RECI
REAL ESTATE CREDIT INVESTMENTS

Cheyne
CAPITAL

# REAL ESTATE CREDIT INVESTMENTS LIMITED

## Q4 Investor Presentation

May 2023

www.realestatecreditinvestments.com
Ticker: RECI LN

## Background

Real Estate Credit Investments (RECI) is a closed-ended investment company which originates and invests in real estate debt secured by commercial real estate in Western Europe, focusing primarily on the United Kingdom, France and Spain.

RECI is externally managed by Cheyne Capital's real estate business which was formed in 2008 and currently manages c. $5bn via private funds and managed accounts. RECI's overarching aim is to deliver a stable quarterly dividend with minimal volatility, through economic and credit cycles via a levered exposure to real estate credit investments. Investments may take different forms but are principally in:

- **Self Originated Deals**: predominantly bilateral senior real estate loans and bonds
- **Market Bonds**: listed real estate debt securities such as Commercial Mortgage Backed Securities (CMBS) bond that are not self originated.

**This quarterly update presentation has been prepared by the Company's Investment Manager to provide investors with an update of the position of the Company as at 31 March 2023, a detailed review of the positions held by the Company, and detail of the Company's strategy with regards to dividends, leverage, and opportunities in the UK and European real estate credit markets**

# Contents

REAL ESTATE CREDIT INVESTMENTS

# Key Quarter Updates

- **Portfolio**
  - Total NAV Return for the quarter: +1.2%
  - No defaults in the portfolio
  - Rotation of market bond portfolio into strong senior loans with attractive returns
  - During the quarter, four French loans fully repaid, realising net proceeds of £54.4m, and providing headroom to invest in new deals at enhanced IRRs

- **Cash**
  - Cash reserves remain targeted at between 5% to 10% of NAV
  - As at 31 March 2023, cash was £17.0m.

- **Dividend**
  - Dividends maintained at 3p per quarter, 9.0% yield, based on share price, as at 31 March 2023
  - Dividend predominantly covered by interest income

- **Financing**
  - A mix of flexible, short-dated financing employed, alongside term-matched structured financing on selected high-quality senior loan deals

- **Opportunities**
  - The present macroeconomic backdrop is set to continue through 2023, resulting in further constraints in bank lending and alternative sources of capital. The opportunity to provide senior loans at low risk points, for higher margins, is increasingly evident
  - The Company expects to deploy its currently available cash resources to its near term commitments and towards a compelling emerging opportunity set in senior loans

# Investment Opportunity in Senior Loans

✓ **Attractive returns from defensive, senior, low LTV credit exposure to UK and European commercial real estate assets**

- A focus on **senior**, 1st lien loans:
  - Senior 1st lien loans now account for 82% of the total portfolio by commitment value
  - Top 10 positions are 100% senior loans
  - New origination is 100% senior loans
- Weighted Average LTV on total portfolio by commitment value of **58.6%** as at 31 March 2023
- Predominantly large, well capitalised, and experienced institutional borrowers
- Minimal exposure to shopping centres (<2% of GAV), secondary offices (0% of GAV) and logistics (<3% of GAV)
- RECI retains absolute governance, covenants and control, afforded by senior ranking and bilateral singular lending relationships
- Portfolio has withstood COVID19 and other macro events, and is well placed to withstand the current revaluations in real estate

# Company Summary

✓ **Quarterly dividends delivered consistently since October 2013**

- The Company has consistently sought to pay a stable quarterly dividend from its distributable profits
- This has led to a stable annualised dividend of around 7% of NAV

✓ **Highly granular book**

- 53 positions

✓ **Transparent and conservative leverage**

- Net leverage 20.0% (with £17m cash) as at 31 March 2023 versus a leverage limit of 40%
- Non-recourse and limited-recourse, term, structured finance provides returns optimisation and financial flexibility on senior loans

✓ **Access to established real estate investment team at Cheyne, which manages c$5bn AUM**

✓ **Access to pipeline of enhanced return investment opportunities identified by Cheyne**

- Cheyne's immediate pipeline of deals stands at £2.0bn with a WA LTV of 59% and unlevered IRR of 11.7%

✓ **Robust mitigation against a rising rates environment**

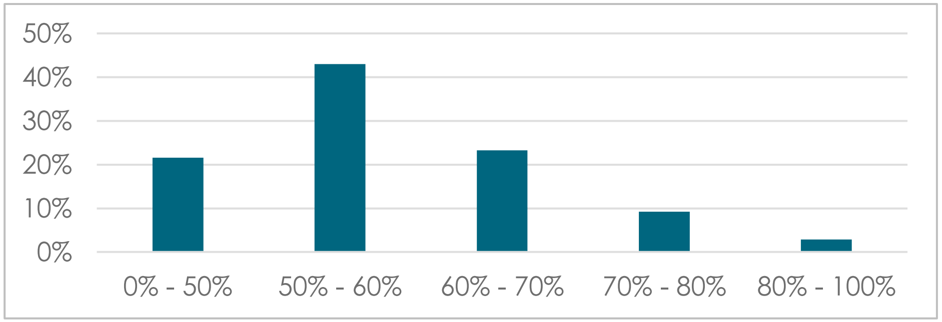
- A high yielding portfolio, combined with a short weighted average life of 2 years, ensures minimal exposure to yield widening and the ability to redeploy quickly at higher rates
- Strong pipeline of floating rate senior loans

# Positioned for the Current Macroeconomic Backdrop

- Current market conditions reflect the unravelling of a decade of low interest rates and low inflation
- Expectation is for base rates in the UK and Europe to retrench from current higher levels but remain elevated
  - Entrenched higher base rates translate into higher yields on real estate
- Recessionary pressure over the next 1-3 years will challenge rental growth assumptions
- Commercial property valuation declines are expected across the board; albeit declines to be more pronounced in
  - (a) asset classes exposed to operational demand softening; and
  - (b) assets underwritten to significant rental growth and tight exit yields
- Resilient asset classes include affordable multifamily and single family homes (PRS), student housing, industrial and prime offices (with the highest ESG credentials)
- Exposed asset classes include shopping centres, logistics and secondary offices
- With valuation declines, we believe that higher levered and thin capital structures are particularly exposed to losses – equity, preferred equity, mezzanine and whole loans – especially so in the exposed asset classes above. Also, a lack of governance removes the ability to work through any crisis
- **RECI's book is dominated by senior bilateral loans and resilient asset classes**

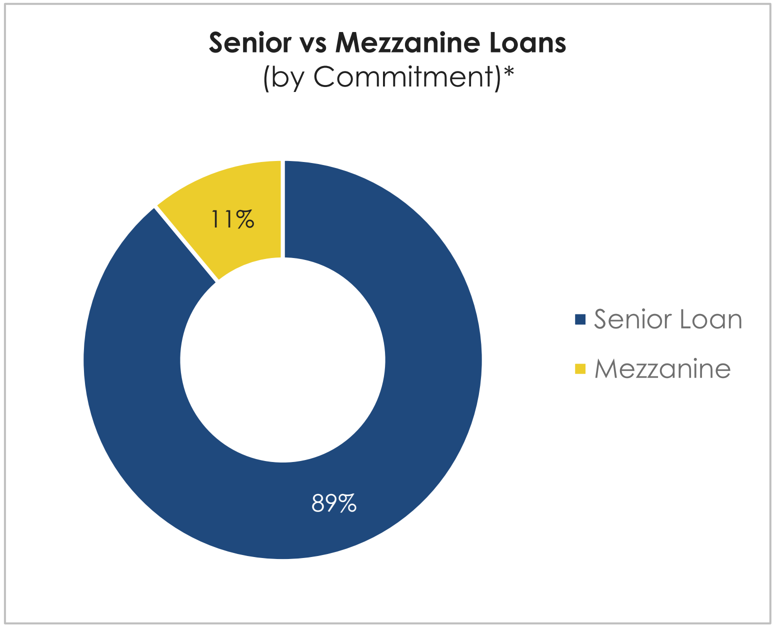
# Focus on Senior Loans

- RECI's focus is on senior loans
- Since 2016, the book has been migrating towards an all-senior loan book.
- Today, senior loans represent 82% of the total portfolio by commitment
- The pipeline of new loans is entirely senior
- The WA LTV by fair value of the total portfolio is 59.2%
- The breakdown of LTV is as below:




**Split of Portfolio by Commitment Value**
(Fair Value for Market Bonds)

| | March-23 | March-22 |
|---|---|---|
| **Bilateral Loans and Bonds** | 92.2% | 84.2% |
| **Market Bonds** | 7.8% | 15.8% |




*These figures include all loans and bond positions. All CMBS bonds are classed as Senior Credit

# 31 March 2023 Snapshot

# Current Position

- RECI announced its third interim quarterly dividend for this financial year of 3p in February 2023
- Balance sheet leverage reduced to 20.0% at 31 March 2023

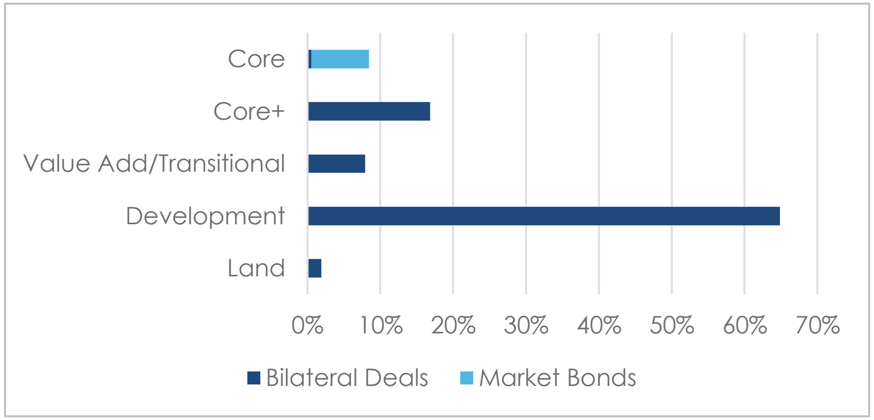
| | 31-Dec-2022 | 31-Jan-23 | 28-Feb-23 | 31-Mar-23 |
|---|---|---|---|---|
| **Bilateral Loans & Bonds*** | £330.5m | £347.6m | £357.5m | £367.8m |
| **Public Market Bonds** | £89.7m | £90.1m | £88.4m | £49.2m |
| **Cash** | £24.0m | £33.7m | £24.4m | £17.0m |
| **Financing (Combined Recourse and Non-Recourse)** | -£119.2m | -£126.4m | -£120.3m | -£102.0m |
| **Other Assets & Liabilities** | £15.7m | -£2.1m | £1.5m | £4.9m |
| **Net Assets** | **£339.8m** | **£342.9m** | **£351.4m** | **£337.0m** |
| **Shares Outstanding** | **229,332,478** | **229,332,478** | **229,332,478** | **229,332,478** |
| **NAV per share** | **£1.482** | **£1.495** | **£1.505** | **£1.469** |
| Debt to Equity Ratio | 35.1% | 36.9% | 34.2% | 30.3% |
| Net Leverage | 24.7% | 23.8% | 24.6% | 20.0% |

*Values show Fair Values gross of leverage

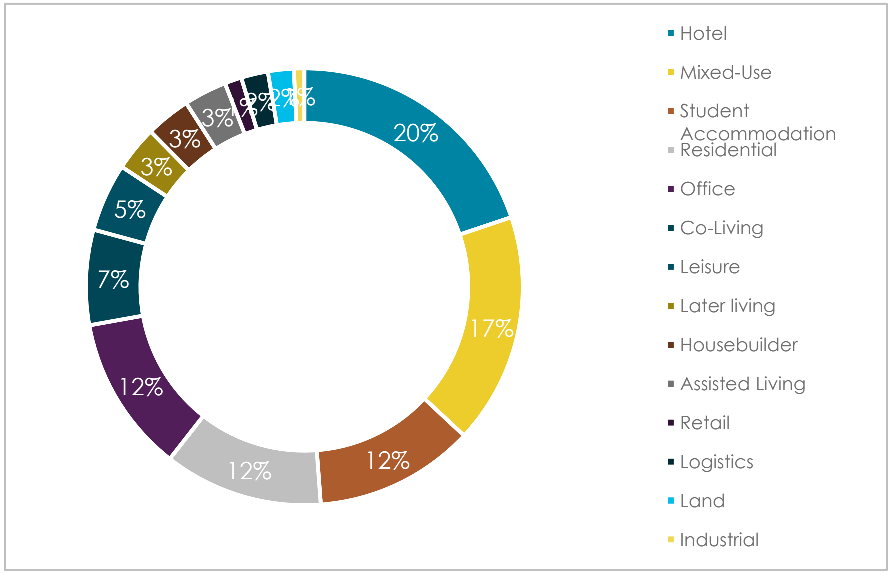
# Portfolio Composition

- RECI's investment portfolio was valued at £417.0m as at 31 March 2023
- The bilateral investment portfolio of £367.8m comprises 34 loans, with an average LTV of 60.9%, an average unlevered yield of 9.5% and a weighted average life of 1.9 years.
- The public market bond portfolio, currently valued at £49.2m, has the potential for strong defensive returns. As at 31 March 2023, 72% of the portfolio is floating rate bonds.

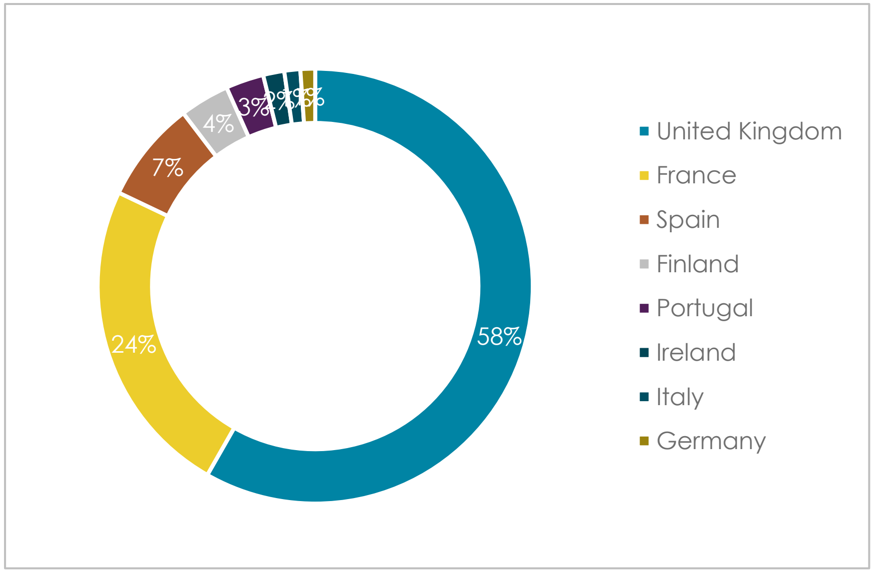
## Portfolio by Investment Type[1] (by Commitment)




## By Sector (by Commitment)




## By Geography (by Commitment)




1. For Loan Type definitions please refer to slide 24

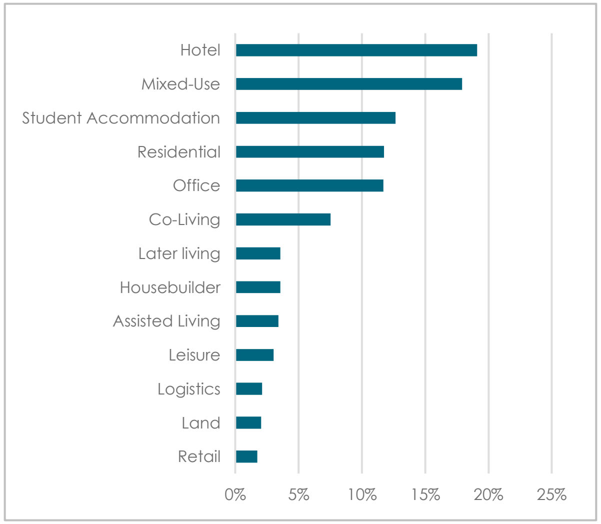
# Portfolio Composition – Bilateral Deals[1]

| 34 | £367.8m | 60.9% | 9.5% | 1.9 yrs |
| --- | --- | --- | --- | --- |
| Loans | FV of Portfolio | WA LTV | WA Unlevered Yield[2] | WA Life |

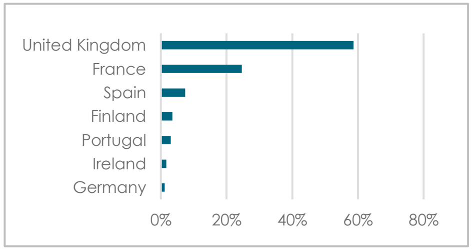
- £367.8m portfolio (£301.6m net of leverage) comprising 34 loans, predominantly senior and mezzanine loans in the UK, France and Spain
- Undrawn loan commitments of £168.3m as at 31 March 2023

## Loan Breakdowns by Commitment

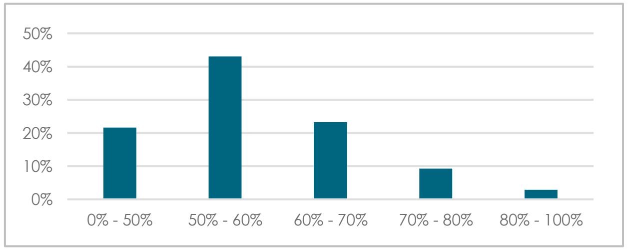
### Asset Class Breakdown



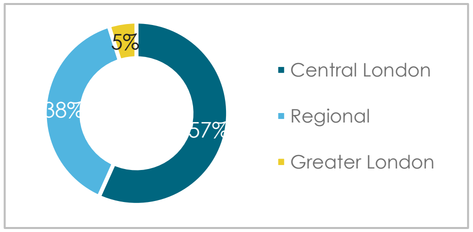

### Geographical Breakdown



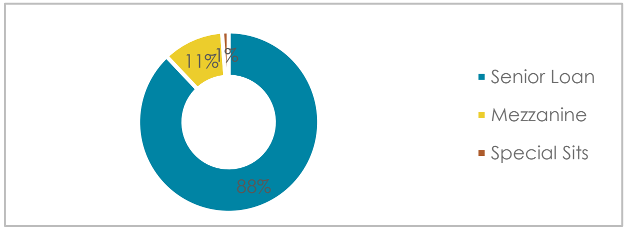

### LTV[3]




### UK Breakdown




### Loan Type Breakdown



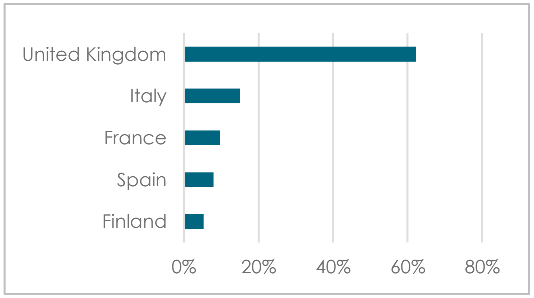

[1]Certain self originated bilateral loans are technically structured as bonds to enhance marketability
[2] Yield stated is the effective accounting yield based on the funded loan balances, which includes interest and fees. Some loans also benefit from equity upside participation, which is only recognised following evidenced delivery, and can result in significant incremental gains in excess of the effective accounting yield. The portfolio includes listed notes, of which some are leveraged.
[3]LTV by commitment (see slide 24 for definition)

# Portfolio Composition – Public Market Bond Portfolio

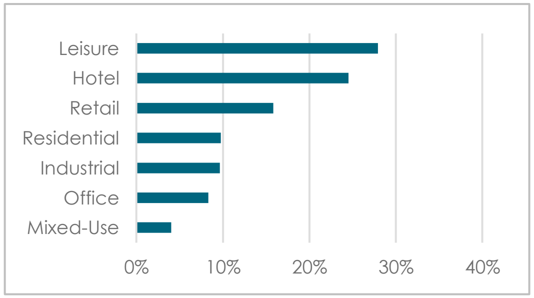
| | | | | |
|---|---|---|---|---|
| **19** Bonds | **£49.2m** Fair Value | **48.8%** WA LTV | **12.6%** WA Unlevered Yield | **2.5yrs** WA Life |

- The Investment Manager has accelerated its rotation of the portfolio from market CMBS to senior loans, leaving a bond portfolio of 15 positions and a notional of £41.5m representing just 5.6% of the portfolio as at 30 April.
- Bond investments are typically senior secured (1st lien) credits at conservative LTV collateralised by core and core+ assets and owned by large institutional sponsors
- The bonds are valued on a mark to market ("MTM") basis, where independent 3rd party pricing is obtained based on observable market trading levels (bid/offer).
- The current market bond book has been impacted by the significant sell-off in wider fixed income markets. The current WA MTM of the market bond book is 89.2% of par. The MTM movements have been particularly acute in the last quarter.

## By Geography




## By Sector



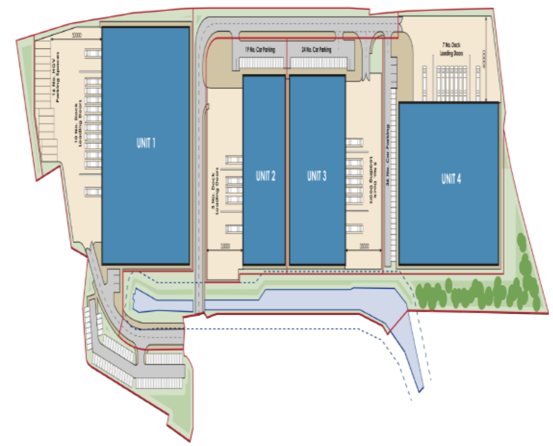
# Position Analysis – Top 10 by Commitment as at 31 March 2023

| | Description | Commitment | FV of Funded Amount | Entry LTV | Carrying Price | Investment Strategy | Loan Type | Manager Comment |
|---|---|---|---|---|---|---|---|---|
| 1 | UK mixed use portfolio, predominantly office/residential | £83.0m | £27.0m | 58% | 100.00 | Senior Loan | Core+ | Light industrial, office and mid-market residential asset portfolio in the UK. The de-risking of the loan has continued this quarter with further successful sales and quarterly amortisation. |
| 2 | London Student Accommodation | £45.2m | £14.8m | 55% | 100.00 | Senior Loan | Development | Development in progress. Expected completion in Q3 2025 |
| 3 | London Residential Led Mixed Use Scheme | £32.7m | £7.0m | 66% | 100.00 | Senior Loan | Development | Residential, affordable housing and mixed use over five blocks within Greater London. |
| 4 | Office development in Saint Ouen, Paris | £30.8m | £24.8m | 58% | 100.00 | Senior Loan | Development | Refurbishment and extension of a freehold office building |
| 5 | London Office | £22.8m | £22.6m | 59% | 98.10 | Senior Loan | Core | Fully let 98,246 sq ft new grade A office block located in Hoxton |
| 6 | Spanish Villas | £22.5m | £8.2m | 49% | 100.00 | Senior Loan | Development | Build-for-sale Luxury Villa Development |
| 7 | France Housebuilder Portfolio | £20.6m | £20.6m | 36% | 100.00 | Senior Loan | Development | Income producing residential developer |
| 8 | Finland Hotel | £20.4m | £0.0m | 64% | 100.00 | Senior Loan | Development | Development in progress. Expected completion in June 2024 |
| 9 | French Hotels in Nice and Paris | £19.9m | £12.4m | 80% | 98.92 | Senior Loan | Development | Development in progress. Expected completion in Q3 2024 |
| 10 | Luxury Assisting Living Units in London | £19.7m | £8.9m | 60% | 100.00 | Senior Loan | Core+ | Acquisition of the leasehold interest in 190 luxury assisted living units in Kensington, London |

# Recent Deals

| | |
|---|---|
| **Deal Description** | Student Accommodation |
| **Instrument** | Senior Loan |
| **Total RECI Commitment** | £45.2m |
| **Location** | London, United Kingdom |
| **Collateral** | 662 PBSA units |
| **Project Type** | Development |
| **Entry LTV** | 58% |

| | |
|---|---|
| **Deal Description** | Residential |
| **Instrument** | Senior Loan |
| **Total RECI Commitment** | £13.1m |
| **Location** | London, United Kingdom |
| **Collateral** | 458 residential units |
| **Project Type** | Core+ |
| **Entry LTV** | 64% |




| | |
|---|---|
| **Deal Description** | London last mile logistics |
| **Instrument** | Senior Loan |
| **Total RECI Commitment** | £11.8m |
| **Location** | London, United Kingdom |
| **Collateral** | Land |
| **Project Type** | Development |
| **Entry LTV** | 59% |

# Recent Deals

| | |
|---|---|
| **Deal Description** | Residential |
| **Instrument** | Senior Loan |
| **Total RECI Commitment** | £32.7m |
| **Location** | London, United Kingdom |
| **Collateral** | 493 residential units |
| **Project Type** | Development |
| **Entry LTV** | 67% |

| | |
|---|---|
| **Deal Description** | Hotel |
| **Instrument** | Senior Loan |
| **Total RECI Commitment** | £17.8m |
| **Location** | Multi City, United Kingdom |
| **Collateral** | 6 Spa Resorts |
| **Project Type** | Core+ |
| **Entry LTV** | 67% |

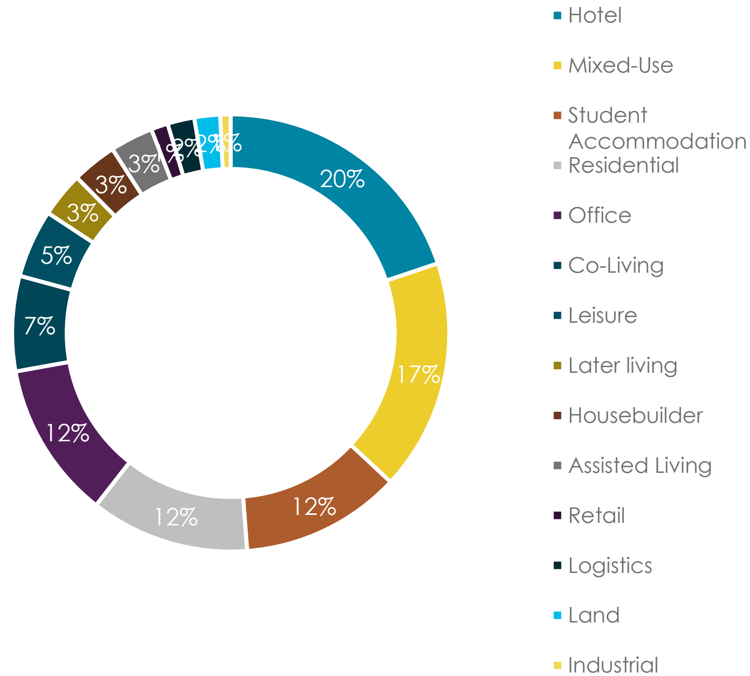
| | |
|---|---|
| **Deal Description** | Later Living |
| **Instrument** | Senior Loan |
| **Total RECI Commitment** | £10.6m |
| **Location** | London, United Kingdom |
| **Collateral** | 183 later living units |
| **Project Type** | Development |
| **Entry LTV** | 56% |

# Portfolio Analysis

# Sectoral Analysis Overview

- Whilst yields have expanded across the board, the long term **operational performance** of asset classes will likely diverge greatly over the long term
- Long term trends are supportive of the Living asset class; e.g. multifamily, single-family, student housing and retirement living
- **De-globalisation** and the onshoring of value-add supply chains is supportive of the **light industrial asset class**
- The focus on **wellness and ESG** will drive demand for **best-in-class office** stock with outstanding green credentials centred on employee well-being. By comparison, secondary offices are likely to find limited appeal
- **Logistics** is very exposed to double headwinds of increased long term rates and a reversal of occupational demand

Sector Breakdown by Total Commitment




- RECI's investment portfolio remains diverse and granular
- It has limited exposure to the most "at risk" sectors.
  - One mixed use mezzanine position, which is <1% of GAV, has 50% of its income from retail. This position fully repaid following the quarter end.
  - One senior loan, representing 2.5% of GAV, to logistics at an LTV of 73.4%

The following pages provide a detailed narrative on the Company's exposures by sector

# Sectoral Analysis

## Hotels (20% of Total Commitment)

RECI's exposure to these sectors is characterised by exposures to large well capitalised experienced operators with significant equity exposure.

**Main positions**

1. A €88.0m senior development loan with 60% LTV to finance the development of a leasehold 13-floor hotel in Finland to become operational before the exit through the refinancing of its debt. The property will consist of 33,540 sqm of useable space and includes 3 restaurants, 2 bars, a 3,500 sqm conference space, a spa, and a gym; and will be built in accordance with LEED Gold certificate requirements. Full planning permission for the development has been granted. Cheyne loan's initial term is 42 months (March 2025) extendable by a further 6 months.

2. A mezzanine loan (up to 85% LTC-80% LTV) to a hotel operator, representing 2.0% of GAV, backed by 2 high-end luxury leisure hotels in France (one operating, one in construction phase). The operating hotel has outperformed the BP both in terms of ADR and EBITDA in 2022. For the hotel in construction phase, the development is progressing well, within time and budget and the construction contracts have now all been allocated within budget.

3. A senior investment loan (0% - 60% LTV) to a private borrower backed by a portfolio of branded core income hotel and spa resort assets. Group revenue is ahead of budget but high utility and staffing costs have impacted EBITDA growth. Year-end EBITDA is forecast to be in line with prior year.

# Sectoral Analysis

## Mixed-Use (17% of Total Commitment)

The majority of RECI's exposure to mixed-use assets is to value-add and development loans where the sources of value are typically from the delivery of residential units alongside office assets

**Main Position**

1. A senior loan (0 – 55% LTV) to a well-established UK operator with a well-diversified mixed use portfolio of assets across the UK. The facility comprises an investment tranche and a development tranche to facilitate the development of industrial assets. The portfolio includes both income producing assets and developments across the residential, office and industrial sectors as well as land sites awaiting planning. Completed industrial assets are letting well with fully stabilised assets expected to be refinanced in line with business plan.

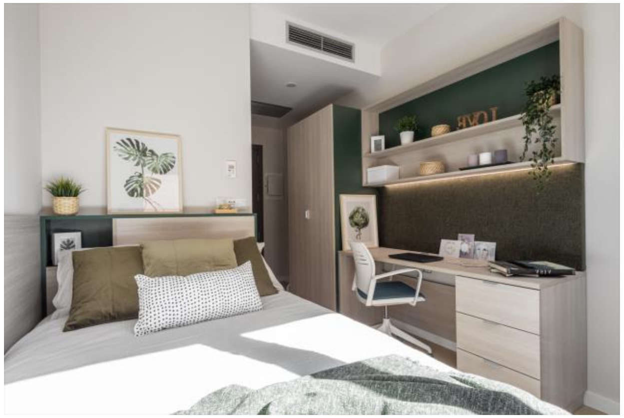
2. A senior loan (67% LTGDV) to a well-established French asset manager, collateralized by a 1,955 sqm mixed-use prime Haussmannian triple-fronted building located in a prime location in central Paris. Works are being carried out throughout the building. The retail and office floors are already pre-let with a forward lease agreement already signed. The residential floors will be managed by an operator for short-term stays with which an LOI has been signed. We expect a refinancing at the end of 2023.

*GAV relates to investment portfolio and excludes cash

# Sectoral Analysis

### Student Accommodation (12% of Total Commitment)

The European student accommodation sector showed resilience during COVID, characterised by higher levels of local students partially offsetting the lower levels of overseas students seen as a result of c. 24 months of travel disruption. Despite the new economic uncertainties largely resulting from the War in Ukraine, the student accommodation market has nearly returned to pre-COVID levels due to the loosening of travel restrictions which had prevented foreign students from studying abroad. In particular, the Spanish PBSA sector is poised for continued growth in 2023 and beyond. The Spanish PBSA sector is highlighted by a growing mobile student population, healthy investor appetite for modern PBSA assets in the region and a significant structural undersupply of PBSA beds.



**Main positions**

1. A senior development loan (58% LTV) to a well-known sponsor to Cheyne, to complete the purchase and finance the development of the site in Brent Cross Town, London of a 662 bed student scheme. Cheyne entered the deal in a significantly de-risked position since it had already achieved planning at closing. Since then the University of Sheffield Hallam has recently announced that it will be opening a new campus in the area and has agreed to enter into a Nominations Agreement with the development.

2. A profit participating loan in a JV with a well-known sponsor to Cheyne to fund the acquisition of a site in Brent Cross town, London, of a 662 bed student scheme. The purchase benefitted from a planning uplift in the residual value at the time of purchase which significantly de-risked the position.

3. A senior development loan (77% LTC / 61.5% LTGDV) to an institutional Sponsor rolling out a PBSA strategy in Iberia with 5 assets already in Spain. The asset opened in September and has currently an 82% occ. The site being developed is in Seville, a prominent university city in Spain with a significant undersupply of PBSA (student to PBSA bed ratio of 10:1, including dated stock).

# Sectoral Analysis

## Residential (12% of GAV)

**Main positions**

1. A £187m senior development loan (58.8% LTGDV, 73.4% LTC) to a well-known London property developer to fund an equity recapitalisation and development of a site in Wembley, London for a residential led mixed-use scheme comprising of five towers blocks ranging from ground plus 14 to 23 storeys. The approved development comprises of 759 residential units, retail and industrial floorspace, with enhanced planning shortly to be approved which will increase this to 876 residential units alongside 30,174 sqft of flexible industrial / commercial space.

2. A €104.5m senior development loan capped at 50% LTGDV to finance the development of a luxury villa community located on Ibiza. The development consists of 40 luxury villas ranging from 345 sqm to 1,049 sqm spread throughout the 17ha site overlooking the sea and rolling hills of the island. The sponsors are three individuals with decades of experience in real estate development. 80% of the villas are already pre-sold, significantly de-risking the loan. The term of the loan is 60 months (December 2026) with repayment expected through the receipt of sales proceeds from individual purchasers upon completion.

3. A £175m senior loan with 66% LTV to bridge the sponsor for a period up to 18 months to allow the newly built residential property to stabilise before an exit via a larger portfolio refinance or sale. The property is comprised of 3 buildings in Wembley with total of 458 keys. The asset had outperformed business plan expectations reaching over 95% occupancy by November 2022. The sponsor is a UK real estate development and asset management company owned by a leading global private equity firm. The Cheyne loan was repaid in April 2023, ahead of the December 2023 maturity date.

# Sectoral Analysis

## Offices (12% of Total Commitment)

Since COVID, prime grade A new refurbishment and new offices enjoy a favourable demand and lack of supply, while grade B offices are facing a negative headwind.

**Main Positions**

1. Since closing in Q4 2020, the sponsors reached an agreement with the local authorities for ca 4,600 sqm of additional office space, the Building Permit was submitted in December 2020 and approval of the local council was received in June 2021. Building Permit is now free of any third party recourses. Contract with the General Contractor was signed in October 2021 for total amount of €42m. Construction is going according to plan with a PC date of October 2023. Marketing campaign was launched in Q3 2022.

2. A senior investment loan (59% LTVPV) secured against a 100,000 sqft office located in London with a BREEAM excellent rating. The sponsor has significant UK experience and a strong and successful relationship with Cheyne.

# ESG

We believe that an overarching focus on ESG considerations is entirely aligned with our investment goals:

- Sustainability credentials directly support real estate valuations
- Sustainable, energy efficient buildings are more valuable to asset owners by:
  - Supporting higher rents, lower vacancies and lower operating costs; and
  - Supporting exit valuations

ESG considerations in our investments are not merely a passive analysis but rather the opportunity to effect positive change:

- Cheyne Real Estate is a key stakeholder in our investments, frequently the sole lender to a real estate asset
- This provides the ability to directly engage with all new sponsors to help drive the ESG agenda directly and seek to address any deficiencies and opportunities to improve sustainability credentials of the asset
  - This is particularly relevant in development, value-add and transitional financing, which represent a core focus for Cheyne Real Estate.

**Our Partnership with EVORA**

- EVORA Global is widely recognised as one of the leading sustainability consultancy specialists to the real estate industry.

- ESG considerations have formed a key part of Cheyne's approach to investments in real estate for many years. In February 2022, Cheyne partnered with Evora to formalise its approach to the incorporation of sustainability considerations into the investment process. Our ongoing partnership with a leading external specialist is expected to enable Cheyne to remain at the forefront of the rapidly evolving ESG agenda, and provide an independent checkpoint to challenge their ESG investment process and ensure robustness.

- Cheyne has worked with Evora to prepare customised ESG questionnaires for each of the real estate asset types the Cheyne real estate lending funds finance: standing, refurbishment and development assets, together with a borrower questionnaire.

- The questionnaires seek to quantify each investment's performance against key ESG criteria, utilising a consistent approach to enable aggregation across the assets within the relevant Cheyne fund. The score is set at a stringent enough level to effect a conversation about enhancing the ESG characteristics if they are not up to our standards.

EVORA

# Industry Engagement

We believe in the importance of engagement across the network of our peers and real estate sponsors

- Striving to improve our knowledge and experience of ESG considerations in real estate
- Actively participating in the industry dialogue, sharing our own experiences to help drive the ESG agenda forward

- Arron Taggart, Cheyne Real Estate's UK Head, is **Vice Chair of the GRI Club Sustainable Hospitality Committee**
  - The committee aims to drive the agenda towards more sustainable and efficient developments, buildings and operations in the hospitality sector
  - Members seek to share real world challenges and solutions around mitigating the impact of the sector's environmental footprint
- Arron also sits on the **CRE Finance Council of Europe's ESG Steering Committee**
  - The group is looking to launch an industry wide benchmark for the real estate lending community

Arron Taggart has over 20 years' experience in the real estate markets. He joined Cheyne in August 2012 and has since originated and structured c£6bn of real estate investments both from the debt and equity side and now leads the UK and Ireland team within Cheyne's real estate group. Prior to Cheyne, Arron was co-head of real estate in London and the South of England for Clydesdale Bank, responsible for setting the strategy and management of the loan portfolio. Previously, he was at Bank of Scotland and Hitachi Capital. Arron is a director on the Commercial Real Estate Finance Council Europe board

GRI Club
SUSTAINABLE HOSPITALITY
Global Committee

CRE Finance Council®
The Voice of Commercial Real Estate Finance

# ESG – Deal Example

## Riverstone – Kensington, UK

Senior Living Development

**Environmental**

- The are a number of initiatives to promote energy efficiency including motion sensor lighting and operating electric vehicles / providing EV charging points.
- Targeted BREEAM Excellent rating.

**Social**

- The property is looking to address a shortage of assisted-living retirement units in London for residents who are +65 years old and want to remain within central London.

**Governance**

- Riverstone is governed by an experienced team and Board which has put in place policies to ensure the health and safety of its residents wellbeing are at the core of its agenda.
- The building has been built to the highest regulations and will adhere to the highest standards of care, providing an ergonomic and age-appropriate design to reduce the risk of accidents and facilitate independence for longer.

# ESG – Deal Example

## Fusion – Brent Cross, UK

Student Accommodation Development

**Environmental**

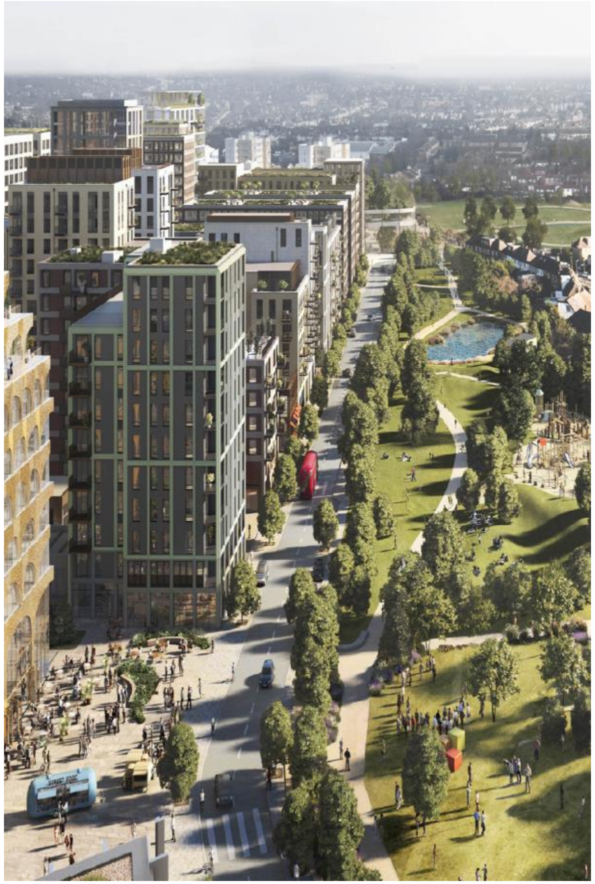
- Zero carbon heating will service the site which will lead to a reduction in operating carbon emissions.
- There will also be a green roof, rainwater recovery systems, green electrical utility provider and a ‘zero waste’ shop on site.
- Brent Cross Town will aim to achieve net zero carbon by 2030.
- BREEAM Excellent rating, with Cheyne currently considering further funding to support the improvement to BREEAM Outstanding.

**Social**

- The accommodation will create a social hub for students with an emphasis on wellbeing and physical and mental health for students. There will be outdoor and relaxation spaces, with the wider Brent Cross scheme creating a new community space for local residents.

**Governance**

- Fusion have teamed up with Health Assured in April 2020 to provide employees with a wellbeing platform and complete support network for personal and professional problems.



# Leverage Review

## Financial Leverage

RECI's current net balance sheet leverage position is 10.8% of NAV (against a maximum permitted financial leverage of 40%). RECI's financial leverage (also referred to as recourse leverage) comprises: (a) the flexible term repurchase agreements (REPO) on its liquid bonds; and (b) any limited guarantees that may be provided to structured financing counterparties.

## Structured Asset Level Funding (Term-Matched, Non-Recourse and Limited-Recourse Financing)

RECI can also benefit from optimising the returns on its senior loans by utilising the structured funding relationships Cheyne has with a number of lenders. The Company may choose to enhance the returns via asset level, term matched funding, which has no recourse (or limited recourse via partial guarantees) to the Company and retains the risk profile and governance benefits of a senior loan for the Company. This is referred to as loan-on-loan lending.

## Financing Summary

We believe that the long-term strategy for the Company should be a mix of structured term funding on its senior loan book and REPO financing on its liquid bond book, thereby maintaining a conservative level of recourse leverage supported by strong assets and liquid instruments.

The Company will continue to maintain a prudent overall leverage position.

**As at 30 April 2023:**

| | Balance Sheet/Company Leverage[1] | Contingent Liabilities[2] | Cash | Net Effective leverage | Asset Level Structured Funding |
|---|---|---|---|---|---|
| £ Amount | £59.7m | £3.6m | £26.7m | £36.6m | £23.0m |
| % of NAV | 17.6% | 1.1% | 7.9% | 10.8% | 6.8% |
| WA cost of finance | 5.9% | - | - | - | 7.6% |
| # positions | 16 | | | | 6 |

1. RECI has a limit on balance sheet leverage (i.e. Financial Leverage) of 40% of NAV, as set out in its borrowing policy
2. Contingent liabilities include any partial limited recourse guarantees provided to asset level structured finance counterparties.

# Earnings and Dividends Reconciliation

- **Gross to Net reconciliation** for the year ended 31 March 2023

| | Absolute £m | Per Share | % Perf Annualised |
|---|---|---|---|
| Interest Income: Market Bonds | 4.9 | 0.02 | 1.4% |
| Interest Income: Self-Originated Bonds and Loans | 28.9 | 0.13 | 8.4% |
| Other income | 0.2 | 0.00 | 0.1% |
| Finance costs | -4.0 | -0.02 | -1.2% |
| **Interest income** | **30.0** | **0.13** | **8.7%** |
| | | | |
| Expenses (inc management and perf fees) | -6.2 | -0.03 | -1.8% |
| Fair Value Adjustments (inc realised and unrealised profit and loss on investments) | -3.3 | -0.01 | -1.0% |
| | | | |
| **Net Profit** | **20.5** | **0.09** | **6.0%** |

- Net Profit of £20.5m, being 0.75x covered against annual dividends paid of £27.5m in this 12 month period.

The breakdown is based on estimates which have been internally calculated by Cheyne Capital and which have not been externally verified. Actual returns may be different. This is not a profit forecast. The values for each column may not sum to the total due to rounding differences. Percentage returns based on annualised figures over the NAV per share as at 31 March 2023

# Continuing to Deliver an Attractive and Stable Dividend

| 133.5p | 146.9p | 9.1% | 9.0% | £306.2m |
|---|---|---|---|---|
| Share Price | NAV | Discount | Dividend Yield[1] | Market Cap |

**RECI's dividend policy**: it is the intention of the Company to pay a stable quarterly dividend. Since 2013, this has remained at **a fairly constant yield of 7% on the Company's NAV**

- The Company announced its third interim dividend of 3p in February 2023
- An annual dividend of 12 pence represents a dividend yield of 9.0% on share price as at 31 March 2023
- The Company has an overarching aim of paying out its total returns in dividends to investors and to provide dividend sustainability. The current environment of **low risk senior loans yielding 12%+** (and of a floating rate nature), helps RECI achieve that aim as the current loans are recycled

**Dividend sustainability** will derive from **net distributable income** and **cash coverage**

- **Net distributable income** derives from net regular income (coupon yield from the underlying loans and bonds) and any profits earned above that regular income. To maintain and improve the Company's regular income, the Company has successfully deployed some of the substantial cash reserves (built through the COVID crisis) into attractive high yielding loans and will continue to do so to improve its net income
- Our granular cash forecasting and stress scenarios give us the confidence that the Company can maintain its ample dividend **cash coverage** for the long term

[1] on share price

RECI
REAL ESTATE CREDIT
INVESTMENTS

Cheyne
CAPITAL

# RECI: Summary

- RECI has demonstrated **its portfolio and structural resiliency** during the BREXIT, COVID19 and Ukraine led crises. It is equally well positioned going into this present period of uncertainty
- RECI is well positioned to deliver on its overarching objective to provide ordinary shareholders with attractive and stable returns, primarily in the form of quarterly dividends
- RECI has the opportunity to participate with Cheyne's Capital Real Estate's large lending business, in continuing to capitalise on the attractive emerging opportunities

**Focused on senior secured credit, with defensive LTVs**

**Strong governance control over its loan book**

**Large, experienced, well capitalised borrowers**

**Conservative and flexible leverage profile**

**Dividend stability and coverage without compromising risk**

**Management from Cheyne Capital's Real Estate team**

# Definitions

- **Asset types:**
  - **Core** – assets that benefit from having long term income
  - **Core +** – assets that benefit from having strong current income, but do require some measure of asset management to optimise its income profile and term
  - **Value add / transitional** – assets that require asset management (typically refurbishment) and re-letting to secure a core income profile
  - **Development: Groundworks/Super-Structure** – assets that are to be built from the ground up and are in the ground-works stage or building the super-structure has commenced. These typically already benefit from the requisite consent to develop
  - **Development: Fit-Out** - assets that have either been built from the ground up and have reached the completion of the super-structure ("topped out"), or assets which are in need of substantial refurbishment works. These typically already benefit from the requisite consent to develop
  - **Development: De-Risked** – development assets which benefit from being substantially pre-sold or pre-let
  - **Real Estate Op-Co/Prop-Co Loan** – loan secured by both the operating company as well as all of the company's real assets
- **LTV (Loan to Value):** The outstanding balance on a loan divided by the current value of an asset. In the case of mezzanine loans, the LTV will represent the highest leverage exposure of the loan
- **LTGDV (Loan to Gross Development Value):** The expected loan balance at the conclusion of a development or value-add project (which will include all amounts advanced towards the development loan facility as well as accrued interest, divided by the expected value of the asset once the project is complete
- **LTC (Loan to Cost):** Reflects the loan to the total cash capitalisation of the project
- **Fair Value:** The current carrying value of an investment on RECI's books as recognised under IFRS
- **Nominal Face Value:** The nominal face value of a bond is the par amount due on that bond
- **FVTPL:** fair value through profit and loss. This represents the net gains or losses recorded on a loan or bond investment in the period which are other than interest income. These may be from trading gains and losses on bonds, fee income or recognition of gains from profit participating loans
- **Yield to Worst**: WA Yield to Worst is based on the current unlevered yield on the bonds - using prices as at 31 March 2021 and assuming that the bonds are extended beyond their scheduled maturity date. The worst case extension dates are based on Cheyne's assumptions of the maximum extensions that will be granted to borrowers by the servicers in the current environment. Pricing assumptions and actual returns may differ materially from those expressed or implied herein

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