitor the level of discount or premium at which the Company's shares trade on the open market. The Company may purchase the shares in the market with the intention of enhancing the Net Asset Value per ordinary share. However, there can be no assurance that any repurchases will take place or that any repurchases will have the effect of narrowing any discount to Net Asset Value at which the ordinary shares may trade. When the Company's shares trade at a premium the Company may issue shares to reduce the premium at which shares trade. As at 30 June 2021 the Company's shares were trading at a discount to Net Asset Value.

The last published NAV statement at the date of signing these accounts was the NAV for 31 July 2021. At this point the share price was at a discount of 5.3 per cent to the NAV.

### Exposure to Credit Risk

The Group is exposed to credit losses if customers or counterparties are unable to repay loans and outstanding interest and fees or through fraud. The Group invests a significant proportion of its assets in Credit Assets which, by their nature, are exposed to credit risk and may be impacted by adverse economic and market conditions, including through higher impairment charges, increased capital losses and reduced opportunities for the Group to invest in Credit Assets. Additionally, competition could serve to reduce yields and lower the volume of loans generated by the Group.

Covid-19 together with the various government support initiatives has had a material impact on the economy. Given the Group's strategy, its performance is linked to the health of the economy therefore it is possible that the Group could experience further impairments and consequently reduced profits, particularly if economic expectations deteriorate from expectations. The overall effect cannot be quantified reliably because of uncertainty surrounding further restrictions, the impact of the various government initiatives and the behaviour of customers. The government has launched a number of initiatives aimed at providing finance to SMEs and it is hoped that these will bolster the hardest hit industries

### Mitigation

The Group invests in a granular portfolio of assets, diversified by the number of borrowers, the type, and the credit risk of each borrower. Each loan is subject to, amongst other restrictions, a maximum single loan exposure limit. Additionally, the Group provided for expected credit loses within the valuation of its assets. Please see Note 13 to the financial statements for more details on Credit Risk.

Origination rates and performance of the underlying assets of the Group are closely monitored on an ongoing basis by the Investment Manager and the Board and are reviewed in detail at each Board meeting. The Manager has access to a diversified range of sources from which to select attractive assets. For structured lending facilities the Group undertakes a robust process. Facilities are secured and typically structured with minimum asset coverage ratios and covenants to provide early warning of credit deterioration and adequate asset cover in the event of stress.

In relation to Covid-19, the impact is being managed closely by the Investment Manager, through detailed ongoing monitoring and working with all platform partners to mitigate the impact on the portfolio.

### Borrowing

The Group uses borrowings to enhance investment returns. Whilst the use of borrowings should enhance the Net Asset Value of the Group's issued shares when the value of the Group's underlying assets is rising, it will have the opposite effect where the underlying asset value is falling. In addition, in the event that the Group's income falls for whatever reason, the use of borrowings will increase the impact of such a fall on the Group's return and accordingly will have an adverse effect on the Group's ability to pay dividends to shareholders.

### Mitigation

The Investment Manager and the Board closely monitors the level of gearing of the Group. The Group has a maximum limitation on borrowings of 100 per cent of Net Asset Value (calculated at the time of draw down) which the Investment Manager may affect at its discretion. Further, the group targets maintaining a net debt to equity ratio in the range of 50 to 75 per cent.

Further detail on the Company's debt facilities can be found in Note 17.

### Interest Rate Risk

The Group invests in Credit Assets which may be subject to a fixed rate of interest, or a floating rate of interest (which may be linked to base rates or other benchmarks) and expects that its borrowings will be subject to a floating rate of interest. Any mismatches the Group has between the income generated by its Credit Assets, on the one hand, and the liabilities in respect of its borrowings, on the other hand, may subject the Group to interest rate risk.

### Mitigation

Interest rate risk exposures may be managed, in part, by matching any floating rate borrowings with investments in Credit Assets that are also subject to a floating rate of interest. The Group may use derivative instruments, including interest rate swaps, to reduce its exposure to fluctuations in interest rates, however some unmatched risk may remain.

Following the recommendations of the Financial Stability Board, a reform of the major interest rates benchmarks is underway across the world's largest financial markets. For GBP LIBOR, the transition date is set to 31 December 2021 and SONIA has been identified as the preferred risk-free rate ("RFR"). The Investment Manager is actively managing the transition and ensuring all LIBOR contracts are moved to SONIA before the end of 2021.

### Liquidity

The Group may invest in assets that are aligned with the Group's strategy and that present opportunities to enhance the Group's return on its investments. Such assets are likely to be illiquid and therefore may be more difficult to realise.

### Mitigation

The Group actively manages its liquidity position to ensure there is sufficient liquidity to meet liabilities as they fall due. Other mitigants include long-term debt facilities with amortisation periods rather than bullet repayments; amortising assets that are highly cash generative; strong covenant packages that gives the Group ability to influence the borrower's behaviours in times of stress.

## OPERATIONAL RISKS

### Third Party Service Providers

The Group has no employees and the Directors have all been appointed on an independent non-executive basis. Whilst the Group has taken all reasonable steps to establish and maintain adequate procedures, systems and controls to enable it to comply with its obligations, the Group is reliant upon the performance of third-party service providers for its executive function. In particular, the Investment Manager, Depositary, Custodian, Administrator, Registrar and servicers, amongst others, will be performing services which are integral to the day-to-day operation of the Group.

As part of this, the operations of the third-party service providers are highly dependent on IT systems. Any critical system failure, prolonged loss of service availability or material breach of data security could cause serious damage to the third-party's ability to provide services to the Group, which could result in significant compensation costs or regulatory sanctions or a breach of applicable regulations. In particular, failures or breaches resulting in the loss or publication of confidential customer data could cause long-term damage to reputation and could affect regulatory approvals and competitive position which could undermine their ability to attract and retain customers.

The termination of service provision by any service provider, or failure by any service provider to carry out its obligations either by fraud or error to the Group, or to carry out its obligations to the Group in accordance with the terms of its appointment, could have a material adverse effect on the Group's operations and its ability to meet its investment objective.

### Mitigation

The Group has appointed third-party service providers who hold the appropriate regulatory approvals for the function they perform, are experienced in their field, and have a reputation for high standards of business conduct. Further, day-to-day oversight of third-party service providers is exercised by the Investment Manager and reported to the Board on a quarterly basis. As appropriate to the function being undertaken, each of the service providers is subject to regular performance and compliance monitoring. The performance of the Investment Manager in its duties to the Group is subject to ongoing review by the Board on a quarterly basis as well as formal annual review by the Group's Management Evaluation Committee.

The appointment of each service provider is governed by agreements which contain the ability to terminate each of these counterparties with limited notice should they continually or materially breach any of their obligations to the Group.

As part of the response to Covid-19 all outsourced third party service providers have successfully implemented business continuity processes such as working from home albeit with many returning to the office in more recent months. This has meant that the service levels received by the Group have been maintained.

### Reliance on key individuals

The Group will rely on key individuals at the Investment Manager to identify and select investment opportunities and to manage the day-to-day affairs of the Group. There can be no assurance as to the continued service of these key individuals at the Investment Manager. The departure of key individuals from the Investment Manager without adequate replacement may have a material adverse effect on the Group's business prospects and results of operations. Accordingly, the ability of the Group to achieve its investment objective depends on the experience of the Investment Manager's team, and more generally on the ability of the Investment Manager to attract and retain suitable staff.

### Mitigation

The interests of the Investment Manager are closely aligned with the performance of the Group through the management and performance fee structures in place and direct investment by certain key individuals of the Investment Manager. Furthermore, investment decisions are made by a team of professionals, mitigating the impact loss of any single key professional within the Investment Manager's organisation. The performance of the Investment Manager in its duties to the Group is subject to ongoing review by the Board on a quarterly basis as well as formal annual review by the Group's Management Evaluation Committee.

## REGULATORY RISKS

### Tax

Any changes in the Group's tax status or in taxation legislation could affect the Group's ability to provide returns to shareholders and affect the tax treatment for shareholders of their investments in the Group.

### Mitigation

The Group intends at all times to conduct its affairs so as to enable it to qualify as an investment trust for the purposes of Section 1158 of the Corporation Tax Act 2010. Both the Board and the Investment Manager are aware of the requirements which are to be fulfilled in any accounting period for the Group to maintain its investment trust status. The conditions required to satisfy the investment trust criteria are monitored by the Investment Manager and performance of the same shall be reported to the Board on a quarterly basis. Where new SPVs are created or acquired these are done in such a way to not impact the potential tax liability of the Group.

### Breach of applicable legislative obligations

The Group and its third-party service providers are subject to various legislative and regulatory regimes, including, but not limited to, the Consumer Credit Act General Data Protection Regulation and the Data Protection Act 2018. Any breach of applicable legislative and/or regulatory obligations could have a negative impact on the Group and impact returns to shareholders.

### Mitigation

The Group engages only with third-party service providers which hold the appropriate regulatory approvals for the function they are to perform and can demonstrate that they can adhere to the regulatory standards required of them. Each appointment is governed by agreements which contain the ability for the Group to terminate the arrangements with each of these counterparties with limited notice should such counterparty continually or materially breach any of their legislative obligations, or their obligations to the Group more broadly. Additionally, each of the counterparties is subject to regular performance and compliance monitoring by the Investment Manager, as appropriate to their function, to ensure that they are acting in accordance with applicable regulations and are aware of any upcoming regulatory changes which may affect the Group. Performance of third-party service providers is reported to the Board on a quarterly basis, whilst the performance of the Investment Manager in its duties to the Group is subject to ongoing review by the Board on a quarterly basis as well as formal annual review by the Group's Management Evaluation Committee.

## EMERGING RISKS

The Group monitors its emerging risks, supporting organisational readiness for external volatility.

This incorporates input and insight from both a top-down and bottom-up perspective:

- Top-down: Emerging risks identified by directors at a group level via the Risk Committee and the Board.
- Bottom-up: Emerging risks identified at a business level and escalated, where appropriate by the Investment Manager, via risk updates into the Risk Committee and the Board.

Emerging risks are monitored by the Risk Committee on an ongoing basis, with agreed actions tracked to ensure the Group's preparedness should an emerging risk crystallise.

Over the period, the committee has focused on the potential impact of Covid-19, operational resilience and cyber risks. All these risks are considered to be within the Group's risk appetite, however the Group is monitoring the situation carefully as it evolves. The Group's business model aims to ensure that it is able to continue to trade and support its clients in all economic conditions.

# Investment Restrictions

The Group invests in Credit Assets originated across various sectors to ensure diversification and to seek to mitigate concentration risks.  The following investment limits and restrictions apply to the Group to ensure that the diversification of the portfolio is maintained, that concentration risk is limited and that limits are placed on risk associated with borrowings.

The Group will not invest, in aggregate, more than 10 per cent of the aggregate value of total assets of the Group ("Gross Assets"), at the time of investment, in other investment funds that invest in Credit Assets.

The Group will not invest, in aggregate, more than 50 per cent of Gross Assets, at the time of investment, in Credit Assets comprising investments in loans (alongside or in conjunction with Shawbrook Bank ("Shawbrook")) referred to the Origination Partner by Shawbrook. Shawbrook is a portfolio company of funds managed or advised by Pollen Street Capital Limited.

The following restrictions apply, in each case at the time of the investment by the Group:

- no single Credit Asset comprising a consumer credit asset shall exceed 0.15 per cent of Gross Assets;
- no single SME or corporate loan, or trade receivable, shall exceed 5.0 per cent of Gross Assets;
- no single facility, security or other interest backed by a portfolio of loans, assets or receivables (excluding any borrowing ring-fenced within any SPV which would be without recourse to the Group) shall exceed 20 per cent of Gross Assets.  For the avoidance of doubt, this restriction shall not prevent the Group from directly acquiring portfolios of Credit Assets which comply with the other investment restrictions described in this section; and
- The Group will not invest in Equity Assets to the extent that such investment would, at the time of investment, result in the Group controlling more than 35 per cent of the issued and voting share capital of the issuer of such Equity Assets.

Other restrictions

The Group may invest in cash, cash equivalents, money market instruments, money market funds, bonds, commercial paper or other debt obligations with banks or other counterparties having single-A (or equivalent) or higher credit rating as determined by an internationally recognised agency or systemically important bank, or any "governmental and public securities" (as defined for the purposes of the Financial Conduct Authority's Handbook of rules and guidance) for cash management purposes and with a view to enhancing returns to shareholders or mitigating credit exposure.

The Group will not invest in Collateralised Loan Obligations ("CLO") or Collateralised Debt Obligations ("CDO"). CLO's are a form of securitisation whereby payments from multiple loans are pooled together and passed on to different classes of owners in various tranches. CDO's are pooled debt obligations where pooled assets serve as collateral.

These restrictions were not breached in the periods ended 30 June 2021, 30 June 2020 or the year ended 31 December 2020.

# Key Performance Indicators

The Board monitors success in implementing the Group's strategy against a range of key performance indicators ("KPIs"), which are viewed as significant measures of success over the longer term. Although performance relative to the KPIs is also monitored over shorter periods, it is success over the long-term that is viewed as more important, given the inherent volatility of short-term investment returns. The principal KPIs are set out below with commentary included throughout the Strategic Report:

| | 30 June 2021 | 30 June 2020 | 31 December 2020 |
|---|---|---|---|
| NET ASSET VALUE | | | |
| NET ASSET VALUE (CUM INCOME) (£'000) (1) | 358,595 | 371,126 | 357,232 |
| MARKET CAPITALISATION (£'000) (2) (3) | 342,019 | 274,775 | 332,323 |
| PER SHARE METRICS | | | |
| SHARE PRICE (AT CLOSE) (4) | 970p | 752.5p | 942.5p |
| NAV PER SHARE (CUM INCOME) (1) | 1,017.0p | 1,016.4p | 1,013.1p |
| SHARES IN ISSUE | 35,259,741 | 36,514,919 | 35,259,741 |
| PERFORMANCE INDICATORS AND KEY RATIOS | | | |
| PREMIUM / (DISCOUNT) (2) (5) | (4.6)% | (26.0)% | (7.0)% |
| ANNUALISED NAV RETURN (2) (6) | 8.7% | 8.2% | 7.7% |
| PROFIT (£'000) (7) (14) | 15,467 | 9,530 | 20,701 |
| ITD TOTAL NAV RETURN (2) (8) (9) | 45.6% | 37.4% | 41.1% |
| DEBT TO EQUITY (2) (10) | 74.0% | 51.9% | 76.6% |
| NET DEBT TO EQUITY (2) (11) | 66.1% | 49.4% | 59.1% |
| DIVIDEND RETURN (2) (12) (14) | 8.0% | 8.0% | 8.0% |
| ONGOING CHARGES (2) (13) (14) | 2.2% | 1.8% | 2.0% |

(1) NET ASSET VALUE (CUM INCOME): includes the value of investments, other assets and cash, including current year revenue, less liabilities. NAV per share is calculated by dividing the calculated figure by the total number of shares.
(2) ALTERNATIVE PERFORMANCE MEASURES: Alternative Performance Measures ("APMs") are used to improve the comparability of information between reporting periods, either by adjusting for uncontrollable or one-off factors which impact upon IFRS measures or, by aggregating measures, to aid the user understand the activity taking place. The Strategic Report includes both statutory and adjusted measures, the latter of which, reflects the underlying performance of the business and provides a more meaningful comparison of how the business is managed. APMs are not considered to be a substitute for IFRS measures but provide additional insight on the performance of the business. Reconciliations to amounts appearing in the financial statements can be found in section 5.
(3) MARKET CAPITALISATION: the closing mid-market share price multiplied by the number of shares outstanding at period end.
(4) SHARE PRICE (AT CLOSE): closing mid-market share price at period end (excluding dividends reinvested).
(5) PREMIUM / (DISCOUNT): the amount by which the price per share of an investment trust is either higher (at a premium) or lower (at a discount) than the net asset value per share (cum income), expressed as a percentage of the net asset value per share.
(6) ANNUALISED NAV RETURN: is calculated as Net Asset Value (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, pro-rata for the number of the days in the period
(7) PROFIT: is profit after taxation
(8) ITD: inception to date - excludes issue costs.
(9) TOTAL NAV RETURN: is calculated as Net Asset Value (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. There was a 1.06 per cent uplift on the inception to date total NAV per share return due to the effect of shares being issued at a premium during May-17 capital raise and 0.73 per cent in relation to the April-18 capital raise.
(10) DEBT TO EQUITY: is calculated as the Group's interest bearing debt divided by the net asset value, expressed as a percentage.
(11) NET DEBT TO EQUITY: is calculated as the Group's interest bearing debt, less cash and cash equivalents, divided by the net asset value, expressed as a percentage.
(12) DIVIDEND RETURN: is calculated as the total declared dividends for the period divided by IPO issue price.
(13) ONGOING CHARGES RATIO: The Annualised Ongoing Charge is calculated using the Association of Investment Companies recommended methodology. It is calculated as a percentage of annualised ongoing charge over average reported Net Asset Value. Ongoing charges are those expenses of a type which are likely to recur in the foreseeable future, whether charged to capital or revenue, and which relate to the operation of the investment company as a collective fund, excluding the costs of acquisition/disposal of investments, financing charges and gains/losses arising on investments. Ongoing charges are based on costs incurred in the year as being the best estimate of future costs. The AIC excludes performance fees from the Ongoing Charges calculation
(14) For 30 June 2021 the period covered is 1 January 2021 to 30 June 2021, for 30 June 2020 the period covered is 1 January 2020 to 30 June 2020 and for 31 December 2020 the period covered is 1 January 2020 to 31 December 2020

# 2
# Directors' Report

# Statement of Directors' Responsibilities

The Directors, being the persons responsible, confirm that to the best of their knowledge:

a) the condensed set of Unaudited Financial Statements contained within the half-yearly financial report have been prepared in accordance with UK-adopted IAS 34 'Interim Financial Reporting' and IAS 34 'Interim Financial Reporting' as adopted by the EU, as required by the Disclosure and Transparency Rule 4.2.4R, and gives a true and fair view of the assets, liabilities and financial position of the Group;

b) the Interim Management Report includes a fair review, as required by Disclosure and Transparency Rule 4.2.7R, of important events that have occurred during the first six months of the financial year, their impact on the condensed set of unaudited Financial Statements, and a description of the principal risks and perceived uncertainties for the remaining six months of the financial year; and

c) the Interim Management Report includes a fair review of the information concerning related parties' transactions as required by Disclosure and Transparency Rule 4.2.8R. Signed on behalf of the Board by

Robert Sharpe
Chairman
14 September 2021

# 3

# Unaudited Financial Statements

# Consolidated Statement of Comprehensive Income

| | Notes | For the period from 1 January 2021 to 30 June 2021 (Unaudited) Revenue £'000 | Capital £'000 | Total £'000 | For the period from 1 January 2020 to 30 June 2020 (Unaudited) Revenue £'000 | Capital £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| Net Income | | | | | | | |
| Interest Income on credit assets at amortised cost | 4 | 29,479 | - | 29,479 | 29,338 | - | 29,338 |
| Income on equity assets at fair value through profit and loss | 10 | - | 192 | 192 | - | - | - |
| Income on credit assets at fair value through profit and loss | 11 | 103 | - | 103 | - | - | - |
| Credit impairment losses | 9 | (516) | - | (516) | (6,714) | - | (6,714) |
| Third party servicing | | (1,469) | - | (1,469) | (1,914) | - | (1,914) |
| Net operating income before financing and fund costs | | 27,597 | 192 | 27,789 | 20,710 | - | 20,710 |
| Finance costs | 17 | (6,644) | - | (6,644) | (6,537) | - | (6,537) |
| Net operating income before fund costs | | 20,953 | 192 | 21,145 | 14,173 | - | 14,173 |
| Management fee | 5 | (3,097) | (75) | (3,172) | (2,928) | (42) | (2,970) |
| Performance fee | 5 | (1,717) | - | (1,717) | (1,059) | - | (1,059) |
| Fund expenses | 6 | (789) | - | (789) | (614) | - | (614) |
| Total operating expenses | | (5,603) | (75) | (5,678) | (4,601) | (42) | (4,643) |
| Profit / (loss) before taxation | | 15,350 | 117 | 15,467 | 9,572 | (42) | 9,530 |
| Tax expense | | - | - | - | - | - | - |
| Profit / (loss) after taxation | | 15,350 | 117 | 15,467 | 9,572 | (42) | 9,530 |
| Earnings per share (basic and diluted) | 7 | 43.54p | 0.33p | 43.87p | 25.67p | (0.11)p | 25.56p |

The total column of this statement represents the Statement of comprehensive income prepared in accordance with both international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards as adopted by the United Kingdom. The supplementary revenue return and capital return columns are both prepared under guidance issued by the Association of Investment Companies ("AIC"). All items in the above statement derive from continuing operations.

No operations were discontinued during the period.

The Company does not have any income or expense that is not included in net profit for the period. Accordingly, the net profit for the period is also the Total Comprehensive Income for the period, as defined in IAS1 (revised). There is no other comprehensive income for the period.

The notes on pages 30 to 53 form an integral part of the financial statements.

For the period from 1 January 2020 to 31 December 2020 (Audited)

| | Notes | Revenue £'000 | Capital £'000 | Total £'000 |
|---|---|---|---|---|
| Net Income | | | | |
| Interest Income on credit assets at amortised cost | 4 | 54,970 | - | 54,970 |
| Income / (Loss) on equity assets at fair value through profit and loss | 10 | - | (375) | (375) |
| Income on credit assets at fair value through profit and loss | 11 | - | 775 | 775 |
| Credit impairment losses | 9 | (5,581) | - | (5,581) |
| Third party servicing | | (3,918) | - | (3,918) |
| Net operating income before financing and fund costs | | 45,471 | 400 | 45,871 |
| Finance costs | 17 | (14,323) | - | (14,323) |
| Net operating income before fund costs | | 31,148 | 400 | 31,548 |
| Management fee | 5 | (5,823) | (119) | (5,942) |
| Performance fee | 5 | (2,300) | - | (2,300) |
| Fund expenses | 6 | (2,605) | - | (2,605) |
| Total operating expenses | | (10,728) | (119) | (10,847) |
| Profit before taxation | | 20,420 | 281 | 20,701 |
| Tax expense | | - | - | - |
| Profit after taxation | | 20,420 | 281 | 20,701 |
| Earnings per share (basic and diluted) | 7 | 55.70p | 0.77p | 56.47p |

The total column of this statement represents the Statement of comprehensive income prepared in accordance with both international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The supplementary revenue return and capital return columns are both prepared under guidance issued by the Association of Investment Companies ("AIC"). All items in the above statement derive from continuing operations.

No operations were discontinued during the year.

The Company does not have any income or expense that is not included in net profit for the year. Accordingly, the net profit for the year is also the Total Comprehensive Income for the year, as defined in IAS1 (revised). There is no other comprehensive income for the year.

The notes on pages 30 to 53 form an integral part of the financial statements.

# Consolidated Statement of Financial Position

| | Notes | 30 June 2021 (Unaudited) £'000 | 30 June 2020 (Unaudited) £'000 | 31 December 2020 (Audited) £'000 |
|---|---|---|---|---|
| Non-current assets | | | | |
| Equity assets held at fair value through profit or loss | 10 | 14,959 | 7,840 | 14,959 |
| Credit assets at amortised cost | 9 | 573,113 | 543,076 | 547,737 |
| Credit assets held at fair value through profit or loss | 11 | 6,008 | - | 5,905 |
| Derivative assets held at fair value through profit or loss | 12 | 26 | - | 21 |
| Fixed assets | 14 | - | 7 | - |
| | | 594,106 | 550,923 | 568,622 |
| Current assets | | | | |
| Cash and cash equivalents | | 28,359 | 9,253 | 62,548 |
| Receivables | 15 | 5,320 | 9,168 | 6,773 |
| | | 33,679 | 18,421 | 69,321 |
| Total assets | | 627,785 | 569,344 | 637,943 |
| Current liabilities | | | | |
| Management fee payable | 5 | (1,053) | (2,458) | (1,040) |
| Performance fee payable | 5 | (1,717) | (1,059) | (2,300) |
| Other payables | 16 | (953) | (2,034) | (3,832) |
| Interest bearing borrowings | 17 | (28,600) | (124,798) | (20,865) |
| | | (32,323) | (130,349) | (28,037) |
| Total assets less current liabilities | | 595,462 | 438,995 | 609,906 |
| Non-current liabilities | | | | |
| Interest bearing borrowings | 17 | (236,867) | (67,869) | (252,674) |
| Net assets | | 358,595 | 371,126 | 357,232 |
| Shareholders' funds | | | | |
| Ordinary share capital | 18 | 352 | 365 | 352 |
| Share premium | | 299,599 | 299,599 | 299,599 |
| Revenue reserves | | 2,431 | 89 | 1,185 |
| Capital reserves | | (632) | (1,072) | (749) |
| Special distributable reserves | 19 | 56,845 | 72,145 | 56,845 |
| Total shareholders' funds | | 358,595 | 371,126 | 357,232 |
| Net asset value per share | 22 | 1,017.0p | 1,016.4p | 1,013.1p |

The notes on pages 30 to 53 form an integral part of the financial statements. The financial statements on pages 23 to 53 were approved by the Board of Directors of Honeycomb Investment Trust plc (a public limited company incorporated in England and Wales with company number 09899024) and authorised for issue on 14 September 2021.

# Consolidated Statement of Changes in Shareholders' Funds

For the period from 1 January 2021 to 30 June 2021 (Unaudited)

| | Ordinary Share Capital £'000 | Share Premium £'000 | Revenue Reserves £'000 | Capital Reserves £'000 | Special Distributable Reserves £'000 | Total Equity £'000 |
|---|---|---|---|---|---|---|
| Shareholders' funds at 1 January 2021 | 352 | 299,599 | 1,185 | (749) | 56,845 | 357,232 |
| Ordinary shares bought back | - | - | - | - | - | - |
| Profit after taxation | - | - | 15,350 | 117 | - | 15,467 |
| Dividends paid in the period | - | - | (14,104) | - | - | (14,104) |
| Shareholders' funds at 30 June 2021 | 352 | 299,599 | 2,431 | (632) | 56,845 | 358,595 |

The Group's capital reserve arising on investments sold and revenue reserve may be distributed by way of a dividend. The portion of capital reserve arising on investments held is wholly non-distributable. There may be factors that restrict the value of the reserves that can be distributed and these factors may be complex to determine. Amounts fully distributable may therefore not be the total of the revenue reserve and the portion of the capital reserve arising on investments sold.

For the period from 1 January 2020 to 30 June 2020 (Unaudited)

| | Ordinary Share Capital £'000 | Share Premium £'000 | Revenue Reserves £'000 | Capital Reserves £'000 | Special Distributable Reserves £'000 | Total Equity £'000 |
|---|---|---|---|---|---|---|
| Shareholders' funds at 1 January 2020 | 394 | 299,599 | 5,270 | (1,030) | 96,128 | 400,361 |
| Ordinary shares bought back | (29) | - | - | - | (23,983) | (24,012) |
| Profit after taxation | - | - | 9,572 | (42) | - | 9,530 |
| Dividends paid in the period | - | - | (14,753) | - | - | (14,753) |
| Shareholders' funds at 30 June 2020 | 365 | 299,599 | 89 | (1,072) | 72,145 | 371,126 |

The Group's capital reserve arising on investments sold and revenue reserve may be distributed by way of a dividend. The portion of capital reserve arising on investments held is wholly non-distributable. There may be factors that restrict the value of the reserves that can be distributed and these factors may be complex to determine. Amounts fully distributable may therefore not be the total of the revenue reserve and the portion of the capital reserve arising on investments sold.

For the year ended 31 December 2020 (Audited)

| | Ordinary Share Capital £'000 | Share Premium £'000 | Revenue Reserves £'000 | Capital Reserves £'000 | Special Distributable Reserves £'000 | Total Equity £'000 |
|---|---|---|---|---|---|---|
| Shareholders' funds at 1 January 2020 | 394 | 299,599 | 5,270 | (1,030) | 96,128 | 400,361 |
| Ordinary shares bought back | (42) | - | - | - | (34,783) | (34,825) |
| Profit after taxation | - | - | 20,420 | 281 | - | 20,701 |
| Dividends paid in the year | - | - | (24,505) | - | (4,500) | (29,005) |
| Shareholders' funds at 31 December 2020 | 352 | 299,599 | 1,185 | (749) | 56,845 | 357,232 |

The Group's capital reserve arising on investments sold and revenue reserve may be distributed by way of a dividend. The portion of capital reserve arising on investments held is wholly non-distributable. There may be factors that restrict the value of the reserves that can be distributed and these factors may be complex to determine. Amounts fully distributable may therefore not be the total of the revenue reserve and the portion of the capital reserve arising on investments sold.

The notes on pages 30 to 53 form an integral part of the financial statements.

# Consolidated Statement of Cash Flows

For the period ended 30 June 2021

| | Notes | 30 June 2021 (Unaudited) £'000 | 30 June 2020 (Unaudited) £'000 | 31 December 2020 (Audited) £'000 |
|---|---|---|---|---|
| Cash flows from operating activities: | | | | |
| Profit after taxation | | 15,467 | 9,530 | 20,701 |
| Adjustments for: | | | | |
| Change in expected credit loss | 9 | 516 | 6,714 | 5,581 |
| Net change in unrealised gains | 10, 11 | (103) | - | (1,155) |
| Finance costs | | 6,644 | 6,537 | 14,323 |
| Amortisation | 14 | - | 34 | 41 |
| (Increase) / decrease in receivables | 15 | 1,453 | (293) | 2,102 |
| Increase in derivatives | 12 | (5) | - | (21) |
| Increase in payables | 16 | (3,449) | (754) | 867 |
| Net cash inflow from operating activities | | 20,523 | 21,768 | 42,439 |
| | | | | |
| Cash flows from investing activities: | | | | |
| Net sale/(purchase) of investments at amortised cost | | (25,892) | 31,208 | 18,982 |
| Sale of equity investments | 10 | - | 550 | - |
| Purchase of fair value credit investments | 11 | - | - | (2,621) |
| Net cash inflow / (outflow) from investing activities | | (25,892) | 31,758 | 16,361 |
| | | | | |
| Cash flows from financing activities: | | | | |
| Redemption of shares | 19 | - | (24,012) | (34,825) |
| Drawdown of interest bearing borrowings | 17 | - | 290,000 | 359,648 |
| Repayments of interest-bearing borrowings | 17 | (9,092) | (303,477) | (289,013) |
| Interest paid on financing activities | 17 | (5,624) | (7,185) | (18,211) |
| Dividends declared and paid | 8 | (14,104) | (14,753) | (29,005) |
| Net cash (outflow) from financing activities | | (28,820) | (59,427) | (11,406) |
| Net change in cash and cash equivalents | | (34,189) | (5,901) | 47,394 |
| Cash and cash equivalents at the beginning of the period | | 62,548 | 15,154 | 15,154 |
| Cash and cash equivalents | | 28,359 | 9,253 | 62,548 |

The notes on pages 30 to 53 form an integral part of the financial statements.

# Notes to the Financial Statements

## 1. GENERAL INFORMATION

Honeycomb Investment Trust plc (the "Company") and its subsidiaries (together, the "Group") is a closed-ended investment company incorporated in England and Wales on 2 December 2015 with registered number 09899024. The registered office is 6th Floor, 65 Gresham Street, London, EC2V 7NQ, United Kingdom. The Company commenced operations on 23 December 2015 and carries on business as an investment trust within the meaning of chapter 4 of Part 24 of the Corporation Tax Act 2010.

The Group's investment objective is to provide shareholders with an attractive level of dividend income and capital growth through the acquisition of Credit Assets, together with selected equity investments that are aligned with the Group's strategy and that present opportunities to enhance the Group's returns from its investments.

The Group seeks to acquire Credit Assets which meet the specified underwriting criteria through two routes; (1) providing structured loans to specialist finance companies whereby the Group takes security on the assets originated by the borrower with the borrower also providing 'first loss' in the form of 'real capital' whilst the Group provides the senior capital; and (2) acquiring portfolios of whole loans whereby the Group is exposed to the underlying risk and rewards of the loan that have the potential to provide attractive returns for investors on a risk-adjusted basis.

The Group's investment manager is Pollen Street Capital Limited a UK-based company authorised and regulated by the FCA, who also acts as the Alternative Investment Fund Manager (the "AIFM") under the Alternative Investment Fund Managers Directive (the "AIFMD"). The Group is defined as an Alternative Investment Fund and is subject to the relevant articles of the AIFMD.

As at 30 June 2021 the Company's share capital comprised 39,449,919 ordinary shares in issue (30 June 2020: 39,449,919, 31 December 2020: 39,449,919), of which 4,190,178 were held by the Company as treasury shares (30 June 2020: 2,935,000, 31 December 2020: 4,190,178). The total number of voting rights at 30 June 2021 was therefore 35,259,741 (30 June 2020: 36,514,919, 31 December 2020: 35,259,741). These shares are listed and trade on the Premium Segment of the London Stock Exchange's main market.

## 2. PRINCIPAL ACCOUNTING POLICIES

### Basis of accounting

The financial statements for the 6 months period ended 30 June 2021 have been prepared on the basis of the policies set out in the 2020 annual financial statements and in accordance with UK adopted IAS 34 and the Disclosure Guidance and Transparency Rules sourcebook of the UK's Financial Conduct Authority.

The financial information contained in this Half Year Report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The financial information for the period ended 30 June 2021 has not been audited or reviewed by auditors.

The interim financial statements need to be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2020 which were prepared in accordance with IFRS in conformity with the requirements of the Companies Act 2006 and IFRS adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The financial statements have been prepared on a going concern basis and under the historic cost convention modified by the revaluation of financial assets held at fair value through profit and loss as applicable. The Directors consider that the Group has adequate financial resources to enable it to continue operations for a period of no less than 12 months from the reporting date. Accordingly, the Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

The principal accounting policies adopted by the Group are consistent with those set out on pages 82 - 94 of the Annual report 2020. Where presentational guidance set out in the Statement of Recommended Practice ("SORP") for investment trusts issued by the Association of Investment Companies ("AIC") in November 2014 is consistent with the requirements of IFRS, the Directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.

All values are rounded to the nearest thousand pounds unless otherwise indicated.

### Significant Accounting Judgements, Estimates and Assumptions

The preparation of the half year report in conformity with UK-adopted IAS 34 'Interim Financial Reporting' and IAS 34 'Interim Financial Reporting' as adopted by the EU, as required by the Disclosure and Transparency Rule 4.2.4R requires the Group to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. UK company law and IFRS require the Directors, in preparing the Group's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed on an ongoing basis. Although these estimates are based on the Directors' best knowledge of the amount, actual results may differ ultimately from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The estimates of most significance to the financial statements, are in relation to EIR, expected credit losses, equity investments at fair value through profit or loss and consolidation. These have been applied consistently with the methodology detailed in the annual report on pages 94 to 97, other than as detailed below.

To estimate expected credit losses, the Group uses a model to project a number of key variables to generate future economic scenarios. These scenarios are used to produce a weighted average probability of default ("PD") for each product grouping which is used to determine stage allocation and calculate the related ECL allowance. Scenario probabilities reflect management judgement and are informed by data analysis of past recessions, transitions in and out of recession, and the current economic outlook. The key assumptions made, and the accompanying paths, represent the 'best estimate' of a scenario at a specified probability. The scenarios have been updated using the latest economic forecasts produced by Oxford Economics for 30 June 2021 and an assessment of the potential outlook for the economy in light of the evolving Covid situation, giving a release in the ECL resulting from improvement in the economic outlooks. This release was offset by stage movements in the loan portfolio, bringing the overall impact of the ECL allowance to a £0.5m charge.

## 3. BUSINESS COMBINATION

On 20 June 2019 the Group incorporated Sting Funding Limited ("Sting"), a limited Company incorporated under the law of England and Wales. Sting became active on 28 August 2019 when it drew down on a debt facility backed by commercial and second charge residential mortgages. The Group is considered to control Sting through holding 100 per cent of the issued shares.

The Company also controls Bud Funding Limited ("Bud"), a limited company incorporated under the law of England and Wales. The Company is considered to control Bud through its exposure to the variable returns of the vehicle through holding of a junior note issued by it and the control it exerts over Bud. Bud was incorporated on 2 November 2020 and the junior note was funded on 2 December 2020, at which point the control began.

As a result, the financial statements for the periods ended 30 June 2021, 30 June 2020 and 31 December 2020 are prepared on a consolidated basis.

## 4. INTEREST INCOME ON CREDIT ASSETS AT AMORTISED COST

| Group | 30 June 2021 (Unaudited) £'000 | 30 June 2020 (Unaudited) £'000 | 31 December 2020 (Audited) £'000 |
|---|---|---|---|
| Investment income | | | |
| Interest income | 27,067 | 27,677 | 50,948 |
| Commitment fee income | 1,218 | 945 | 2,154 |
| Arrangement fee income | 1,207 | 715 | 1,844 |
| Net loss on foreign exchange | (13) | - | 21 |
| Total investment income | 29,479 | 29,337 | 54,967 |
| Other income | | | |
| Deposit interest | - | 1 | 3 |
| Total income | 29,479 | 29,338 | 54,970 |

## 5. MANAGEMENT AND PERFORMANCE FEE

### Management Fee

The management fee is calculated and payable monthly in arrears at a rate equal to 1/12 of 1.0 per cent per month of Gross Asset Value (the "Management Fee"). Gross Asset Value is the equivalent of Total Assets on the Consolidated Statement of Financial Position. The aggregate fee payable on this basis must not exceed 1.0 per cent of the gross assets of the Company and its group in any year. The Management Fee is allocated between the revenue and capital accounts based on the prospective split of the Gross Asset Value between revenue and capital.

In respect of any issue of Ordinary Shares or C Shares, until the date on which 80 per cent of the net proceeds of such issue have been invested or committed to be invested in Credit Assets or Equity Assets, the Net Asset Value attributable to such Ordinary Shares or C Shares shall, for the purposes of the Management Fee, exclude any portion of the issue proceeds in cash, or invested in cash deposits or cash equivalent investments. Where there are C Shares in issue, the Management Fee will be calculated separately on the gross assets attributable to the Ordinary Shares and the C Shares.

Management fees charged for the period ended 30 June 2021 totalled £3.2 million (30 June 2020: £3.0 million, 31 December 2020: £5.9 million) of which £1.1 million was payable at 30 June 2021 (30 June 2020: £2.5 million, 31 December 2020: £1.0 million).

### Performance Fee

The Investment Manager is also entitled to a performance fee, which is calculated in respect of each twelve-month period starting on 1 January and ending on 31 December in each calendar year ("Calculation Period"), and the final Calculation Period shall end on the day on which the management agreement is terminated or, if earlier, the business day immediately preceding the day on which the Company goes into liquidation.

The performance fee will only be payable if the Adjusted Net Asset Value at the end of a Calculation Period exceeds a hurdle threshold, equal to the Adjusted Net Asset Value immediately following admission to trading on the London Stock Exchange, compounded at a rate equal to 5 per cent per annum (the "Hurdle").

If, on the last day of a Calculation Period (each a "Calculation Date"), the Adjusted Net Asset Value exceeds the Hurdle, the Investment Manager shall be entitled to a performance fee equal to the lower of:

a) the amount by which the Adjusted Net Asset Value exceeds the Hurdle, in each case as at the Calculation Date; and

b) 10 per cent of the amount by which total growth in Adjusted Net Asset Value since first admission (being the aggregate of the growth in Adjusted Net Asset Value in the relevant Calculation Period and in each previous Calculation Period), after adding back any performance fees paid to the Investment Manager, exceeds the aggregate of all performance fees payable to the Investment Manager in respect of all previous Calculation Periods.

'Adjusted Net Asset Value' means the Net Asset Value after: (i) excluding any increases or decreases in Net Asset Value attributable to the issue or repurchase of any Ordinary Shares; (ii) adding back the aggregate amount of any dividends paid or distributions made in respect of any Ordinary Shares; (iii) excluding the aggregate amount of any dividends or distributions accrued but unpaid in respect of any Ordinary Shares; and (iv) excluding the amount of any Performance Fees accrued but unpaid, in each case without double counting.

In the event that C Shares are in issue, the Investment Manager shall be entitled to a performance fee in respect of the net assets referable to the C Shares on the same basis as summarised above, except that a Calculation Period shall be deemed to end on the date of the conversion of the relevant tranche of C Shares into Ordinary Shares.

Performance fees for the period ended 30 June 2021 totalled £1.7 million (30 June 2020: £1.1 million, 31 December 2020: £2.3 million) of which £1.7 million was payable at 30 June 2021 (30 June 2020: £1.1 million, 31 December 2020: £2.3 million).

### Fee payable to Origination Partner

The Origination Partner is entitled to be paid a fee calculated on the purchase price for each Credit Asset acquired by the Company from the Origination Partner. For so long as the Origination Partner is part of the same group as the Investment Manager, the amount of all fees payable by the Company to the Origination Partner shall be deducted from the Management Fee payable to the Investment Manager.

The Group reimburses the Origination Partner for the fees of referral partners, and Servicers (to the extent paid by the Origination Partner) in connection with Credit Assets in which the Group acquires an interest. The amount of such fees are agreed between the Origination Partner and the relevant counterparties on arm's length commercial terms, taking account of the strength of the relationship between the Origination Partner, the Investment Manager and each relevant counterparty. There was £nil payable to the Origination Partner at 30 June 2021 (30 June 2020: £nil, 31 December 2020: £nil).

## 6. FUND EXPENSES

| Group | 30 June 2021 (Unaudited) £'000 | 30 June 2020 (Unaudited) £'000 | 31 December 2020 (Audited) £'000 |
|---|---|---|---|
| Directors' fees | 110 | 75 | 200 |
| Administrator's fees | 89 | 93 | 148 |
| Auditors' remuneration | 143 | 80 | 287 |
| Amortisation | - | 34 | 41 |
| Project Costs | 48 | - | 865 |
| Other expenses | 399 | 332 | 1,064 |
| Total fund expenses | 789 | 614 | 2,605 |

All expenses where applicable are inclusive of VAT (except those paid to the auditors which are net). Directors' fees at the period ended 30 June 2021 include £99,000 (30 June 2020: £66,500, 31 December 2020: £178,000) paid to Directors' and £11,206 (30 June 2020: £8,582, 31 December 2020: £21,538) of employment taxes and valid business expenses.

The project costs include costs in relation to a potential merger and the Company's admittance to trade on the Premium Segment of the London Stock Exchange's main market, a move up from the Specialist Funds Segment.

## 7. EARNINGS PER SHARE

| Group | 30 June 2021 (Unaudited) | 30 June 2020 (Unaudited) | 31 December 2020 (Audited) |
|---|---|---|---|
| Revenue | 43.54p | 25.67p | 55.70p |
| Capital | 0.33p | (0.11)p | 0.77p |
| Earnings per ordinary share | 43.87p | 25.56p | 56.47p |

The calculation for the period ended 30 June 2021 is based on revenue returns of £15.4 million (30 June 2020: £9.6 million ,31 December 2020: £20.4 million) capital returns of £0.1 million (30 June 2020: (£0.04) million, 31 December 2020: £0.3 million) and total returns of £15.5 million (30 June 2020: £9.5 million, 31 December 2020: £20.7 million) and a weighted average number of ordinary shares of 35,259,741 (30 June 2020: 37,290,799 ,31 December 2020: 36,657,807).

## 8. ORDINARY DIVIDENDS

| | 30 June 2021 (Unaudited) £'000 | 30 June 2020 (Unaudited) £'000 | 31 December 2020 (Audited) £'000 |
|---|---|---|---|
| 20.00p Interim dividend for the period to 31 December 2019 (paid 27 March 2020) | - | 7,450 | 7,450 |
| 20.00p Interim dividend for the period to 31 March 2020 (paid on 23 June 2020) | - | 7,303 | 7,303 |
| 20.00p Interim dividend for the period to 30 June 2020 (paid on 22 September 2020) | - | - | 7,201 |
| 20.00p Interim dividend for the period to 30 September 2019 (paid 27 December 2020) | - | - | 7,051 |

| | | | |
|---|---|---|---|
| 20.00p Interim dividend for the period to 31 December 2020 (paid 26 March 2021) | 7,052 | - | - |
| 20.00p Interim dividend for the period to 31 March 2021 (paid on 22 June 2021) | 7,052 | - | - |
| Total dividend paid in period | 14,104 | 14,753 | 29,005 |
| 20.00p Interim dividend for the period to 31 December 2020 (paid 26 March 2021) | - | - | 7,052 |
| 20.00p Interim dividend for the period to 30 June 2021 (to be paid 30 September 2021) | 7,052 | - | - |

The 30 September 2021 interim dividend of 20.00 pence was approved on 7 September 2021 and will be paid on 30 September 2021.

## 9. INVESTMENTS AT AMORTISED COST

### (a) Credit Assets at amortised cost

The disclosure below presents the gross carrying value of financial instruments to which the impairment requirements in IFRS 9 are applied and the associated allowance for ECL. Please see Note 1 for more detail on the allowance for ECL.

The following table analyses loans by industry sector and represent the concentration of exposures on which credit risk is managed for the Group as at 30 June 2021.

| | 30 June 2021 (Unaudited) | | | 1 January 2021 | | |
|---|---|---|---|---|---|---|
| Group | Gross Carrying Amount £'000 | Allowance for ECL £'000 | Net Carrying Amount £'000 | Gross Carrying Amount £'000 | Allowance for ECL £'000 | Net Carrying Amount £'000 |
| Credit Assets at amortised cost | 603,522 | (30,409) | 573,113 | 578,214 | (30,477) | 547,737 |

| Group (Unaudited) | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | Total £'000 |
|---|---|---|---|---|
| At 1 January 2021 | 1,464 | 1,927 | 27,086 | 30,477 |
| Movement from stage 1 to stage 2 | (39) | 465 | - | 426 |
| Movement from stage 1 to stage 3 | (84) | - | 2,286 | 2,202 |
| Movement from stage 2 to stage 1 | 9 | (302) | - | (293) |
| Movement from stage 2 to stage 3 | - | (698) | 890 | 192 |
| Movement from stage 3 to stage 1 | 8 | - | (587) | (579) |
| Movement from stage 3 to stage 2 | - | 145 | (385) | (240) |
| Movements due to repayments, originations, sales and remodelling | 691 | (28) | (2,149) | (1,486) |
| Allowance on loans written off | - | (1) | (289) | (290) |
| Allowance for ECL at 30 June 2021 | 2,049 | 1,508 | 26,852 | 30,409 |

The following table analyses loans by industry sector and represent the concentration of exposures on which credit risk is managed for the Group as at 30 June 2020.

| Group | 30 June 2020 (Unaudited) | | | 1 January 2020 | | |
|---|---|---|---|---|---|---|
| | Gross Carrying Amount £'000 | Allowance for ECL £'000 | Net Carrying Amount £'000 | Gross Carrying Amount £'000 | Allowance for ECL £'000 | Net Carrying Amount £'000 |
| Credit Assets at amortised cost | 577,631 | (34,555) | 543,076 | 611,152 | (30,154) | 580,998 |

| Group (Unaudited) | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | Total £'000 |
|---|---|---|---|---|
| At 1 January 2020 | 3,217 | 2,606 | 24,331 | 30,154 |
| Movement from stage 1 to stage 2 | (120) | 3,247 | - | 3,127 |
| Movement from stage 1 to stage 3 | (245) | - | 2,445 | 2,200 |
| Movement from stage 2 to stage 1 | 42 | (545) | - | (503) |
| Movement from stage 2 to stage 3 | - | (1,269) | 2,277 | 1,008 |
| Movement from stage 3 to stage 2 | - | 123 | (199) | (76) |
| Movement from stage 3 to stage 1 | 5 | - | (376) | (371) |
| Movements due to repayments, originations, sales and remodelling | 758 | 139 | 432 | 1,329 |
| Allowance on loans Written Off | (3) | - | (2,310) | (2,313) |
| Allowance for ECL at 30 June 2020 | 3,654 | 4,301 | 26,600 | 34,555 |

The following table analyses loans by industry sector and represent the concentration of exposures on which credit risk is managed for the Group as at 31 December 2020.

| Group | 31 December 2020 (Audited) | | | 1 January 2020 | | |
|---|---|---|---|---|---|---|
| | Gross Carrying Amount £'000 | Allowance for ECL £'000 | Net Carrying Amount £'000 | Gross Carrying Amount £'000 | Allowance for ECL £'000 | Net Carrying Amount £'000 |
| Credit Assets at amortised cost | 578,214 | (30,477) | 547,737 | 611,152 | (30,154) | 580,998 |

| Group (Audited) | Stage 1<br>£'000 | Stage 2<br>£'000 | Stage 3<br>£'000 | Total<br>£'000 |
|---|---|---|---|---|
| At 1 January 2020 | 3,217 | 2,606 | 24,331 | 30,154 |
| Movement from stage 1 to stage 2 | (102) | 3,170 | - | 3,068 |
| Movement from stage 1 to stage 3 | (270) | - | 7,379 | 7,109 |
| Movement from stage 2 to stage 1 | 11 | (515) | - | (504) |
| Movement from stage 2 to stage 3 | - | (1,180) | 3,206 | 2,026 |
| Movement from stage 3 to stage 1 | 4 | - | (343) | (339) |
| Movement from stage 3 to stage 2 | - | 75 | (213) | (138) |
| Movements due to repayments, originations, sales and remodelling | (1,396) | (2,229) | (7,274) | (10,899) |
| Allowance for ECL at 31 December 2020 | 1,464 | 1,927 | 27,086 | 30,477 |

## (b) Expected Credit Loss allowance for IFRS 9

Under the expected credit loss model introduced by IFRS 9 Impairment Provisions are driven by changes in credit risk of instruments, with a provision for lifetime expected credit losses recognised where the risk of default of an instrument has increased significantly since initial recognition.

The following table analyses Group loans by stage and sector for the period ended 30 June 2021:

| Group (Unaudited) | Total<br>£'000 |
|---|---|
| At 1 January 2021 | 30,477 |
| Charge for the period – Stage 1 | 585 |
| Charge for the period – Stage 2 | (418) |
| Charge for the period – Stage 3 | 349 |
| Charge for the period – total | 516 |
| Loans sold | (248) |
| Gross value of loans written off | (336) |
| Allowance for ECL at 30 June 2021 | 30,409 |

The following table analyses Group loans by stage and sector for the period ended 30 June 2020:

| Group (Unaudited) | Total<br>£'000 |
|---|---|
| At 1 January 2020 | 30,154 |
| Charge for the period – Stage 1 | 439 |
| Charge for the period – Stage 2 | 1,694 |
| Charge for the period – Stage 3 | 4,581 |
| Charge for the period – total | 6,714 |
| Amounts Written Off | (2,313) |
| Allowance for ECL at 30 June 2020 | 34,555 |

The following table analyses Group loans by stage and sector for the year ended 31 December 2020:

| Group (Audited) | Total £'000 |
|---|---|
| At 1 January 2020 | 30,154 |
| Charge for the period – Stage 1 | (286) |
| Charge for the period – Stage 2 | (276) |
| Charge for the period – Stage 3 | 6,143 |
| Charge for the period – total | 5,581 |
| Loans sold | (5,258) |
| Allowance for ECL at 31 December 2020 | 30,477 |

## Measurement uncertainty and sensitivity analysis of ECL

The recognition and measurement of ECL is highly complex and involves the use of significant judgement and estimation. This includes the formulation and incorporation of multiple forward-looking economic conditions into ECL to meet the measurement objective of IFRS 9.

The Group has adopted the use of three economic scenarios, representative of Oxford Economics view of forecast economic conditions, sufficient to calculate unbiased ECL. They represent a 'most likely outcome' (the Base scenario) and two, less likely, 'outer' scenarios, referred to as the 'Upside' and 'Downside' scenarios.

The ECL recognised in the financial statements reflect the effect on expected credit losses of a range of possible outcomes, calculated on a probability-weighted basis, based on the economic scenarios described in Note 2 to the financial statements, including management overlays where required. The probability-weighted amount is typically a higher number than would result from using only the Base (most likely) economic scenario. ECLs typically have a non-linear relationship to the many factors which influence credit losses, such that more favourable macroeconomic factors do not reduce defaults as much as less favourable macroeconomic factors increase defaults. The ECL calculated for each of the scenarios represent a range of possible outcomes that have been evaluated to estimate ECL. As a result, the ECL calculated for the Upside and Downside scenarios should not be taken to represent the upper and lower limits of possible actual ECL outcomes. There is a high degree of estimation uncertainty in numbers representing tail risk scenarios when assigned a 100 per cent. A wider range of possible ECL outcomes reflects uncertainty about the distribution of economic conditions and does not necessarily mean that credit risk on the associated loans is higher than for loans where the distribution of possible future economic conditions is narrower.

For stage 3 impaired loans, LGD estimates consider independent recovery valuations provided by external consultants where available, or internal forecasts corresponding to anticipated economic conditions.

The table below shows a sensitivity analysis for ECL based on changing the weighting of the scenarios to allocate a 100 per cent weight to the downside scenario. The scenarios are applicable to 30 June 2021. The analysis shows that the ECL would have been £1.9 million higher under this sensitivity.

| 30 June 2021 (Unaudited) | Weighted period end ECL £'000 | 100% Downside Scenario £'000 |
|---|---|---|
| Total | 30,409 | 32,348 |

The table below shows a sensitivity analysis for ECL based on changing the weighting of the scenarios to allocate a 100 per cent weight to the downside scenario. The scenarios are applicable to 30 June 2020. The analysis shows that the ECL would have been £2.9 million higher under this sensitivity.

| 30 June 2020 (Unaudited) | Weighted period end ECL £'000 | 100% Downside Scenario £'000 |
|---|---|---|
| Total | 34,555 | 37,430 |

The table below shows a sensitivity analysis for ECL based on changing the weighting of the scenarios to allocate a 100 per cent weight to the downside scenario. The scenarios are applicable to 31 December 2020. The analysis shows that the ECL would have been £4.0 million higher under this sensitivity.

| 31 December 2020 (Audited) | Weighted Year end ECL £'000 | 100% Downside Scenario £'000 |
|---|---|---|
| Total | 30,477 | 34,512 |

## 10. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

### (a) Movements in the period

The table below sets out the movement in equity assets at fair value through profit or loss for the Group for the period ended 30 June 2021.

| Group (Unaudited) | £'000 |
|---|---|
| Valued using an earnings multiple | 1,380 |
| Valued using a TNAV multiple | 13,579 |
| Opening fair value | 14,959 |
| | |
| Purchases at cost | - |
| Disposal at cost | - |
| Net change in unrealised gains | - |
| Realised (losses)/gains | - |
| Closing fair value at 30 June 2021 | 14,959 |
| | |
| Comprising: | |
| Valued using an earnings multiple | 1,380 |
| Valued using a TNAV multiple | 13,579 |
| Closing fair value as at 30 June 2021 | 14,959 |

During the period £192,000 was also realised on a small legacy equity asset.

The table below sets out the movement in equity assets at fair value through profit or loss for the Group for the period ended 30 June 2020.

| Group (Unaudited) | £'000 |
|---|---|
| Valued using transaction price | 550 |
| Valued using an earnings multiple | 7,840 |
| Opening fair value | 8,390 |
| | |
| Disposal at cost | (550) |
| Closing fair value at 30 June 2020 | 7,840 |
| | |
| Comprising: | |
| Valued using an earnings multiple | 7,840 |
| Closing fair value as at 30 June 2020 | 7,840 |

The table below sets out the movement in equity assets at fair value through profit or loss for the Company for the year ended 31 December 2020.

| Group<br>(Audited) | 2020<br>£'000 |
|---|---|
| Valued using transaction price | 550 |
| Valued using an earnings multiple | 7,840 |
| Opening fair value | 8,390 |
| | |
| Purchases at cost | 13,599 |
| Disposal at cost | (6,655) |
| Net change in unrealised gains | 380 |
| Realised (losses)/gains | (755) |
| Closing fair value at 31 December 2020 | 14,959 |
| | |
| Comprising: | |
| Valued using an earnings multiple | 1,380 |
| Valued using a TNAV multiple | 13,579 |
| Closing fair value as at 31 December 2020 | 14,959 |

## (b) Fair value of financial instruments

IFRS 13 requires the Company to classify its financial instruments held at fair value using a hierarchy that reflects the significance of the inputs used in the valuation methodologies. These are as follows:

- Level 1 – quoted prices in active markets for identical investments;
- Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, prepayments, credit risk, etc.); and
- Level 3 – significant unobservable inputs (including the Company's own assumptions in determining the fair value of investments).

An investment is always categorised as Level 1, 2 or 3 in its entirety. In certain cases, the fair value measurement for an investment may use a number of different inputs that fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement requires judgement and is specific to the investment.

The following sets out the classifications in valuing the Group's investments:

| Group | Closing fair value as at 30 June 2021 (Unaudited) £'000 | Closing fair value as at 30 June 2020 (Unaudited) £'000 | Closing fair value as at 31 December 2020 (Audited) £'000 |
|---|---|---|---|
| Level 1 | - | - | - |
| Level 2 | - | - | - |
| Level 3 | 14,959 | 7,840 | 14,959 |
| Total | 14,959 | 7,840 | 14,959 |

## 11. CREDIT ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

### (a) Movements in the period

The table below sets out the movement in credit assets at fair value through profit or loss for the Group for the period ended 30 June 2021.

| Group<br>(Unaudited) | £'000 |
|---|---|
| Opening fair value | 5,905 |
| | |
| Purchases at cost | - |
| Net change in unrealised gains | 103 |
| Closing fair value at 30 June 2021 | 6,008 |
| | |
| Comprising: | |
| Valued using an earnings multiple | 1,655 |
| Valued using a TNAV multiple | 4,353 |
| Closing fair value as at 30 June 2021 | 6,008 |

The table below sets out the movement in credit assets at fair value through profit or loss for the Group for the year ended 31 December 2020.

| Group<br>(Audited) | £'000 |
|---|---|
| Opening fair value | - |
| | |
| Purchases at cost | 2,621 |
| Reclassification from loans at amortised cost | 2,509 |
| Net change in unrealised gains | 775 |
| Closing fair value at 31 December 2020 | 5,905 |
| | |
| Comprising: | |
| Valued using an earnings multiple | 1,655 |
| Valued using a TNAV multiple | 4,250 |
| Closing fair value as at 31 December 2020 | 5,905 |

### (b) Fair value of financial instruments

IFRS 13 requires the Company to classify its financial instruments held at fair value using a hierarchy that reflects the significance of the inputs used in the valuation methodologies. These are as follows:

- Level 1 – quoted prices in active markets for identical investments;
- Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, prepayments, credit risk, etc.); and
- Level 3 – significant unobservable inputs (including the Company's own assumptions in determining the fair value of investments).

An investment is always categorised as Level 1, 2 or 3 in its entirety. In certain cases, the fair value measurement for an investment may use a number of different inputs that fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement requires judgement and is specific to the investment.

The following sets out the classifications in valuing the Group's investments:

| Group | Closing fair value as at 30 June 2021 (Unaudited) £'000 | Closing fair value as at 30 June 2020 (Unaudited) £'000 | Closing fair value as at 31 Dec 2020 (Audited) £'000 |
|---|---|---|---|
| Level 1 | - | - | - |
| Level 2 | - | - | - |
| Level 3 | 6,008 | - | 5,905 |
| Total | 6,008 | - | 5,905 |

## 12. FINANCIAL RISK MANAGEMENT

The Group's investing activities undertaken in pursuit of its investment objective, as set out on page 4, involve certain inherent risks. The main financial risks arising from the Group's financial instruments are credit risk, market risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks as summarised below. Credit risk is analysed further in Note 13.

### Market risk

The fair value or future cash flows of a financial instrument held by the Group may fluctuate because of changes in market prices. Market risk can be summarised as comprising three types of risk:

- Interest rate risk – the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates; and
- Currency risk – the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates.
- Price risk – the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk);

The Group's exposure, sensitivity to and management of each of these risks is described in further detail below. Management of market risk is fundamental to the Group's investment objective. The investment portfolio is continually monitored to ensure an appropriate balance of risk and reward. The Board has also established a series of investment parameters, which are reviewed annually, designed to limit the risk inherent in managing a portfolio of investments.

### (a) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments.

The Group invests in Credit Assets which may be subject to a fixed rate of interest, or a floating rate of interest (which may be linked to base rates or other benchmarks). The Group's borrowings may be subject to a floating rate of interest.

The Group manages the mismatch it has in respect of the income generated by its Credit Assets, on the one hand, with the liabilities in respect of its borrowings, on the other hand, by matching any floating rate borrowings with investments in Credit Assets that are also subject to a floating rate of interest. To the extent that the Group is unable to match its funding in this way, it may use derivative instruments, including interest rate swaps, to reduce its exposure to fluctuations in interest rates, however some unmatched risk may remain. The Group has not used any interest rate derivate instruments in the period.

The Group finances its operations through its share capital and reserves, including realised gains on investments as well as the Group's debt facilities. As at 30 June 2021 the Group had £265.5 million drawn down under these facilities (30 June 2020: £192.7 million, 31 December 2020: £273.5 million).

Exposure of the Group's financial assets and liabilities to floating interest rates and fixed interest rates as at 30 June 2021 is shown below:

| Group Financial instrument (Unaudited) | Floating Rate £'000 | Fixed or Administered Rate £'000 | Total £'000 |
|---|---|---|---|
| Credit Assets at amortised cost | 248,202 | 324,911 | 573,113 |
| Cash and cash equivalents | 28,359 | - | 28,359 |
| Interest bearing borrowings | (265,467) | - | (265,467) |
| Net total exposure | 11,094 | 324,911 | 336,005 |

Exposure of the Group's financial assets and liabilities to floating interest rates (giving cash flow interest rate risk when rates are reset) and fixed interest rates (giving fair value risk) as at 30 June 2020 is shown below:

| Group Financial instrument (Unaudited) | Floating Rate £'000 | Fixed or Administered Rate £'000 | Total £'000 |
|---|---|---|---|
| Credit Assets at amortised cost | 191,132 | 351,944 | 543,076 |
| Cash and cash equivalents | 9,253 | - | 9,253 |
| Interest bearing borrowings | (192,667) | - | (192,667) |
| Net total exposure | 7,718 | 351,944 | 359,662 |

Exposure of the Group's financial assets and liabilities to floating interest rates (giving cash flow interest rate risk when rates are reset) and fixed interest rates (giving fair value risk) as at 31 December 2020 is shown below:

| Group Financial instrument (Audited) | Floating Rate £'000 | Fixed or Administered Rate £'000 | Total £'000 |
|---|---|---|---|
| Credit Assets at amortised cost | 204,592 | 343,145 | 547,737 |
| Cash and cash equivalents | 62,548 | - | 62,548 |
| Interest bearing borrowings | (273,539) | - | (273,539) |
| Net total exposure | (6,399) | 343,145 | 336,746 |

The administered rates can be changed at the discretion of the lender.

### (b) Currency risk

Currency risk is the risk that the value of net assets will fluctuate due to changes in foreign exchange rates. Relevant risk variables are generally movements in the exchange rates of foreign currencies in which the Group holds financial assets and liabilities. The assets of the Group are invested in Credit Assets and other investments including unquoted equities which are denominated in Pounds Sterling and other currencies. Accordingly, the value of such assets may be affected favourably or unfavourably by fluctuations in currency rates. The Group generally hedges currency exposure between Pounds Sterling and other currencies.

### Concentration of foreign currency exposure

The Investment Manager monitors the fluctuations in foreign currency exchange rates and may use forward foreign exchange contracts to hedge the currency exposure of the Group's non-GBP denominated investments. The Investment Manager re-examines the currency exposure on a regular basis in each currency and manages the Group's currency exposure in accordance with market expectations.

The Group does not currently designate any derivatives as hedges for hedge accounting purposes as described under IFRS 9 and records its derivative activities on a fair value basis.

The below table presents the net exposure to Euros and US Dollars at 30 June 2021. The table includes forward foreign exchange contracts at their notional exposure value and excludes all GBP assets and liabilities recorded on the Consolidated Statement of Financial Position.

| Currency | Total Assets (£'000) | Total Liabilities (£'000) | Forward Contract (£'000) | Net Exposure after Forward Contract (£'000) |
|---|---|---|---|---|
| Euros | 3,718 | (7) | (3,515) | 196 |
| US Dollars | 2,227 | (12) | (2,170) | 45 |
| Total exposure | 5,945 | (19) | (5,685) | 241 |

If the GBP exchange rate simultaneously increased or decreased by 10 per cent against the above currencies, the impact on profit would be an increase or decrease of £24,000. 10 per cent is considered to be a reasonably possible movement in foreign exchange rates. All forward contracts held at 30 June 2021 were carried out with Infinity International Limited and represent €4,100,000 of Euros and $3,000,000 of US Dollars.

There were no Euro or US Dollar exposures as at 30 June 2020.

The below table presents the net exposure to Euros as at 31 December 2020, there was no US Dollar exposure. The table includes forward foreign exchange contracts at their notional exposure value and excludes all GBP assets and liabilities recorded on the Consolidated Statement of Financial Position.

| Currency | Total Assets (£'000) | Total Liabilities (£'000) | Forward Contract (£'000) | Net Exposure after Forward Contract (£'000) |
|---|---|---|---|---|
| Euros | 2,537 | - | (2,508) | 29 |
| Total exposure | 2,537 | - | (2,508) | 29 |

If the GBP exchange rate simultaneously increased/decreased by 10 per cent against the above currencies, the impact on profit would be an increase or decrease of £3,000. 10 per cent is considered to be a reasonably possible movement in foreign exchange rates. All forward contracts held at 31 December 2020 were carried out with Infinity International Limit and represent €2,780,000 of Euros.

### (c) Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting similar financial instruments traded in the market. Local, regional or global events such as war, acts of terrorism, the spread of infectious illness or other public health issue, recessions, or other events could have a significant impact on the Group and market prices of its investments. This risk applies to financial instruments held by the Group, including equity assets, credit assets and derivatives. Sensitivity analysis on the equity assets is included in Note 12.

## Capital Management

The Company's primary objectives in relation to the management of capital are driven by strategic and organisational requirements but are focused around:

- ensuring its ability to continue as a going concern; and
- maximising the long-term capital growth for its shareholders through an appropriate balance of equity capital and gearing.

In the management of capital and in its definition, we include equity (including revenue and capital reserves), debt (including long-term credit facilities, commercial paper backstopped by long-term credit facilities and any hedging assets or liabilities associated with long-term debt items), cash and temporary investments.

The Board manage the capital structure and make adjustments to it considering changes in economic conditions and the risk characteristics of the business. The Company has met the above objectives through diversifying the leverage facilities through the introduction of a new Topco facility during 2020, a new amortising term loan and an increase in an existing facility.

The Group monitors capital using a ratio of net debt to equity. Net debt is calculated by deducting cash and cash equivalents from total interest-bearing borrowings (as shown in the Consolidated Statement of Financial Position). The Group's net debt to equity ratio which is a key performance indicator used for internal management at Group level was 66.1 per cent at 30 June 2021 (30 June 2020: 49.4 per cent , 31 December 2020: 59.1 per cent).

The Group is subject to externally imposed capital requirements:

- The Company's Articles of Association restrict borrowings to the value of its share capital and reserves;
- As a public company, the Company has a minimum share capital of £50,000;
- To be able to pay dividends out of profits available for distribution by way of dividends, the Company must be able to meet one of the two capital restriction tests imposed on investment companies by company law; and
- The Company's borrowings are subject to covenants limiting the total exposure based on a cap of borrowings as a percentage of the eligible borrowing base, alongside other covenants including but not limited to single investment exposure limits and weighted average coupon and remaining term requirements.

The Company has complied with all the above requirements during this financial period.

## 13. CREDIT RISK

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Group's credit risks arise principally through exposures to loans originated or acquired by the Group and cash deposited with banks, both of which are subject to risk of borrower default.

The Investment Manager establishes and adheres to stringent underwriting criteria. The Group invests in a granular portfolio of assets, diversified at the underlying borrower level, with each loan being subject to a maximum single loan exposure limit. This helps mitigate credit concentrations in relation to an individual customer, a borrower group or a collection of related borrowers.

The credit quality of loans is assessed through evaluation of various factors, including credit scores, payment data, collateral available from the borrower and other information.

The Group further mitigates its exposure to credit risk through structuring facilities whereby the facilities are secured on a granular pool of performing loans and structured so that the Origination Platform and or borrower provides the first loss, and the Group finances the senior risk.

Further risk is mitigated in the property sector as the Group takes collateral in the form of property to mitigate the credit risk arising from residential mortgage lending and commercial real estate.

The outbreak of Covid-19 continues to cause major disruption across the globe. The potential impacts of the government's assistance to consumers and businesses coming to an end are yet unknown, but they may increase the potential expected credit loss impact. Depending on the evolution of the Covid-19 situation, this could result in further economic downturn and potentially a material increase in credit risk. This is being continually monitored.

The Group ensures that it only deposits cash balances with institutions with appropriate financial standing or those deemed to be systemically important.

### Liquidity risk

Liquidity risk is the risk that the Group will be unable meet its obligations in respect of financial liabilities as they fall due.

The Group manages its liquid resources to ensure sufficient cash is available to meet its expected contractual commitments. It monitors the level of short-term funding and balances the need for access to short-term funding, with the long-term funding needs of the Group.

A substantial proportion of the Group's net assets are in loans, whose cash collections could be utilised to meet funding requirements if necessary. The Group has the power, under its Articles of Association, to take out both short and long-term borrowings subject to a maximum value of one hundred percent of its share capital and reserves.

As at 30 June 2021 the Company had a committed debt facility totalling £250.0 million with a maturity date of 4 September 2023. This facility includes a term and revolving facility secured on a range of assets. The Company also has a 2-year term facility that is structured as run-off financing in that the debt will paydown over the term of the facility and a £35m amortising term loan with a 49 year term, but where final repayment is expected in 2024 in line with the facility it is secured against.

The repayment terms and the covenants have been stress tested over the term of each of these facilities to ensure compliance.

Assets and liabilities not carried at fair value but for which fair value is disclosed

For the Group for the period ended 30 June 2021:

| Group | As Presented | Fair Value | | | |
|---|---|---|---|---|---|
| (Unaudited) | | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
| Assets | | | | | |
| Investments at amortised cost | 573,113 | - | - | 586,113 | 586,113 |
| Receivables | 5,320 | - | 5,320 | - | 5,320 |
| Cash and cash equivalents | 28,359 | 28,359 | - | - | 28,359 |
| Total assets | 606,792 | 28,359 | 5,320 | 586,113 | 619,792 |
| Liabilities | | | | | |
| Management fee payable | (1,053) | - | (1,053) | - | (1,053) |
| Performance fee payable | (1,717) | - | (1,717) | - | (1,717) |
| Other payables | (953) | - | (953) | - | (953) |
| Interest bearing borrowings | (265,467) | - | (265,467) | - | (265,467) |
| Total liabilities | (269,190) | - | (269,190) | - | (269,190) |

For the Group for the period ended 30 June 2020:

| Group | As Presented | Fair Value | | | |
|---|---|---|---|---|---|
| (Unaudited) | | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
| Assets | | | | | |
| Investments at amortised cost | 543,076 | 9,328 | - | 528,019 | 537,347 |
| Receivables | 9,168 | - | 9,168 | - | 9,168 |
| Cash and cash equivalents | 9,253 | 9,253 | - | - | 9,253 |
| Total assets | 561,497 | 18,581 | 9,168 | 528,019 | 555,768 |
| Liabilities | | | | | |
| Management fee payable | 2,458 | - | 2,458 | - | 2,458 |
| Performance fee payable | 1,059 | - | 1,059 | - | 1,059 |
| Other payables | 2,034 | - | 2,034 | - | 2,034 |
| Interest bearing borrowings | 192,667 | - | 192,667 | - | 192,667 |
| Total liabilities | 198,218 | - | 198,218 | - | 198,218 |

For the Group for the year ended 31 December 2020:

| Group | As Presented | Fair Value | | | |
|---|---|---|---|---|---|
| (Audited) | | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
| Assets | | | | | |
| Investments at amortised cost | 547,737 | 22,175 | - | 538,314 | 560,489 |
| Receivables | 6,773 | - | 6,773 | - | 6,773 |
| Cash and cash equivalents | 62,548 | 62,548 | - | - | 62,548 |
| Total assets | 617,058 | 84,723 | 6,773 | 538,314 | 629,810 |
| Liabilities | | | | | |
| Management fee payable | (1,040) | - | (1,040) | - | (1,040) |
| Performance fee payable | (2,300) | - | (2,300) | - | (2,300) |
| Other payables | (3,832) | - | (3,832) | - | (3,832) |
| Interest bearing borrowings | (273,539) | - | (273,539) | - | (273,539) |
| Total liabilities | (280,711) | - | (280,711) | - | (280,711) |

Categorisation within the hierarchy has been determined based on the lowest level input that is significant to the fair value measurement of the relevant asset or liability (see Notes 10 and 11 for details). Further details of the loans at amortised cost held by the Group can be found in Note 9 to the financial statements.

## 14. FIXED ASSETS

The tables below set out the movement in Fixed Assets for the Group in previous periods, there were no fixed assets held in the period 1 January 2021 to 30 June 2021 and as such no movements.

| Period ended 30 June 2020 (Unaudited) | IT Development and Software £'000 | Total £'000 |
|---|---|---|
| Opening net book amount | 41 | 41 |
| Additions | - | - |
| Amortisation charge | (34) | (34) |
| Closing net book amount | 7 | 7 |
| As at 31 December 2020 | | |
| Cost | 831 | 831 |
| Accumulated amortisation | (824) | (824) |
| Net book amount | 7 | 7 |

| Year ended 31 December 2020 (Audited) | IT Development and Software £'000 | Total £'000 |
|---|---|---|
| Opening net book amount | 41 | 41 |
| Additions | - | - |
| Amortisation charge | (41) | (41) |
| Closing net book amount | - | - |
| As at 31 December 2019 | | |
| Cost | 830 | 830 |
| Accumulated amortisation | (830) | (830) |
| Net book amount | - | - |

## 15. RECEIVABLES

The table below set out a breakdown of the Group receivables.

| Group | 30 June 2021 (Unaudited) £'000 | 30 June 2020 (Unaudited) £'000 | 31 December 2020 (Audited) £'000 |
|---|---|---|---|
| Prepayments and other debtors | 1,285 | 2,746 | 4,820 |
| Amounts due from platforms | 3,577 | 6,320 | 1,820 |
| Other receivables | 458 | 102 | 133 |
| Total receivables | 5,320 | 9,168 | 6,773 |

The above receivables do not carry any interest and are short term in nature. The Directors consider that the carrying values of these receivables approximate their fair value.

Amounts due from platforms relate to cash that has been collected by the platform partners but not yet remitted to the Group, whereby the credit asset at amortised cost has been treated as if this cash had been received.

## 16. OTHER PAYABLES

The table below set out a breakdown of the Group payables.

| Group | 30 June 2021 (Unaudited) £'000 | 30 June 2020 (Unaudited) £'000 | 31 December 2020 (Audited) £'000 |
|---|---|---|---|
| Accruals and other payables | 1,482 | 2,034 | 3,832 |
| Total other payables | 1,482 | 2,034 | 3,832 |

## 17. INTEREST BEARING BORROWINGS

The table below sets out a breakdown of the Group's interest-bearing borrowings.

| Group | 30 June 2021 (Unaudited) £'000 | 30 June 2020 (Unaudited) £'000 | 31 December 2020 (Audited) £'000 |
|---|---|---|---|
| Current Liabilities | | | |
| Credit facility | 29,883 | 125,000 | 20,916 |
| Interest and commitment fees payable | 245 | - | 183 |
| Prepaid interest and commitment fees | (1,528) | (202) | (234) |
| Total current liabilities | 28,600 | 124,798 | 20,865 |
| Non-Current Liabilities | | | |
| Credit facility | 238,385 | 67,869 | 256,438 |
| Interest and commitment fees payable | - | - | - |
| Prepaid interest and commitment fees | (1,518) | - | (3,764) |
| Total non-current liabilities | 236,867 | 67,869 | 252,674 |
| Total interest-bearing borrowings | 265,467 | 192,667 | 273,539 |

As at 31 December 2019 the Company's main debt facility was £150 million with The Royal Bank of Scotland plc as agent. The facility was secured upon the assets of the Company and had a maturity date of 20 March 2020. Interest is charged at one, three or six-month LIBOR plus a margin. The credit facility was syndicated. This facility was subsequently extended to 19 June 2020 and then terminated in May 2020.

In May 2020 this facility was refinanced with a different lender, with £125.0 million capacity and the maturity extended to May 2021. Interest was changed at one, three or six month LIBOR plus a margin. The Group retained the flexibility to refinance this facility, which took place in September 2020, at which point this new facility was terminated.

As at 31 December 2020 and 30 June 2021 the Company's main debt facility was a £250 million with Goldman Sachs, being a £170 million term loan and £80 million revolving credit facility. At 31 December 2020 and 30 June 2021 the term loan was fully drawn with £nil drawn on the revolving element. Interest is charged at LIBOR plus a margin with the facility maturing in September 2023. The debt facility is secured against the Company's loan portfolios and other assets, in addition to the net exposures the Company holds where the Company is the junior lender to an SPV.

In August 2019, the Group entered a two-year debt facility to finance three residential mortgage portfolios, two commercial mortgage pools and a small unsecured consumer pool. These portfolios were previously leveraged through the Company level debt facility but obtaining assets specific leverage on these provides a lower cost of funding at a higher advance rate. The total debt raised on day one of this facility was £81.0 million. Interest is charged at LIBOR plus a margin. The facility was a 2-year term with a 1-year extension option and is structured as a run-off financing in that the debt will paydown over the term of the facility. During 2020 the 1-year extension was exercised and an additional mortgage portfolio was transferred into the pool. The facility therefore now expires in August 2022, by which time it is expected that the facility will be repaid in full. The carrying value of the portfolio of loans, which this facility is secured against, as at 30 June 2021 was £85.0 million (30 June 2020: £92.6 million, 31 December 2020: £93.6 million).

In December 2020, the Group entered into a £35 million debt facility secured against a structured SME facility, the carrying value of this structured SME facility as at 30 June 2021 was £46.1 million (31 December 2020: £46.5 million). The debt facility charges LIBOR plus a margin and is an amortising term loan with the full £35 million drawn on day one. The facility has a 49 year term but final repayment is expected in 2024.

As at the 30 June 2021 the below related debt costs had been incurred by the Group.

| Group | 30 June 2021 (Unaudited) £'000 | 30 June 2020 (Unaudited) £'000 | 31 December 2020 (Audited) £'000 |
|---|---|---|---|
| Interest and commitment fees payable | 5,687 | 3,900 | 8,729 |
| Other finance charges | 957 | 2,637 | 5,594 |
| Total finance costs | 6,644 | 6,537 | 14,323 |

There were additional costs incurred in 2020 in other finance charges in relation to the refinances in May and September 2020. This was a combination of one-off costs to terminate the previous facilities and to expense any remaining set-up fees.

As at the 30 June 2021 the below changes occurred for the Group:

| Group (Unaudited) | Total £'000 |
|---|---|
| At 1 January 2021 | 273,539 |
| Drawdown of interest bearing borrowings | - |
| Repayments of interest-bearing borrowing | (9,092) |
| Finance costs | 6,644 |
| Interest paid on financing activities | (5,624) |
| As at 30 June 2021 | 265,467 |

As at the 30 June 2020 the below changes occurred for the Group:

| Group<br>(Unaudited) | Total<br>£'000 |
|---|---|
| At 1 January 2020 | 206,792 |
| Drawdown of interest bearing borrowings | 290,000 |
| Repayments of interest-bearing borrowing | (303,477) |
| Finance costs | 6,537 |
| Interest paid on financing activities | (7,185) |
| As at 30 June 2020 | 192,667 |

As at the 31 December 2020 the below changes occurred for the Group:

| Group<br>(Audited) | Total<br>£'000 |
|---|---|
| At 1 January 2020 | 206,792 |
| Drawdown of interest bearing borrowings | 359,648 |
| Repayments of interest-bearing borrowing | (289,013) |
| Finance costs | 14,323 |
| Interest paid on financing activities | (18,211) |
| As at 31 December 2020 | 273,539 |

The below table analyses the Group's financial liabilities into relevant maturity groupings as well as expected future interest and commitment fee costs based on the remaining period at the Consolidated Statement of Financial Position date to the final scheduled maturity date.

| 30 June 2021<br>(Unaudited)<br>Group Financial instrument | < 1 year<br>£'000 | 1 – 5 years<br>£'000 | Total<br>£'000 |
|---|---|---|---|
| Credit facility | 29,883 | 238,385 | 268,268 |
| Interest and commitment fees payable | 8,361 | 12,871 | 21,232 |
| Total exposure | 38,244 | 251,256 | 289,500 |

The below table analyses the Group's financial liabilities into relevant maturity groupings as well as expected future interest and commitment fee costs based on the remaining period at the Consolidated Statement of Financial Position date to the final scheduled maturity date.

| 30 June 2020<br>(Unaudited)<br>Group Financial instrument | < 1 year<br>£'000 | 1 – 5 years<br>£'000 | Total<br>£'000 |
|---|---|---|---|
| Credit facility | 125,000 | 67,869 | 192,869 |
| Interest and commitment fees payable | 6,741 | 386 | 7,127 |
| Total exposure | 131,741 | 68,255 | 199,996 |

The below table analyses the Group's financial liabilities into relevant maturity groupings as well as expected future interest and commitment fee costs based on the remaining period at the Consolidated Statement of Financial Position date to the final scheduled maturity date.

| 31 December 2020 (Audited) Group Financial instrument | < 1 year £'000 | 1 – 5 years £'000 | Total £'000 |
|---|---|---|---|
| Credit facility | 20,865 | 256,490 | 277,355 |
| Interest and commitment fees payable | 9,691 | 18,189 | 27,880 |
| Total exposure | 30,556 | 274,679 | 305,235 |

## 18. ORDINARY SHARE CAPITAL

The table below details the issued share capital of the Company as at the date of the Financial Statements.

| | 30 June 2021 (Unaudited) | 30 June 2020 (Unaudited) | 31 December 2020 (Audited) |
|---|---|---|---|
| No. Issued, allotted and fully paid ordinary shares of £0.01 each | 35,259,741 | 36,514,919 | 35,259,741 |
| Cost £'000 | 352 | 365 | 352 |

On incorporation, the issued share capital of the Company was £50,000.01 represented by one ordinary share of 1p and 50,000 management shares of £1 each, all of which were held by Honeycomb Holdings Limited as subscriber to the Company's memorandum of association. The ordinary share and management shares were fully paid up.

The management shares, which were issued to enable the Company to obtain a certificate of entitlement to conduct business and to borrow under Section 761 of the Companies Act 2006, were redeemed immediately following admission of 23 December 2015 out of the proceeds of the issue.

On 23 December 2015, 10,000,000 ordinary shares of 1p each were issued to shareholders as part of the placing and offer for subscription in accordance with the Company's prospectus dated 18 December 2015.

During 2016 a further 9,926,109 ordinary shares were issued. The price paid per share ranged from 1,000 pence to 1,015 pence and the total paid for the shares during the period amounted to £98.8 million.

On 31 May 2017 the Company announced the successful completion of a placing of a further 10,000,000 ordinary shares. The price paid per share was 1,050p and the total paid for the shares during the year amounted to £103.3 million net of issue costs.

On 25 April 2018 the Company announced the successful completion of a placing of a further 9,523,809 ordinary shares. The price paid per share was 1,050p and the total paid for the shares during the year amounted to £97.8 million net of issue costs.

On 10 August 2020 the Company announced the implementation of a share buyback programme, pursuant to the authority granted at the Company's Annual General Meeting held on 26 June 2020, to purchase the Company's ordinary shares of £0.01 each. The Board believes that implementation of an active share price discount management strategy through this Buyback Programme works in the best interest of the Company's shareholders and will be value accretive to the Company. As at 31 December 2021 the Company had bought back 4,190,178 shares at an average price of 821p (equivalent to a discount of 122p per share against the 31 December 2021 price). No shares were bought back in the period to 30 June 2021.

The table below shows the movement in shares during the period to 30 June 2021:

| | Shares in issue at the beginning of the period | Buyback of Ordinary Shares | Shares in issue at the end of the period |
|---|---|---|---|
| Ordinary Shares | 35,259,741 | - | 35,259,741 |
| Treasury Shares | 4,190,178 | - | 4,190,178 |

The table below shows the movement in shares during the year to 31 December 2021:

| | Shares in issue at the beginning of the period | Buyback of Ordinary Shares | Shares in issue at the end of the period |
|---|---|---|---|
| Ordinary Shares | 39,449,919 | (4,190,178) | 35,259,741 |
| Treasury Shares | - | 4,190,178 | 4,190,178 |

The table below shows the movement in shares during the period to 30 June 2020:

| | Shares in issue at the beginning of the period | Buyback of Ordinary Shares | Shares in issue at the end of the period |
|---|---|---|---|
| Ordinary Shares | 39,449,919 | (2,935,000) | 36,514,919 |
| Treasury Shares | - | 2,935,000 | 2,935,000 |

## 19. SPECIAL DISTRIBUTABLE RESERVE

At a general meeting of the Company held on 14 December 2015, special resolutions were passed approving the cancellation of the amount standing to the credit of the Company's share premium account as at 23 December 2015.

Following the approval of the Court and the subsequent registration of the Court order with the Registrar of Companies on 21 March 2016, the reduction became effective. Accordingly, £98.1 million, previously held in the share premium account, has been transferred to the special distributable reserve as disclosed in the Statement of Financial Position.

During 2020 £4.50 million of the special distributable reserve was used to pay the Q2 2020 and Q3 2020 dividends, the special distributable reserve has not been used to pay dividends in the period to 30 June 2021.

During the period the Company repurchased no shares (30 June 2020: 2,935,000, 31 December 2020: 4,190,178) using the special distributable reserve (30 June 2020:£23.98 million, 31 December 2020: £34.82 million).

## 20. INVESTMENTS IN SUBSIDIARIES

On 20 June 2019 the Group incorporated Sting Funding Limited ("Sting"), a limited Company incorporated under the law of England and Wales. The company is registered at 1 Bartholomew Lane, London, United Kingdom, EC2N 2AX. The Group is considered to control Sting through holding 100 per cent of the issued shares. As a result, the financial statements for the periods ended 30 June 2021, 30 June 2020 and 31 December 2019 are prepared on a consolidated basis. Sting became active on 28 August 2019 when it drew down on a debt facility backed by commercial and second charge residential mortgages.

The Company also consolidates a structured entity, Bud Funding Limited ("Bud"), a limited company incorporated under the law of England and Wales. The company is registered at 1 Bartholomew Lane, London, United Kingdom, EC2N 2AX. The Company is considered to control Bud through its exposure to the variable returns of the vehicle through holding of a junior note issued by it and by way of control exerted through its involvement in the initial creation of Bud and in the absence of another entity now having control. Bud was incorporated on 2 November 2020 and the junior note was funded on 2 December 2020, at which point the control began. The total assets held in Bud at 30 June 2021 were £46.4 million with net assets of £nil.

## 21. INVESTMENTS IN ASSOCIATES

As at 31 December 2019, the Company had a single associate, being a 34.6 per cent investment in Allium Lending Group Limited ("Allium") (formally GDFC Group Limited, Hiber Limited and The Green Deal Finance Company Limited). The company number is 10028311 its registered office is Imperial House, 15 – 19 Kingsway, London, WC2B 6UN.

The Company disposed of its investment in Allium in August 2020 with no gain or loss recognised on disposal.

## 22. NET ASSET VALUE PER ORDINARY SHARE

| | 30 June 2021 (Unaudited) | 30 June 2020 (Unaudited) | 31 December 2020 (Audited) |
|---|---|---|---|
| Net asset value per ordinary share pence | 1,017.0p | 1,016.4p | 1,013.1p |
| Net assets attributable £'000 | 358,595 | 371,126 | 357,232 |

The net asset value per ordinary share as at 30 June 2021 is based on net assets at the period-end of £358.6 million and on 35,259,741 ordinary shares in issue at the period-end.

The net asset value per ordinary share at 30 June 2020 is based on net assets of £371.1 million and on 36,514,919 ordinary shares in issue.

The net asset value per ordinary share as at 31 December 2020 is based on net assets at the year-end of £357.2 million and on 35,259,741 ordinary shares in issue at the year-end.

## 23. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

As at 30 June 2021, 30 June 2020 and 31 December 2020 there were no contingent liabilities or capital commitments for the Group.

## 24. RELATED PARTY TRANSACTIONS AND TRANSACTIONS WITH THE INVESTMENT MANAGER

IAS 24 'Related party disclosures' requires the disclosure of the details of material transactions between the Company and any related parties. Accordingly, the disclosures required are set out below:

Directors – At the start of 2020, the Directors' remuneration was set at a rate of £48,000 per annum for the Chairman and £40,000 per annum for the other Directors. A further £5,000 per annum was payable to the Chairman of the Audit and Risk Committee. This rate of remuneration applied until 31 March 2021.

During 2020, in line with the Board's remuneration policy, and Directors' entitlement to additional fees in respect of any additional services performed by them, the Remuneration and Nomination Committee reviewed a proposal for additional variable fees to be payable to Directors in respect of the corporate action that took place over the course of the financial year, which required Directors to dedicate additional time to review associated documents and to attend additional meetings. Following such discussion, and upon the advice of the Remuneration and Nomination Committee, the Board agreed an additional variable payment to all Directors of £15,000 in connection with their additional duties relating to a potential corporate action. Such fees were set with regard to other comparable investment companies who have undertaken equivalent activities.

The Remuneration Committee met on 25 February 2021 and considered the continued time commitment required to carry out their duties. In that discussion, the Committee noted the additional duties and responsibilities to be placed upon directors of the Company following the Company's move to a premium listing. The Committee also had regard to market trends in remuneration in comparable UK-listed companies. Following that discussion, the Board approved, following the recommendation of the Committee, the following fee structure for Directors with effect from 1 March 2021:

- Chairman - £60,000 per annum
- Senior Independent Director - £50,000 per annum
- Non-Executive Director - £45,000 per annum
- Chair of Audit Committee – Additional supplement of £5,000 per annum
- Chair of Risk Committee – Additional supplement of £5,000 per annum

Joanne Lake was appointed as a Director on 1 January 2021 and is a Director of Morses Club plc ("Morses"), an entity for which the Company provided a facility. As at 1 January 2021 the facility was drawn at £2.8 million and was fully repaid during the period to give £nil balance at 30 June 2021. The facility was signed in April 2020, prior to discussions beginning with the Company about her role as non-executive Director.

As at 30 June 2021, Joanne Lake held 2,713 Ordinary Shares in the Company, no other Directors held an interest in the Company shares at this date. There were no Ordinary Shares held by Directors as at 30 June 2020 or 31 December 2020.

There were no other transactions during the period with the Directors of the Company. At 30 June 2021, there was £nil (30 June 2020: £nil, 31 December 2020: £nil) payable to the Directors for fees and expenses.

Investment Manager – Pollen Street Capital Limited (the 'Investment Manager'), a UK-based company authorised and regulated by the FCA, has been appointed the Company's investment manager and AIFM for the purposes of the AIFMD. Details of the services provided by the Investment Manager and the fees paid are given on Note 5 to the financial statements.

During the period to 30 June 2021 the Group paid £5.46 million (30 June 2020: £4.99 million, 31 December 2020: £8.24 million) of fees and there was £2.77 million (30 June 2020: £2.46 million, 31 December 2020: £3.34 million) payable to the Investment Manager.

The Group considers all transactions with the Investment Manager or companies that are controlled by the Investment Manager as related party transactions.

Oplo Group Limited ("Oplo", formerly 1st Stop Group) is an English based consumer lender. During the period the Company had a structured facility to Oplo secured on a granular pool of consumer loans. Oplo is owned by a fund that is managed by an affiliate of the Investment Manager. As at 30 June 2021 the facility was £40.0 million drawn (30 June 2020: £30.0 million, 31 December 2020: £35.0 million). The Group also had a forward flow relationship in place with Oplo in which the Group provided £13.9 million (30 June 2020: £18.7 million, 31 December 2020: £22.3 million) and these loans have an outstanding balance as at 30 June 2021 of £40.3 million (30 June 2020: £17.4 million, 31 December 2020: £30.0 million).

Shawbrook Group PLC ("Shawbrook") is a specialist SME and consumer lending and savings bank. Shawbrook is 50 per cent owned by funds that are managed by the Investment Manager. During 2020 the Company purchased bonds issued by Shawbrook. The bonds were acquired in the secondary market from an unrelated third party at an arm's length price. The exposure as at 31 December 2020 was £11.4m (30 June 2020: nil)and was fully sold in the period to June 2021 to an unrelated third party in the secondary market at an arm's length price.

The Company also carried out FX hedging with Infinity International Limited ("Infinity") in relation to some Euro and US dollar development finance that it had entered during the period. Infinity is owned by a fund that is managed by an affiliate of the Investment Manager. The exposures at each reporting date are disclosed in Note 12.

Associates – at 30 June 2020 Allium Lending Group Limited ("Allium") (formally GDFC Group Limited, Hiber Limited and The Green Deal Finance Company Limited), was an associate of the Company and held outstanding loan balance from structured facilities totalling £8.7 million and accrued interest of £1.5 million. Allium was no longer an associate from August 2020.

Origination Partner – Honeycomb Finance Limited

During the period that the Origination Partner was part of the same group as the Investment Manager, the fees payable to the Origination Partner by the Company were deducted from the management fee payable to the Investment Manager and totalled £nil (30 June 2020: £9,352, 31 December 2020: £36,668), and at 30 June 2021, there was £nil (30 June 2020: £nil, 31 December 2020: £nil) payable to the Origination Partner.

## 25. ULTIMATE CONTROLLING PARTY

It is the opinion of the Directors that there is no ultimate controlling party.

## 26. SUBSEQUENT EVENTS

On 7 September 2021 a dividend of 20.0 pence per ordinary share was approved for payment on 30 September 2021.

## 27. APPROVAL OF THE FINANCIAL STATEMENTS

The unaudited financial statements were approved by the Board of Directors of Honeycomb Investment Trust plc (a public limited company incorporated in England and Wales with company number 09899024) and authorised for issue on 14 September 2021.

# 4 Shareholders' Information

# Directors, Portfolio Manager and Advisers

## Directors
Robert Sharpe
Jim Coyle
Richard Rowney
Joanne Lake
*all at the registered office below*

## Registered Office
6th Floor
65 Gresham Street
London EC2V 7NQ
England

## Investment Manager and AIFM
Pollen Street Capital Limited
11 – 12 Hanover Square
London W1S 1JJ
England

## Financial Advisers and Brokers
Liberum Capital Limited
Level 12, Ropemaker Street
25 Ropemaker Place
London EC2Y 9LY
England

Cenkos Securities plc
6.7.8 Tokenhouse Yard
London EC2R 7AS
England

## Custodian
Sparkasse Bank Malta PLC
Ix-Xatt ta' Qui-si-Sana
101 Townsquare
Sliema SLM3112
Malta

## Website
http://www.honeycombplc.com/

## Share Identifiers
ISIN: GB00BYZV3G25
Sedol: BYZV3G2
Ticker: HONY

## Administrator
Apex Fund Services (UK) Ltd
5th Floor, Bastion House
140 London Wall
London EC2Y 5DN
England

## Depositary
Indos Financial Limited
c/o JTC, 18th Floor, the Scalpel
52 Lime Street, London EC3M 7AF
England

## Registrar
Computershare Investor Services PLC
The Pavilions, Bridgewater Road
Bristol BS99 6ZZ
England

## Company Secretary
Link Company Matters Limited
Central Square
10th Floor, 29 Wellington Street
Leeds LS1 4DL
England

## Independent Auditors
PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT
England

## Website

The Company's website can be found at www.honeycombplc.com. The site provides visitors with Company information and literature downloads.

The Company's profile is also available on third-party sites such as www.trustnet.com and www.morningstar.co.uk.

## Annual and half-yearly reports

Copies of the annual and half–yearly reports may be obtained from the Company Secretary by calling emailing hitcosec@linkgroup or by visiting www.honeycombplc.com.

## Share prices and Net Asset Value information

The Company's ordinary shares of 1p each are quoted on the London Stock Exchange:

- SEDOL number: BYZV3G2
- ISIN number: GB00BYZV3G25
- EPIC code: HONY

The codes above may be required to access trading information relating to the Company on the internet.

## Electronic communications with the Company

The Group's consolidated annual report & audited financial statements, half-yearly reports and other formal communications are available on the Company's website. To reduce costs the Company's half-yearly financial statements are not posted to shareholders but are instead made available on the Company's website.

## Whistleblowing

As the Company has no employees, the Company does not have a whistleblowing policy. The Audit Committee reviews the whistleblowing procedures of the Investment Manager and Administrator to ensure that the concerns of their staff may be raised in a confidential manner.

## Warning to shareholders – share fraud scams

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment. While high profits are promised, if you buy or sell shares in this way, you will probably lose your money.

## How to avoid share fraud

- Keep in mind that firms authorised by the FCA are unlikely to contact you out of the blue with an offer to buy or sell shares
- Do not get into a conversation, note the name of the person and firm contacting you and then end the call
- Check the Financial Services Register from www.fca.org.uk to see if the person and firm contacting you is authorised by the FCA
- Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details
- Use the firm's contact details listed on the Register if you want to call it back
- Call the FCA on 0800 111 6768 if the firm does not have contact details on the Register or you are told they are out of date
- Search the list of unauthorised firms to avoid at www.fca.org.uk/scams
- Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme.
- Think about getting independent financial and professional advice before you hand over any money
- Remember: if it sounds too good to be true, it probably is!

5,000 people contact the Financial Conduct Authority about share fraud each year, with victims losing an average of £20,000.

## Report a scam

If you are approached by fraudsters, please tell the FCA using the share fraud reporting form at fca.org.uk /scams, where you can find out more about investment scams.

You can also call the FCA Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters, you should contact Action Fraud on 0300 123 2040.

# 5

# Definitions and reconciliation to alternative performance measures

| | |
|---|---|
| Credit Assets | Credit Assets are loans made to counterparties, together with related investments. |
| Equity Assets | Equity Assets are selected equity investments that are aligned with the Company's strategy and that present opportunities to enhance the Company's returns from its investments. |
| Net asset value ("NAV") | Net asset value represents the total value of the Group's assets less the total value of its liabilities. For valuation purposes, it is common to express the NAV on a per share basis. |
| Ongoing Charges | Ongoing charges is calculated as a percentage of annualised ongoing charge over average reported NAV. Ongoing charges are those expenses of a type which are likely to recur in the foreseeable future. |
| Premium | If the share price of the Company is higher than the NAV per share, the Company's shares are said to be trading at a premium. The premium is shown as a percentage of the NAV. |
| Discount | If the share price of the Company is lower than the NAV per share, the Company's shares are said to be trading at a discount. The discount is shown as a percentage of the NAV. |
| Fair Value | The amount for which an asset could be exchanged, or a liability settled, between willing parties in an arm's length transaction. |
| Registrar | An entity that manages the Company's shareholder register. The Company's registrar is Computershare Investor Services PLC. |
| Alternative Investment Fund ("AIF") | An AIF, as defined in the AIFM Directive 2011/61/EU on Alternative Investment Fund Managers. |
| LIBOR ("London Inter-Bank Offered Rate") | The interest rate participating banks offer to other banks for loans on the London market. |
| Structured Loan | Credit Asset whereby the Group typically has senior secured loans to speciality finance companies, whereby the security on our investment comprises the assets originated by the speciality finance company and the company provides the 'first loss' in the form of 'real capital' whilst the Company provides the senior capital. Corporate guarantees also typically taken |
| Direct Portfolio | Portfolios of loans owned directly by the Group, typically secured on property |
| AIFM | An Alternative Investment Fund Manager, as defined in the AIFM Directive. Pollen Street Capital Limited undertakes this role on behalf of the Company. |
| Servicers | Comprehensive loan servicing to support the full loan lifecycle, from origination, through account servicing to arrears management. |
| Hedging | An investment to reduce the risk of adverse price movements in an asset. |

## RECONCILIATION TO ALTERNATIVE PERFORMANCE MEASURES

Premium / (Discount) to NAV per share

| | 30 June 2021 (Unaudited) | 30 June 2020 (Unaudited) | 31 December 2020 (Audited) |
|---|---|---|---|
| NAV per share (Cum income) | 1,017.0p | 1,016.4p | 1,013.1p |
| Share Price at Close | 970.0p | 752.5p | 942.5p |
| Premium / (Discount) | (4.6)% | (26.0)% | (7.0)% |

The premium / (discount) to NAV per share is calculated by taking the difference between the share price at close and the NAV per share (Cum income) and dividing it by the NAV per share.

Annual NAV per Share Return

| | 30 June 2021 (Unaudited) | 30 June 2020 (Unaudited) | 31 December 2020 (Audited) |
|---|---|---|---|
| NAV per share (Cum income) at period end | 1,017.0p | 1,016.4p | 1,013.1p |
| NAV per share (Cum income) at period start | 1,013.1p | 1,014.9p | 1,014.9p |
| Dividends per share paid in the period | 40.0p | 40.0p | 80.0p |
| Annual Nav per Share Return | 8.7% | 8.2% | 7.7% |

The annual NAV per share return is calculated by taking the total of the closing NAV per share (Cum income) at period end, adding the dividend per share paid in the period and subtracting the NAV per share (Cum income) at period started, divided by the NAV per share (Cum income) at period start. In the case of a half-year, this return is pro-rated based on day count to generate an annualised return.

Inception to Date ("ITD") NAV per Share Return

| | 30 June 2021 (Unaudited) | 30 June 2020 (Unaudited) | 31 December 2020 (Audited) |
|---|---|---|---|
| NAV per share (Cum income) | 1,017.0p | 1,016.4p | 1,013.1p |
| Opening NAV per share (Cum income) at inception | 982.0p | 982.0p | 982.0p |
| Dividends per share paid since inception | 412.9p | 332.9p | 372.9p |
| ITD NAV per Share Return | 45.6% | 37.4% | 41.1% |

The ITD NAV per share return is calculated by taking the total of the closing NAV per share (cum income) at period end and adding the dividend per share paid since inception and subtracting the opening NAV per share (Cum Income) at inception, divided by the NAV per share (cum income) at inception.

Debt to Equity

| | 30 June 2021 (Unaudited) £'000 | 30 June 2020 (Unaudited) £'000 | 31 December 2020 (Audited) £'000 |
|---|---|---|---|
| Net Asset Value | 358,595 | 371,126 | 357,232 |
| Interest Bearing Borrowings | 265,467 | 192,667 | 273,539 |
| Debt to Equity ratio | 74.0% | 51.9% | 76.6% |
| Cash and cash equivalents | 28,359 | 9,253 | 62,548 |
| Net Debt to Equity Ratio | 66.1% | 49.4% | 59.1% |

Debt to equity ratio is calculated as the Group's interest-bearing debt divided by the net asset value expressed as a percentage. Net Debt to equity ratio is calculated as the Group's interest-bearing debt less cash and cash equivalents, divided by the net asset value expressed as a percentage.

Dividend Return

| | 30 June 2021 (Unaudited) | 30 June 2020 (Unaudited) | 31 December 2020 (Audited) |
|---|---|---|---|
| Dividend declared (pence per share) | 40.0 | 40.0 | 80.0 |
| IPO issue price (pence per share) | 1,000.0 | 1,000.0 | 1,000.0 |
| Dividend Return | 8.0% | 8.0% | 8.0% |

Dividend return is calculated as the total declared dividends for the period divided by IPO issue price.

Ongoing Charges

| | 30 June 2021 (Unaudited) £'000 | 30 June 2020 (Unaudited) £'000 | 31 December 2020 (Audited) £'000 |
|---|---|---|---|
| Auditors' remuneration | 143 | 80 | 287 |
| Administrator's fees | 89 | 93 | 148 |
| Directors' fees | 110 | 75 | 200 |
| Management Fee | 3,172 | 2,970 | 5,942 |
| Other costs | 447 | 283 | 908 |
| Average NAV | 359,720 | 382,764 | 373,853 |
| Ongoing Charges | 2.2% | 1.8% | 2.0% |

Ongoing charges ratio: The Annualised Ongoing Charge is calculated using the Association of Investment Companies recommended methodology. It is calculated as a percentage of annualised ongoing charge over average reported Net Asset Value. Average NAV is calculated as the average of the previous 12 months published monthly NAV's. Ongoing charges are those expenses of a type which are likely to recur in the foreseeable future, whether charged to capital or revenue, and which relate to the operation of the investment company as a collective fund, excluding the costs of acquisition/disposal of investments, financing charges and gains/losses arising on investments. Ongoing charges are based on costs incurred in the period as being the best estimate of future costs. The AIC excludes performance fees from the Ongoing Charges calculation.

NAV Return Bridge

| | 2020<br>£'000 |
|---|---|
| Monthly Average Credit Assets | 581,309 |
| Monthly Average NAV plus Leverage | 630,338 |
| Monthly Average NAV | 359,720 |

Monthly Average Credit Assets is the mean of the aggregate of the credit assets at amortised cost, credit assets held at fair value through profit or loss and derivative assets held at fair value through profit or loss for each month end from 31 December 2020 to 30 June 2021, inclusive.

Monthly Average NAV plus Leverage is the mean of the net assets of the Group, plus interest bearing borrowings, for each month end 31 December 2020 to 30 June 2021, inclusive.

Monthly Average NAV is the mean of the net assets of the Group for month end from 31 December 2020 to 30 June 2021 inclusive.

| | H1 2021 | |
|---|---|---|
| Investment Yield | 9.8% | Investment yield is calculated as Interest Income on credit assets at amortised cost, plus Income/(loss) on credit assets at fair value through profit and loss, less third party servicing, divided by Monthly Average Credit Assets |
| Impairments and write-offs | (0.2%) | Impairments and write-offs is calculated as credit impairment losses before £2.3m of one-off charges relating to expected Covid-19 charges not yet incurred, over Monthly Average Credit Assets |
| Credit asset return | 9.6% | Credit asset return is a sub-total of the above |
| Equity and working capital | (0.7%) | The impact of equity and working capital is calculated as the Statement of Comprehensive Income amounts above plus Income / (Loss) on equity assets at fair value through profit and loss divided by Monthly Average NAV plus Leverage, less the impact of items already disclosed above |
| Effect of leverage | 3.0% | Effect of leverage is calculated as the above Statement of Comprehensive Income amounts above plus finance costs divided by Monthly Average NAV, less the impact of items already disclosed above |
| Investment Manager fees | (2.7%) | Calculated as Management fee and Performance fee divided by Monthly Average NAV |
| Fund Opex | (0.5%) | Calculated as Fund expenses, divided by Monthly Average NAV |
| NAV return | 8.7% | Annual NAV per Share Return |

**Honeycomb Investment Trust**
11–12 Hanover Square
London, W1S 1JJ

Tel +44 (0)203 728 6750
Email ir@honeycombplc.com
Website honeycombfinance.com