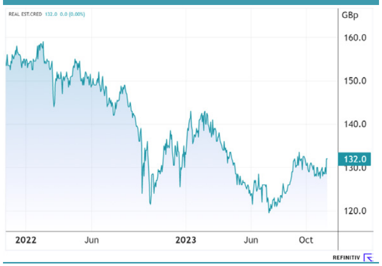
16 November 2023

Diversified Financial Services



Source: Refinitiv

Market data

EPIC/TKR	**RECI**
Price (p)	**132.0**
12m high (p)	145.0
12m low (p)	109.5
Shares (m)	229.3
Mkt cap (£m)	302.7
NAV p/sh (Oct'23, p)	148.4
Discount to NAV	-11%
Div. yield (FY'23)	9.1%
Country/Ccy of listing	UK/GBP
Market	Premium equity closed-ended inv. funds

Description

Real Estate Credit Investments (RECI) is a closed-ended investment company that originates and invests in real estate debt secured by commercial or residential properties in the United Kingdom and Western Europe.

Company information

Chair	Bob Cowdell
NEDs	Susie Farnon, John Hallam, Colleen McHugh
Inv. Mgr.	Cheyne Capital
Main contact	Richard Lang
	+44 (0)207 968 7328
	www.realestatecreditinvestments.com

Key shareholders (Mar'23)

Close Bros.	9.18%
Bank Leumi	7.87%
Hargreaves Lansdown AM	6.30%
Canaccord Genuity	5.81%
Tilney Smith and Williamson	5.79%
FIL	5.18%

Diary

Mid-Dec	Nov NAV

Analysts

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REAL ESTATE CREDIT INVESTMENTS

Portfolio management to optimise risk/reward

In previous notes, we have reviewed why we believe RECI has procedures and practices that limit downside losses to help ensure the resilience of the NAV. In this note, we explore further how portfolio management helps optimise risk/reward with a dynamic approach to bond portfolio allocation, leverage, top 10 concentrations, geographical sectors, and duration. RECI's portfolio is not a static, long-duration, totally illiquid book. It is actively managed to the latest market opportunities, with an average loan life of 1.5 years, which is likely to be shortened further by early repayments. RECI's NAV performance was recognised in the recent Citywire award.

- **Citywire award:** RECI won the best performance award for Specialist Debt at Citywire's London-listed Investment Companies awards (November 2023). The award is given to the investment companies judged to have delivered the best underlying return, in terms of growth in NAV, in the three years to 31 August 2023.
- *October 2023 factsheet:* Underlying NAV rose 0.7p, due to recurring interest income (1.1p). Cash was £23m, and gross leverage £75m. The book has 36 positions (29 loans, gross drawn value £384m, and 7 bonds, fair value £9m – down from 26 and £90m, respectively, at end-March). The weighted average LTV is 61%, and the yield is 10.1%.
- **Valuation:** In the five-year, pre-pandemic era, on average, RECI traded at a premium to NAV. In periods of market uncertainty, it has traded at a discount. It now trades at a 11% discount, a level not seen since late 2020. RECI paid its annualised 12p dividend in 2022, which generated a yield of 9.1% – expected to be covered by interest alone.
- **Risks:** Credit cycle and individual loan risk are intrinsic. All security values are currently under pressure. We believe RECI has appropriate policies to reduce the probability of default and has a good track record in choosing borrowers. Some assets are illiquid. Much of the book is development loans.
- **Investment summary:** RECI generates an above-average dividend yield from well-managed credit assets. Income from its positions covers the dividends. Sentiment to market-wide credit risk is difficult currently, but RECI's strong liquidity and debt restructuring expertise provide extra reassurance. Where needed, to date, borrowers have injected further equity into deals.

Financial summary and valuation

Year-end Mar (£m)	2022	2023	2024E	2025E
Interest income	27.0	31.9	38.3	42.7
Operating income	32.4	30.7	43.3	47.7
Management fee	(4.4)	(4.3)	(4.2)	(4.3)
Performance fee	-	-	-	-
Operating expenses	(5.8)	(6.1)	(6.2)	(6.4)
Total comp. income	24.6	20.6	32.1	36.3
EPS (p)	10.7	9.0	11.3	12.8
NAV per share (p)	150.0	146.9	148.9	151.9
S/P prem./disc. (-) to NAV*	0.4%	-9.1%	-11.4%	-13.1%
Debt to equity	29%	24%	18%	8%
Dividend (p)	12.0	12.0	12.0	12.0
Dividend yield	9.1%	9.1%	9.1%	9.1%

**2022-23 share price actual, 2024-25 forecast NAV to current share price*
Source: Hardman & Co Research

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Active portfolio management

Conclusion

RECI an actively managed, dynamic portfolio taking optimal risk/reward opportunities at any time

The key message that we believe investors should take away from the following sections is that RECI is an actively managed portfolio where Cheyne's footprint and average loan life of just 1.5 years allows RECI to rapidly take advantage of opportunities as they arise. It is a balanced management with, for example, the overall level, and mix, of leverage reflecting Cheyne's view of the risk reward at any time.

Senior debt focus

Since 2016, the book has been migrating towards an all-senior loan book

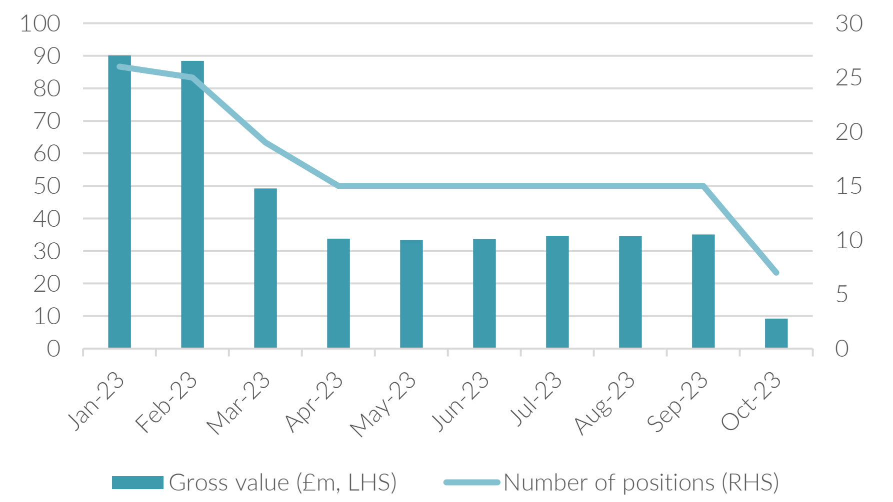
Senior deals now account for 89% of the total portfolio by commitment value and all the top 10 positions are senior loans, as is new origination. The advantages of being senior debt include i) being repaid earlier in the event of customer difficulties, ii) retaining absolute governance, covenants and control from its bilateral singular lending relationships, and iii) a Cheyne-controlled weighted average LTV on total portfolio by commitment value of 60%, as at 30 September 2023. These three factors mean that the loss in the event of default is reduced.

While Cheyne is predominantly focused on large, well-capitalised, and experienced institutional borrowers, it is, in our view, inevitable that some customers will repay financing challenges. We have also seen that, in early stages of difficulties, RECI is often the lead on restructuring a borrower's finances, reflecting the confidence that other lenders have in its processes, and a position enhanced by being the senior debt holder.

2023 migration from market bonds into senior loans

The move to senior debt has involved not only a shift from mezzanine and other loans but also, in 2023, a re-allocation away from bonds. The chart below shows how this has progressed through the year with an end-September gross portfolio value of £35.1m (£10.3m net). Since then, RECI has exited a further eight market bond positions, realising proceeds (net of repo financing) of £5.9m. The fund now has only seven market bond positions, with a notional value of £9.2m. The gross value is just over a tenth of that at the start of the year.

Month-end gross of market bond portfolio (£m and number of positions)



Source: RECI monthly factsheets, Hardman & Co Research

Leverage

Accesses multiple sources of leverage

As the table below shows, RECI has used different types of leverage for different assets, with the market bond portfolio significantly funded by REPOS (shown in balance sheet leverage in the table below). Looking forward, we expect continued use of asset-specific finance to have an element of leverage in the portfolio (October 2023 7.6% of NAV vs. 2.5% in January 2023).

The table below shows:

Overall level declined sharply in 2023

- Reduction in overall leverage throughout 2023, from 36.2% NAV in January to 20.9% in October. RECI has chosen to reduce leverage during more uncertain times, bearing in mind the pressure from the rise in cost of funds (balance sheet leverage average cost up 2.7% on January 2023). Lower leverage in uncertain times is not a one-off but has been seen before (end-2018 balance sheet leverage 38.1% NAV reduced to 21.6% end-2020).

- The increasing prevalence of asset-specific finance, which, typically, is longer term but whose cost has increased less than short-term REPOS.

Hardman & Co adjusted profit & loss

	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Oct-23
Balance sheet leverage (£m)	115.4	109.4	81.4	59.7	59.3	59.1	59.1	59.7	45.2
% NAV (%)	33.7	31.7	24.2	17.6	17.4	17.2	17.4	17.4	13.3
Weighted average cost of funds (%)	4.5	4.9	5.0	5.9	6.1	6.4	6.5	6.6	7.2
Asset-level structured finance (£m)	8.4	10.9	20.6	23.0	23.0	28.6	28.8	31.4	25.7
% NAV (%)	2.5	3.2	6.1	6.8	6.7	8.3	8.5	9.2	7.6
Weighted average cost of funds (%)	7.2	7.5	7.7	7.6	7.7	7.8	8.0	8.2	8.4

Source: RECI Factsheets, Hardman & Co Research

Undrawn commitments halved in 2023 YTD

In October 2023, the total capital committed to loans was £518m against £423m of capital actually deployed. The October undrawn commitments of £95.4m are approximately half the level seen in January 2023 (£194.5m).

Sector

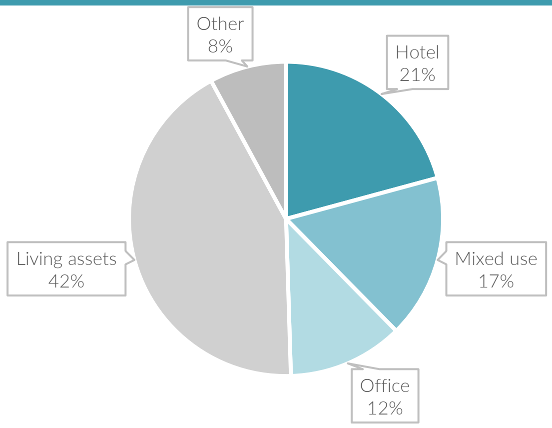
Sector exposures limited value for cherry picker like RECI

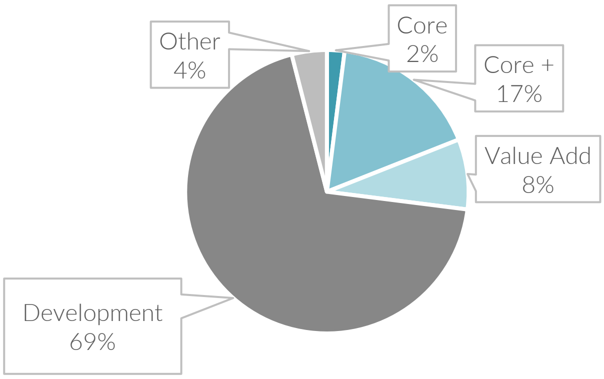
RECI has recently changed its disclosure by sector (latest in left hand chart below). As a very small selective lender, whole-sector categorisations can be misleading with, for example, RECI not suffering any losses from its hotel exposures through the COVID-19 pandemic. Currently, it has minimal exposure to some high-risk areas such as shopping centres (<2% of GAV), secondary offices (0% of GAV) and logistics (<6% of GAV).

Development increased in 2023 as other providers of finance withdrawn, meaning good quality borrowers have to pay wider spreads

The asset type is shown in the right-hand chart below. Again, there has been a change in disclosure with the current basis being a proportion of commitments against the previous presentation as a percentage of fair value. In our view, this is a helpful development in that it shows what RECI is committed to in terms of risk profile and not just the drawings at any given time, but it does mean that historical comparisons need to be treated with caution. Looking through the presentation, we believe there has been a significant increase in the proportion of total commitments devoted to development in 2023. This is, typically, the area that mainstream lenders withdraw from most sharply in a risk-on environment, meaning that even experienced, high-quality, well-secured borrowers face considerable difficulty in accessing finance. The spread thus widens more in this area of lending, creating risk/reward opportunities for highly selective lenders such as RECI.

October 2023 mix by sector… | **…and asset type**





Note: Living assets include student accommodation, assisted living, residential. Source: RECI monthly factsheets, Hardman & Co Research

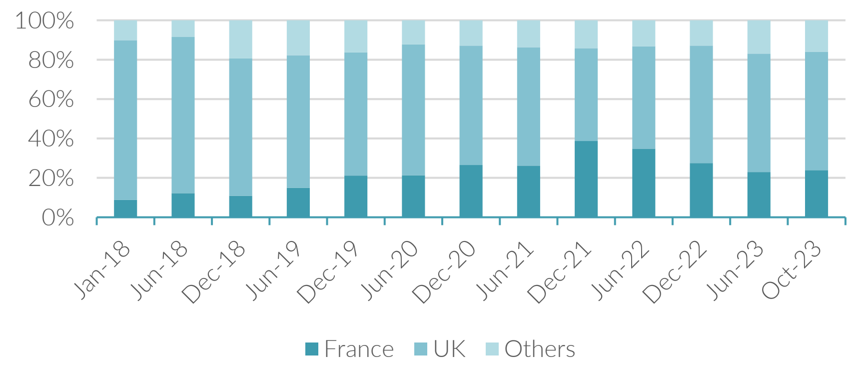
Geography

Geographical exposure changed with market opportunities

The chart below shows the key geographical exposures. The key message is that Cheyne's footprint and relatively short duration of loans means it can exploit whichever geographical opportunity offers the best risk/reward outlook. We note:

- In our report, *Vive la difference* (15 February 2022), we explored the near quadrupling in the French proportion of the portfolio from end-2018 to end-2021. Since that time, the proportion had fallen back to just over half its peak concentration. While part of this reduction is associated with repayments, it also reflects the fact that Cheyne has chosen to re-invest these proceeds in other areas (with Sapin, for example, nearly doubling its share to 8%).
- Investors may recall the attention RECI's Italian exposure had at the start of the pandemic (end-2019 it was 5.6% against 3.4% end-2022).

Geographical mix of portfolio (%)



Source: RECI monthly factsheets, Hardman & Co Research

Duration

Duration is short but also changes with market opportunity

The table below shows how Cheyne has managed RECI's average weighted life for both bonds and loans.

- The bond liquidity means that the portfolio can be actively managed, with a greater duration taken in 2020 – 21 – than in 2019, given the market opportunity at the time.
- The weighted average loan life has been kept short, turning what many will consider an illiquid asset into cash relatively quickly. It also gives the opportunity to roll over into optimal new opportunities wherever they arise.
- The numbers below are for contractual maturity. In practice, both loans and bonds have been repaid earlier making the actual duration shorter than the contractual numbers below.

Weighted average life (years)

	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	Oct-23
Loans	1.7	1.4	1.9	1.7	2.1	1.5
Bonds	2.9	2.0	3.5	3.9	2.0	2.5

Source: RECI Factsheets, Hardman & Co Research

The monthly factsheet disclosure gives a more detailed breakdown of duration with 32% due within one year, 42% in one to two years, 21% in two to three years and just 5% in three to four years.

Top concentrations

Same trends in top positions as in portfolio as a whole

We detail our thoughts on the current top 10 exposures in the section below. The table below shows how the top 5 positions have evolved since the end of 2018. The key message is that there is a regular churn in the top five exposures by location, sector, asset type and size. The largest positions thus reflect the dynamic we have reviewed across the portfolio as a whole. noting the past year has witnessed less churn than usual. The top 5, indeed top 10, exhibit progress in the underlying assets under development, which is reflected in the increase in NAV of the assets and LTV trend.

Top 5 exposures by commitment

	Dec'18	Dec'19	Dec'20	Dec'21	Dec'22	Oct'23
1	£30.4m UK mixed-use development	£40m France mixed use, core+	£49m France mixed-use, core	£48.9m France mixed-use value add	£83.0m, UK mixed-use, development	£82.4m, UK mixed-use, development
2	£24.9m UK mixed-use development	£38.7m UK mixed use core+	£38m UK mixed-use core+	£44.6m UK mixed-use core+	£45.2m UK student accom. development	£45.2m UK student accom. development
3	£19.9m UK housebuilder	£33.2m Portugal resi. development	£34.6m Portugal resi. development	£29.3m France, office development	£32.7m UK mixed-use development	£32.7m UK mixed-use development
4	£18.3m UK office to resi. development	£31.1m UK mixed-use, development	£29.3m France, office development	£23.5m UK office, core	£30.8m France office, development	£30.9m France office, value add
5	£17.6m UK housebuilder	£24.9m, UK mixed-use, development	£27.2m, UK mixed-use, development	£23.2m UK health care core	£22.9m UK health care, core	£22.8m UK Office core+

Source: RECI Factsheets, Hardman & Co Research

Optimising risk reward, as recognised in Citywire awards

RECI won the best performance award for Specialist Debt at Citywire's London-listed Investment Companies awards, held on 1 November 2023. The performance awards are given to investment companies judged to have delivered the best underlying return in terms of growth in NAV in the three years to 31 August 2023.

Key takeaways from the October investor presentation

Consistent themes with previous presentations, including stability of dividend covered by net interest income, conservative leverage, opportunities from Cheyne team and robust mitigation against rising rate environment

The key takeaways from the October investor presentation were:

- Quarterly dividends delivered consistently since August 2011, with a stable annualised dividend of around 7% of NAV.
- Highly granular book with 45 (now 36) positions, across a diverse range of sectors and geographies. The September 2023 weighted average LTV was 60.1% providing good defensive equity headroom and average yield was 10.4%.
- Conservative leverage with September net leverage 14.1%, as at 30 September 2023, versus a leverage limit of 40% of NAV. The use of 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 ca.$5bn AUM, and its current pipeline of enhanced return investment opportunities. Cheyne's immediate pipeline of deals stands at £1.6bn with a WA LTV of 59% and unlevered IRR of 11.1%.
- Robust mitigation against rising interest rates with a high-yielding portfolio. The short weighted average life of 1.6 years (September 2023) ensures a rapid redeployment at higher rates.

For the quarter, it noted:

Portfolio

- Total NAV return for the quarter was +0.5% (1H'23: +3.8%). There were no defaults in the portfolio. During the quarter, one French loan fully repaid, realising net proceeds of £2.4m. There was further rotation of market bond portfolio into strong senior loans with attractive returns.

Cash

- Cash reserves remain targeted at between 5% to 10% of NAV. As at 30 September 2023, cash was £14.9m/4.3% of NAV.

Dividend

- Dividends maintained at 3p per quarter, annualised 9.1% yield, based on share price, as at 30 September 2023. The dividends are predominantly covered by net interest income.

Opportunities

- The present macroeconomic backdrop is set to continue through 2023/24, 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. RECI expects to deploy its currently available cash resources to its near-term commitments.

Post-quarter updates – market bonds

- RECI has exited eight market bond positions since 30 September 2023, realising proceeds (net of repo financing) of £5.9m. The fund at that date only had seven market bond positions, with a notional value of £11.9m/3.5% of NAV. As detailed on p1, it has been reduced further since the end of the quarter.

Citywire Investment Trust Awards 2023

- RECI won the Best Performance award for Specialist Debt at Citywire's London-listed Investment Companies awards, held on 1 November 2023. The performance awards are given to investment companies judged to have delivered the best underlying return, in terms of growth in NAV, in the three years to 31 August 2023.

RECI's top 10 exposures

Top 10 position by commitment

Asset type	Commitment (£m)	Current % NAV	Entry NAV (%)	Loan	Sector	County
Development	82.4	11.1	48	Senior	Mixed-use	UK
Development	45.2	5.0	58	Senior	Student accomm.	UK
Development	32.7	3.4	67	Senior	Residential	UK
Value add/transitional	30.9	8.8	58	Senior	Office	France
Core+	22.8	7.0	59	Senior	Office	UK
Development	22.4	4.4	49	Senior	Residential	Spain
Development	20.6	5.7	36	Senior	Housebuilder	France
Development	20.4	3.2	65	Senior	Hotel	Finland
Development	19.9	5.0	80	Senior	Hotel	France
Core+	19.7	5.4	60	Senior	Assisted living	UK

Source: RECI October Factsheet, Hardman & Co Research

Real estate exposure

There have been no recent changes in the quantum of the commitment in the top 10 exposures. As monies are drawn down, there are changes to the NAV share of each, but these changes are limited in quantum. Nearly all are in the same direction, upwards. The assets are being committed to the top 10 ahead of other RECI assets.

The top 10 assets in our last assessment, July, totalled 52.9%. They now total 59.0%, not a dramatic move, but indicative of slightly greater concentration.

The top position has risen from 10.0% to 11.1% of NAV, as of end-October. All remain senior loans, as none of the top 10 positions has changed.

- It remains the case that the exposure to the UK remains high, with France the next greatest. Development positions dominate.
- All top 10 remain senior loans, and the counterparts are strong entities.
- Assessing the data on percentage of NAV, it is clear that there has been some advance in the drawn amount on several of the development commitments, as there had been previously. Developments clearly are all progressing.

1: Max II – UK mixed-use development

Long track record with sponsor, portfolio with positions maturing and being refreshed, competitive advantage and value-add to sponsor

RECI has a long track record with this sponsor. There is a combination of yielding asset and development asset. We understand that there is a 60% LTV cap, with a series of deals being financed, and then maturing within the wrapper. Each new advance in the position is taken on its merit. A good amount is development land.

2: Fusion BXT – London student accommodation

This commitment was taken in November 2022, and so is priced post the worst of the market turbulence. Being London-led, we consider the potential over-supply risk to be more than acceptable, given London's undersupply.

3: Fulton – London (Wembley) residential-led, mixed-use development

Again, balance of risk/reward/competition, much assisted by being strong project and sponsor well known to RECI

We consider RECI's position to be significantly enhanced, as it benefits from a positive track record with this sponsor. This is a residential-led, mixed-use development in Wembley, northwest London. Clearly, footfall has slowed this past year and the risks of this asset have risen. However, although footfall across markets in the UK is down, interest rates appear to have peaked, Further, enhancing site-specific cashflow, this development is entering a pre-selling phase of social housing to Brent Council. The developer, therefore, holds in escrow a useful quantum of deposits – a figure that is growing.

4: Coliséee – Office Saint Ouen, Paris

Acceptable but rising risk, which should come out successfully, but not easy market. LTV is nudging 60%, with valuation risk on downside

RECI's track record with developments, and in France, no doubt encouraged attractive terms to be put forward. While the market has changed since 2020, when the loan was instigated, particularly driven by interest rates, we believe the timing of the opening of this position was already one where conservative valuations were being put forward. This development at Saint Ouen is almost fully built. The sponsor is PE, and interest is currently being paid. Once a tenant is in place, a refinance event can take place. As a final point to bear in mind, Paris and the wider French economy have experienced a relatively robust position in recent years. This is one position to watch closely, but is not of concern, currently.

5: Hoxton – London office

This is a London office investment let to *WeWork*

This London office investment is in Hoxton. The asset is fully let to WeWork on a long lease. Concerns about WeWork are not new, but the US operation is now in administration. The asset value has been revised downwards earlier this year so should be secure enough, but risk is on the downside. The physical occupancy of the asset would become more important were WeWork to have terminal UK problems too. We understand that occupancy is strong, at levels in excess of 80% which, on our latest global data, is usefully above the average for WeWork. Formerly classified Core, it has moved to Core+ in summer this year. This may indicate a slight level of development/refurbishment. Cheyne is proactive and has proved successful in restructuring problem accounts in the past.

6: Sabina – Spanish villas

Much of the sales risk has already been removed. This is a further phase, and the majority of the villas are pre-sold to high-net-worth individuals.

7: Balto – French housebuilder portfolio

Effectively a low LTV company loan in a market sector that – as well as upside – has some intrinsic risks but is performing reasonably

We consider RECI's position to be enhanced by its understanding not only of the French market but also of developers. This is a loan to a developer company, rather than a position with a specific development, by Lone Star. The company loan was to finance the 2021 purchase of a French housebuilder. RECI financed 35% of the purchase price; so, even with recent headwinds in the sector globally, the collateral would be well underpinned.

8: Airport Hotel – Finland (Helsinki) hotel

LTV is perhaps surprisingly high, but RECI has high expertise and a very good track record in hotels – so is justified in backing its judgment

RECI has a deep understanding of the hotel developer market, and exited pre-COVID-19 positions with poise, after becoming more involved in the progress of the relevant projects during the COVID-19 turbulence. This stands RECI in good stead to assess risk. Here, the position is with a large, experienced contractor, retained under a fixed-price contract. The development is progressing on schedule, with expected completion in June 2024.

9: Perseus – French hotels (Paris and Nice)

RECI well positioned in competition with other lenders, but LTV is high

Here, too, the deep understanding of the hotel developer market that RECI has gained in recent years, amid COVID-19 turbulence, must be seen as a competitive advantage. It must not be forgotten that there has been a strong tourist season across Europe and, indeed, globally this summer. This is a construction management arrangement, not a fixed price. Construction is progressing well, to complete within a year. Upon completion, the asset could be sold or refinanced.

10: RS Kensington – luxury assisted senior living, London

High-quality project in an under-served market

This is a Core+ exposure, a high-quality project in Kensington, London. The capital advanced was deployed in the acquisition of a 190-unit complex with facilities. This appears to be a straightforward position, with a granular exit, not reliant on other investors' capital to exit.

Valuation

Absolute

Current NAV likely to be on conservative side

We have, in previous reports, considered how the NAV is assessed (see pages 23-24 of our initiation report, *7%+ yield from well-secured property debt portfolio,* published on 28 August 2019). The critical issues are how conservative the culture of the organisation is, and the independent checks and controls that are in place to review the process. As we noted in that report, RECI's approach to both issues appears in line with best practice.

Yield

12p annual dividend expected

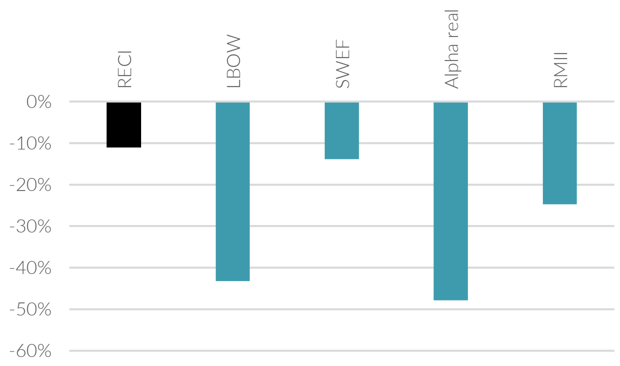
Through the COVID-19 crisis, when RECI took large, early MTM hits in 2020, and then steadily released them through the rest of the year, it maintained a consistent 3p quarterly dividend. The yield was covered largely by stable monthly interest income, and the bond MTM saw capital gains/losses feeding through to NAV noise. With the recent market recession uncertainty and the hiatus in the gilt and bond markets following the UK mini-budget, we saw the same happening, and, again, RECI followed the same, consistent policy: a stable 3p quarterly dividend. The trust appears very committed to this dividend, which is covered largely by interest income, and the noise from MTM losses and gains will reduce with a smaller bond portfolio. The current yield is 9.1%, and a 12p annual dividend is expected.

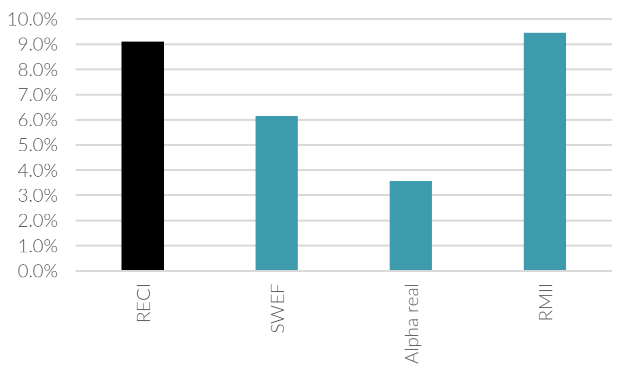
Relative

NAV rating and dividend yield among highest in close peer group

Comparisons of RECI with a close and broad peer group are given in the charts below. RECI's NAV rating is among the highest in the close peer group. Having returned to trade at a premium after the pandemic, the recent market uncertainty has, once again, meant that RECI is now trading at a discount. The dividend yield is the among the highest of RECI's closest peers (LBOW in wind-down). For investors who view the risk controls and procedures in RECI as robust, such a valuation appears anomalous. We have removed GABI from the comparison, given its proposed combination with GCP Infrastructure Investments Limited.

Premium/discount to NAV (LHS, %), and dividend yield for RECI and selected peers (RHS, %)





Source: Latest factsheets, priced at close at 15 November 2023, Hardman & Co Research

Financials

Profit and loss									
Year-end Mar (£m)	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024E**	**2025E**
Interest income bonds	2.6	5.4	6.9	11.5	12.9	3.2	5.0	2.2	0.5
Interest income loans	12.5	12.8	15.2	14.9	14.1	23.7	26.7	36.1	42.2
Other interest income	0.2	0.2	0.2	0.1	0.0	0.0	0.2	0.0	0.0
Interest income	**15.3**	**18.4**	**22.3**	**26.4**	**27.0**	**27.0**	**31.9**	**38.3**	**42.7**
Net (losses)/gains on investments	4.6	2.8	(0.1)	(35.9)	18.2	5.4	(1.3)	5.0	5.0
Net losses on options	(2.4)	(0.9)	-	-	-	-	-	-	-
Net gains on foreign exchange instruments	(1.8)	0.2	3.1	-	0.1	0.0	0.0	-	-
Total net gains on fin. assets at FV through P&L	0.5	2.2	3.0	(36.8)	18.3	5.4	(1.3)	5.0	5.0
Operating income	**15.7**	**20.6**	**25.3**	**(10.4)**	**45.3**	**32.4**	**30.7**	**43.3**	**47.7**
Management fee	(2.0)	(2.6)	(3.0)	(4.1)	(4.3)	(4.4)	(4.3)	(4.2)	(4.3)
Performance fee	(0.1)	(0.3)	(0.7)	1.0	-	-	-	-	-
Other operating expenses	(1.1)	(0.8)	(1.1)	(2.4)	(1.6)	(1.5)	(1.8)	(2.0)	(2.1)
Operating expenses	(3.2)	(3.7)	(4.8)	(5.6)	(5.8)	(5.8)	(6.1)	(6.2)	(6.4)
Profit before finance costs	**12.5**	**16.8**	**20.4**	**(15.9)**	**39.5**	**26.5**	**24.5**	**37.1**	**41.3**
Finance costs	(3.4)	(1.9)	(1.2)	(1.5)	(2.2)	(2.0)	(4.0)	(5.0)	(5.0)
Net profit	**9.1**	**14.9**	**19.2**	**(17.4)**	**37.2**	**24.6**	**20.6**	**32.1**	**36.3**

Note: classification bonds and loans restated in 2021, Source: RECI Report and Accounts, Hardman & Co Research

Hardman & Co adjusted profit & loss									
Year-end Mar (£m)	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024E**	**2025E**
Statutory profit	9.1	14.9	19.2	(17.4)	37.2	24.6	20.6	32.1	36.3
Capital gains & FX movements	0.5	2.2	3.0	(36.8)	18.3	5.4	(1.3)	5.0	5.0
Profit excl. capital gains & FX	**8.6**	**12.8**	**16.3**	**19.4**	**18.9**	**19.2**	**21.8**	**27.1**	**31.3**
Adjustment to performance fee	0.1	0.3	0.1	(0.3)	0.9	1.0	0.5	(0.6)	(1.4)
Adjusted profit	**8.7**	**13.1**	**16.3**	**19.0**	**19.9**	**20.2**	**22.3**	**26.5**	**29.9**
Cost of dividend	(8.4)	(13.7)	(17.6)	(25.1)	(27.5)	(27.5)	(27.5)	(27.5)	(27.5)
Statutory cover	1.1	1.1	1.1	(0.7)	1.4	0.9	1.3	1.3	1.3
– excluding capital gains cover	1.0	0.9	0.9	0.8	0.7	0.7	1.1	1.1	1.1

Source: RECI Report and Accounts, Hardman & Co Research

Balance sheet									
@ 31 Mar (£m)	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024E**	**2025E**
Bonds	49.8	97.3	163.1	237.6	254.3	98.5	49.2	15.0	0.0
Loans	109.3	148.1	139.4	137.6	136.1	295.9	351.5	385.7	475.7
Financial assets at FV through P&L	**159.0**	**245.4**	**302.5**	**375.2**	**390.4**	**394.3**	**400.7**	**400.7**	**475.7**
Cash and cash equivalents	24.9	7.2	38.6	27.0	21.2	47.4	14.1	(1.5)	4.1
Cash collateral at broker	0.0	2.4	1.4	25.0	0.9	5.2	2.4	2.4	2.4
Derivatives	0.9	0.2	0.7	0.0	2.3	0.0	1.8	1.8	1.8
Other assets	4.4	4.9	12.0	14.6	11.4	0.0	0.0	0.0	0.0
Receivables for investments sold	0.0	48.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total current assets	30.2	62.8	52.7	66.6	35.8	52.6	18.2	2.7	8.3
Total assets	**189.3**	**308.2**	**355.2**	**441.8**	**426.2**	**447.0**	**419.0**	**403.4**	**484.0**
Current liabilities									
Derivatives	0.0	0.0	0.0	6.2	0.0	1.1	0.0	0.0	0.0
Financing	0.0	78.3	100.1	97.0	77.8	100.4	80.2	60.0	35.0
Cash collateral due to broker	0.4	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Preference shares	41.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	2.7	1.3	1.7	1.5	1.5	1.6	1.9	1.9	1.9
Total liabilities	45.0	79.6	102.0	104.6	79.4	103.0	82.0	61.9	36.9
Net assets	**144.3**	**228.5**	**253.2**	**337.2**	**346.9**	**343.9**	**337.0**	**341.5**	**447.1**
No shares (m)	88.4	139.4	153.3	229.3	229.3	229.3	229.3	229.3	294.3
NAV per share (p)	**163.2**	**164.0**	**165.1**	**147.0**	**151.3**	**150.0**	**146.9**	**148.9**	**151.9**

Source: RECI Report and Accounts, Hardman & Co Research

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