15 October 2024

REAL ESTATE CREDIT INVESTMENTS

THE MATERIALS CONTAINED HEREIN MAY NOT BE DISTRIBUTED, FORWARDED, TRANSMITTED OR OTHERWISE MADE AVAILABLE, AND THEIR CONTENTS MAY NOT BE DISCLOSED, TO ANY US PERSON OR IN, INTO OR FROM THE UNITED STATES, AUSTRALIA, CANADA, JAPAN, SOUTH AFRICA OR IN, INTO OR FROM ANY OTHER JURISDICTION WHERE TO DO SO WOULD CONSTITUTE A VIOLATION OF THE RELEVANT LAWS OR REGULATIONS OF SUCH JURISDICTION.

Why the discount has been closing and its outlook

RECI's discount has halved over the past six months. We believe this is due to both actions taken by the trust (with an active buyback programme, changing asset mix and enhanced disclosure of highest-risk positions) and more favourable markets. Interestingly, not all debt investment companies have benefitted from the more favourable markets. By historical standards, the current level of RECI's discount is very high, ca.10% above the 10-year average. RECI was at an average 2% premium in 2015-19, and traded at premium again in 2021-22, leaving room for investor concerns to moderate considerably by just reverting to historical average levels.

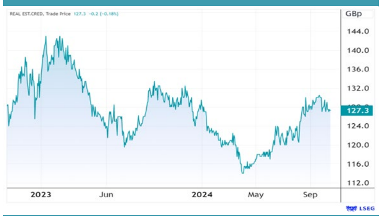
- **Why discount has closed:** Management has been proactive in changing the asset mix (into lower-risk senior loans, away from development loans, reducing bond holdings), commencing an active share buyback programme and improving disclosure. Some real-estate market concerns have also moderated.
- **Outlook:** The benefits from RECI's risk reduction should improve the balance of investors' risk/reward. The share buyback has recently been renewed at the higher (up to £10m) level. The initial programme was just £5m. Deal activity in the property sector shows participants' confidence in that market.
- **Valuation:** RECI traded at premiums to NAV in the five-year, pre-pandemic era. The current discount to NAV is 12%. The dividend has been a consistent 3p per quarter for many years and generates a 9.4% yield. RECI is moving to lower-risk, but higher-margin, exposures, which should improve dividend cover.
- **Risks:** Any lender is exposed to credit risks. We believe RECI has appropriate policies to reduce default probability. Positions are illiquid. Its average entry LTV is 59.7%, and most loans (all of the top 10) are senior-secured, providing a downside cushion. In the short term, investor sentiment remains an issue.
- **Investment summary:** RECI generates an above-average dividend yield from well-managed credit assets. Directors and management have demonstrated their confidence in its sustainability through share purchases. Market wide, credit risk is currently above average, but RECI's strong liquidity and debt restructuring expertise should allow it time to manage problem accounts. To date, £9.1m buybacks have been completed since August 2023. A new £10m programme was announced on *27 September*.

Financial summary and valuation

Year-end Mar (£m)	2022	2023	2024	2025E	2026E
Interest income	27.0	31.9	30.3	37.0	49.6
Operating income	32.4	30.7	31.4	37.0	49.6
Management fee	(4.4)	(4.3)	(4.2)	(4.1)	(4.0)
Performance fee	-	-	-	-	-
Operating expenses	(5.8)	(6.1)	(6.0)	(6.0)	(6.1)
Total comp. income	24.6	20.6	21.9	26.5	35.0
EPS (p)	10.7	9.0	9.6	11.7	12.1
NAV per share (p)	150.0	146.9	144.9	145.0	145.2
S/P prem./disc. (-) to NAV*	0.4%	-9.1%	-20.7%	-12.1%	-12.2%
Debt to equity	29%	24%	7%	33%	32%
Dividend (p)	12.0	12.0	12.0	12.0	12.0
Dividend yield	9.4%	9.4%	9.4%	9.4%	9.4%

**2022-24 s/p historical, 2025-26E NAV to current s/p. Source: Hardman & Co Research*

Diversified Financial Services



Source: LSEG, 2024

Market data

EPIC/TKR	**RECI**
Price (p)	**127.5**
12m high (p)	133.5
12m low (p)	109.5
Shares (m, Exc. Treasury)	221.9
Mkt cap (£m)	282.9
NAV p/sh (Sep'24, p)	145.1
Disc. to NAV (%)	-12.1
Div. yield (FY'24)	9.4%
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
Chair designate	Andreas Tautscher
NEDs	Susie Farnon, Colleen McHugh
Inv. Mgr.	Cheyne Capital
Main contact	+44 (0)207 968 7328

www.realestatecreditinvestments.com

Key shareholders (Mar'24)

Close Bros.	9.35%
Bank Leumi	8.02%
Hargreaves Lansdown AM	6.42%
Canaccord Genuity	5.91%
Premier Miton (Jun'24)	5.52%
Evelyn Partners (May'24)	4.90%
FIL (Apr '24)	4.64%

Diary

Mid-Nov	Oct NAV

Analysts

Mark Thomas +44 (0)203 693 7075
mt@hardmanandco.com
Mike Foster +44 (0)203 693 7075
mf@hardmanandco.com

Important information

The information contained herein and on the pages that follow does not constitute or form part of an offer to sell or issue, or a solicitation of an offer to purchase or subscribe for, any securities to, or for the account or benefit of, US persons as defined in Regulation S under the US Securities Act ("US Persons") or persons within the United States, Australia, Canada, Japan, South Africa or within any other jurisdiction where such offer or solicitation would be unlawful.

The Company's securities have not been and will not be registered under the US Securities Act of 1933, as amended (the “US Securities Act”), or under any securities laws of any state or other jurisdiction of the United States. The Company's securities may not be offered, sold, resold, taken up, exercised, renounced, transferred delivered or distributed, directly or indirectly, into or within the United States or to, or for the account or benefit of, US Persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States. There will be no public offer of the Company's securities in the United States. The Company has not been and will not be registered under the US Investment Company Act of 1940, as amended (the “US Investment Company Act”) and, as such, holders of the Company's securities will not be entitled to the benefits of the US Investment Company Act. No offer, purchase, sale, exercise or transfer of the Company's securities may be made except under circumstances which will not result in the Company being required to register as an investment company under the US Investment Company Act.

The offer and sale of the Company's securities have not been and will not be registered under the applicable securities laws of Australia, Canada, Japan or South Africa. The Company's securities may not be offered, sold, resold, transferred, delivered or distributed, directly or indirectly, in Australia, Canada, Japan or South Africa or to any resident or citizen of Australia, Canada, Japan or South Africa. There will be no public offer of the Company's securities in Australia, Canada, Japan or South Africa.

In addition, in the United Kingdom, the information contained herein and on the pages that follow is being directed only at, Qualified Investors (i) who have professional experience in matters relating to investments who fall within the definition of "investment professional" in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Order"), or (ii) who are high net worth companies, unincorporated associations and partnerships and trustees of high value trusts as described in Article 49(2) of the Order, and (iii) other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). Any investment or investment activity to which the information contained herein and on the pages that follow relates is available only to and will only be engaged in with such persons. The information contained herein and on the pages that follow must not be acted on or relied on in the United Kingdom, by persons who are not relevant persons.

Potential users of the information contained herein and on the pages that follow are requested to inform themselves about and to observe any such restrictions.

The information contained herein and on the pages that follow may contain forward-looking statements. Any statement other than a statement of historical fact is a forward-looking statement. Actual results may differ materially from those expressed or implied by any forward-looking statement. The Company does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You should not place undue reliance on any forward-looking statement, which speaks only as of the date of its issuance.

By reading this report, you represent, warrant and agree that you (1) have read and understood the terms and conditions and other information set out above, (2) agree to be bound by its terms (3) are permitted under applicable laws and regulations to receive the information contained in the pages that follow and (4) agree that you will not transmit or otherwise send any information contained in this report to any person in the United States, to any US Person or to any publication with a general circulation in the United States. If you cannot so certify and agree, you must click the button labelled "Decline" or otherwise exit this.

Discount: history and causes

The charts below show the history of RECI's share price discount to NAV over the past six months and 10 years. The key messages are:

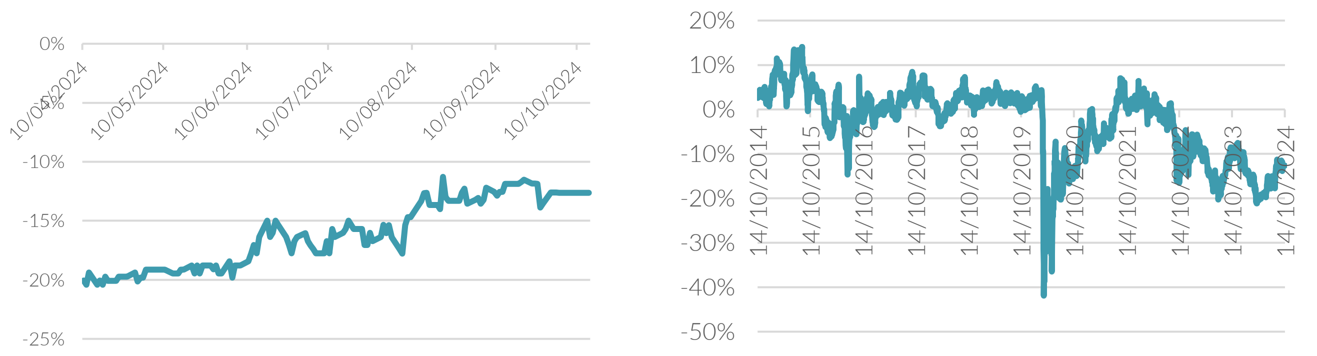
Discount fallen steadily in past six months…

- From the left-hand chart, we can see the discount has nearly halved over the past six months. Importantly, the improvement, with a little short-term noise, has been a steady trend rather than just a one-off event, which may prove less sustainable.

…but still well above historical averages

- Despite this improvement, the current discount is, by historical standards, very high, ca.10% above the 10-year average. RECI was at an average 2% premium in 2015-19 and again in late 2021/early 2022. The current level is around the levels of mid-2020, after the initial shock of the pandemic, but at a period of considerable uncertainty. In our view, this leaves room for investor concerns to moderate considerably further.

History of premium/discount (%) over past six months (LHS) and 10 years (RHS)



Source: LSEG, dated at 14 October 2024, Hardman & Co Research

What the discount represents

In our view, any discount to NAV can be thought of as reflecting one, or a combination of, investors' concerns that the current NAV is not realistic or that it will not be realisable over time. For a finance provider such as RECI, the biggest issues are:

Could be unidentified current losses, but managers close to borrowers and senior secured focus should limit any losses. RECI has proven conservative accounting.

- The existing book could have credit losses that have not yet been identified. With a small number of exposures (26 at end-August), and a business model which has Cheyne managers close to the borrowers, the probability of such an unexpected default should be modest. The move to senior secured lending gives additional security and should limit any losses in the event of default. We also note that RECI has a proven, conservative accounting policy and direct investors to our report Marks taken in uncertainty, released thereafter (5 August 2022), where we highlighted this point.

Discount could reflect future losses – we have written multiple times, in previous notes, on the resilience of RECI's portfolio

- The existing book will incur losses/have to be sold at a discount in the future. This is often a macroeconomic call. At times of uncertainty and volatile interest rate expectations, potential future losses are likely to be higher. The former was, in our view, the major driver to the spike in discount to 40% at the start of the pandemic. We have written multiple times on the resilience of RECI's portfolio, *inter alia*, in our notes *Experience shows resilience of the model* (6 May 2021), *Experience shows resilience of the model (2)* (12 August 2021), *Why rising rates should*

Other factors include limited market appetite for all investment trusts and UK smaller companies, peers reporting losses/moving into wind down, and sentiment to some real estate sectors

not hurt RECI (8November 2021), *Double tangible security* (13 June 2023), and *Why CRE equity worries should not apply to RECI* (30 August 2023).

- There is a range of other factors that may have created short-term discount noise, including:
  - Investment trusts, as an asset class, fell out of favour with discounts across the industry rising. The average discount is currently 5.5%.
  - UK listed small cap companies have been out of favour (average AIC discount 11%). With a market cap of less than £300m, RECI may have suffered from this sentiment too.
  - Several debt investment companies saw "unexpected" losses, creating more uncertainty/lack of confidence for all debt trusts. This sentiment was compounded by higher rate expectations, leading to concerns about the overall credit outlook, and a number of peers deciding to wind down.
  - Some elements of the commercial property market (especially US office) have seen challenging conditions, with increased vacancy and pressure on rents/new tenant incentives. In turn, this raised issues about borrower cashflows. The AIC UK commercial property sector remains at a 20% average discount.
  - The share price and the NAV both represent a current value placed on future cashflows, but the fact that the DPS has not been fully covered by EPS in recent years – since COVID-19 – is a factor which some investors may have been taking into account. RECI has always had a route back to full cover and this was made all the clearer in actions taken this year to date, regearing the book at good rates of return, and communicating to investors. Through 2024, we have raised forward estimates for EPS and, indeed, expect a covered dividend in 2025/6.

Why the discount has closed in the past six months

We believe the closing discount reflects both trust actions and more favourable markets.

Trust actions that have contributed to the lower discount

Move to lower-risk, senior-secured loans

- In the latest factsheet, all 10 of the top 10 exposures were senior-secured loans. Three years ago, two of the top 10 were mezzanine finance. The risk profile of senior secured is much lower, reducing the probability of both unidentified current losses and future ones.

Greater focus on lower-risk sector exposure

- Living assets (student accommodation, assisted housing, residential) exposures now account for 40% of the portfolio, up from below 30% three years ago. Office exposure, an area of current concern, has fallen by more than a third to just 9% of the portfolio. In our view, the current risks on living assets are lower than office. The changing sector mix has reduced RECI's overall risk profile.

Reduced volatile bond holdings

- RECI's bond holdings are marked to market. This led to NAV volatility and, as we noted in our report Marks taken in uncertainty, released thereafter (5 August 2022), the mark downs in uncertain times were significantly recaptured in later periods. In our view, the writedowns themselves added to investor uncertainty, creating a double discount of the assets being written down but also the share price relative to the NAV. At end-August 2024, bonds accounted for just £8m (2%) of the £413m portfolio value compared with £78m (21%) of the £373m portfolio at end-2021.

Bought back 7.4m shares, for £9.1m, since August 2023 – equivalent to nearly a month and half trading pre-buyback

- In August 2023, RECI announced an up to £5m buyback programme. 4.1m shares were then purchased for treasury for an aggregate amount of £5m at an average discount to net asset value per share of 16.2%. Once this was completed, a successor six-month, up to £10m, programme was announced on 28 March 2024. Under this programme, 3.3m shares were purchased for treasury for an aggregate amount of £4.15m, an average discount to net asset value per share of 15.5%. A further, up to £10m, programme was announced on the 27 September 2024. The table below shows how the programme has been executed. The buyback has been material; to put it into a perspective, in the period from Jan'22 to end-Jul'23, the monthly average share valued traded was £7.5m.

Deals executed under RECI's buyback programme

Date	Number of shares	Price paid (p)	Value (£)	NAV (p)	Discount to NAV
05/12/2023	500,000	129.5	647,500	148.4	-12.7%
16/01/2024	800,000	124.25	994,000	144.2	-13.8%
26/01/2024	300,000	123	369,000	144.2	-14.7%
19/02/2024	750,000	120.5	903,750	145.5	-17.2%
28/02/2024	500,000	120.5	602,500	145.5	-17.2%
12/03/2024	600,000	120.5	723,000	146.6	-17.8%
20/03/2024	500,000	117.5	587,500	146.6	-19.8%
25/03/2024	145,000	118	171,100	146.6	-19.5%
17/06/2024	1,812,643	121.75	2,206,893	147.1	-17.2%
13/08/2024	150,000	126.5	189,750	146.5	-13.7%
20/08/2024	1,250,000	126.75	1,584,375	146.5	-13.5%
09/09/2024	130,831	128.25	167,791	146.5	-12.5%
Total /average	**7,438,474**	**1.23**	**9,147,159**		**-15.9%**

Source: RECI RNS, Hardman & Co Research

Improved risk disclosure

- RECI has also been improving disclosure. In particular, we note the risk rating disclosure and commentary on slides 17-18 of the *December 2023 investor presentation*. While there has been a slight disruption following a change in the investor-facing personnel at Cheyne, we understand that the regular quarterly updates will be resumed and a high level of disclosure will continue.

Prospectively, will reduce development exposures and increase core/core + exposures where repayment driven by customer income not asset sales

- Looking forward, Cheyne has indicated it will position the portfolio away from development loans (currently seven of the top 10 exposures) and more into core and core +. The latter will be underpinned by more income-generating, longer-duration assets, and less dependent on asset sales for repayment. Given the relatively short duration of development projects, which was helpful to re-pricing the portfolio, in a rising rate environment, a relatively quick transition appears possible. We note the £18.5m position against four London hotels, announced on *16 July 2024*, by way of example of the new positioning.

- As noted above, at the Capital Markets Day (see *our note of 25 July 2024*) Cheyne outlined an increase in gearing, and a move to higher-yielding assets. The resulting upgrade to estimates means that the dividend is now expected to be covered by earnings, removing one potential concern for investors.

Market trends

At times, it feels to this analyst like the market outlook changes from hard US landing to great growth outlook on the publication of a single job's report. Macroeconomic and political uncertainty appears volatile but, as a general trend, appears to reflect greater risk off than on. This is seen in:

Strong debt markets reflecting good corporate profitability and cashflows. Defaults rising from very low base, but only gently.

- A strong performance from high-yield debt markets: US and Euro High Yield indices returned +6.3% and 5.6%, respectively, between 1 January, 2024 and end-August.

- Market wide defaults are rising from low levels but at a very gentle rate. Expectations of further increases (e.g. by rating agencies) remain muted. This, in part, has been due to many companies being able to pass on inflationary increases to their customers and so delivering strong cashflows and profitability (see our note, *FY'24: another year of outperformance,* published on 11 September 2024).

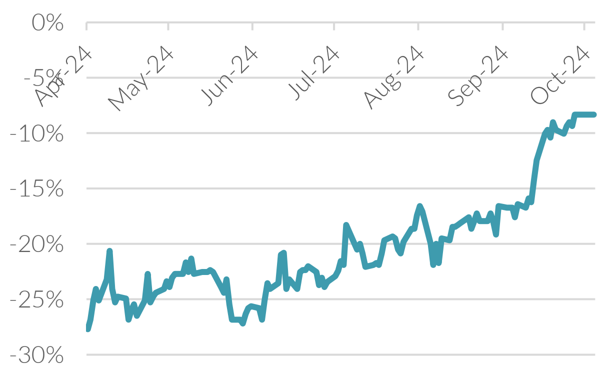
REIT discounts falling and trade buyers more active

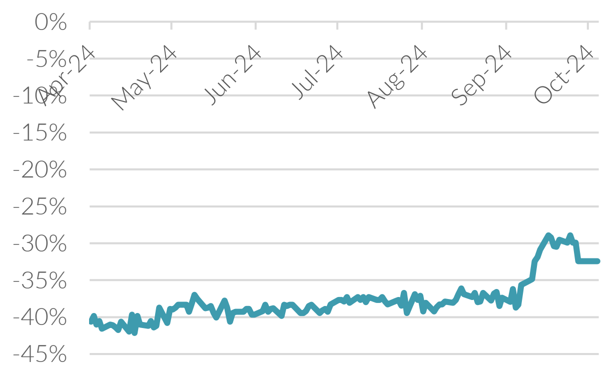
- Market appetite for property-related stocks has generally improved over the past six months. The chart below considers Schroders UK commercial property and European property trusts. The former has seen its discount to NAV fall by two thirds and the latter by a quarter.

- The real estate market has also seen increased deal activity, with both REITs and housebuilders being targets. In our view, this in part reflects greater confidence in the outlook by market participants.

- Our property analyst comments that, in 2022 and for much of 2023, REITS faced valuation falls. Widening discounts to NAV resulted as investors anticipated further falls (or didn't believe the latest marks were realistic). The UK REIT index shot up at the very end of calendar 2023 and has improved further as investors gain confidence that the valuations had found a bottom, the underperformance through to that period put REITS on a much firmer investable footing and recent performance was further helped by global bond yields falling. In our view, the falling discounts in the REIT space are indicative of greater investor confidence in property valuations, and so greater certainty in the value of RECI's security. This, in itself, supports a narrowing of RECI's discount.

History of discount (%) over past six months for Schroders UK (LHS) and European commercial real estate trusts (RHS)



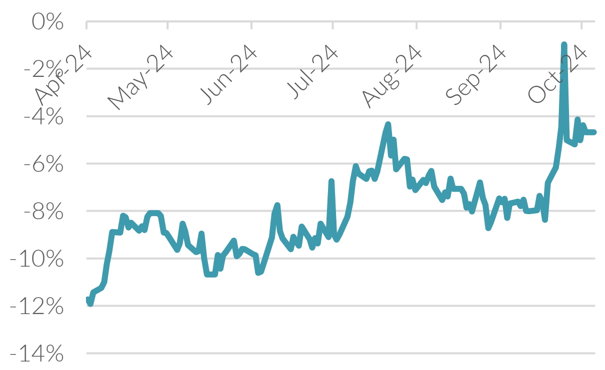


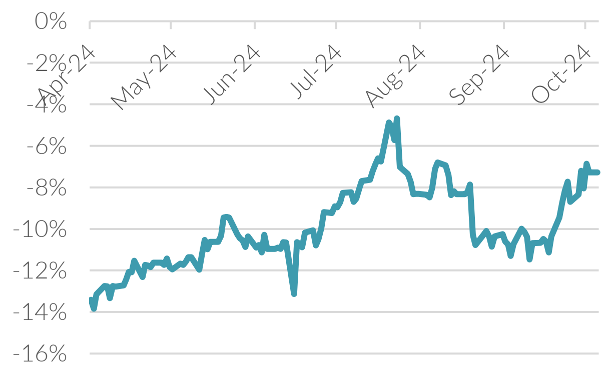
Source: LSEG, dated at 14 October 2024, Hardman & Co Research

Market appetite for smaller companies has improved…

- Market appetite for UK smaller companies has also shown an improvement. We have used the BlackRock and Henderson smaller company trusts as indicative of this trend, with the former seeing its discount narrow by nearly two thirds while the latter has seen its discount halve.

History of discount (%) over past six months for BlackRock (LHS) and Henderson UK smaller company trusts (RHS)





Source: LSEG, dated at 14 October 2024, Hardman & Co Research

…but not all debt ICs have benefitted

Not all debt companies have benefitted from these trends. RECI's closest competitors (LBOW and SWEF) are both in managed winddowns and their discounts to NAV reflect this. Both have actually seen their discounts widen (SWEF from 8% to 11%, LBOW from 24% to 35%). We also note that GABI and RMII discounts are largely unchanged.

Outlook for the discount

Reversion to historical averages would see discount reduce

The charts on p3 show that there can be volatility in the discount around events and news flow but also that the current level of discount is significantly higher than the long-term trend. Logically, unless investors' expectations for likely losses have fundamentally changed, a reversion to average historical levels would see the discount closing. In terms of some of the specific factors identified above, we note:

Delivery of returns may improve confidence

- Continued delivery of a steady stream of recurring net interest income supporting the high dividend yield should, over time, give investors' confidence in their returns. At the recent Capital Markets Day, Cheyne indicated that higher-yielding assets are likely to be added to the portfolio further enhancing confidence in the yield.

Lower-risk portfolio should limit downside and improve the risk/return balance

- As the portfolio carries a lower-risk profile (with lower-risk senior notes, the lower-risk sector allocation, a lower proportion of volatile bonds and the move away from development loans), any increase in discount associated with a risk-on environment, in theory at least, should be less than seen in the past.

Buyback renewed at higher amount

- The renewal of the buyback for a further six months, at the elevated £10m cap, is evidence of the board's intent to manage the discount down. In our view, execution will be determined, in part, by the availability of stock, but we would also expect a lower appetite for buybacks as the discount narrows and higher appetite when the discount is wide. In essence, the buyback is likely to act as a cap and, importantly, be perceived as acting as a cap, on future discount widening. Should RECI return to the premium it traded at before the pandemic, we believe the shares held in treasury are likely to be re-issued into the market.

Ongoing disclosures

- As noted, above, we expect further disclosures, especially on risk, and for the communication programme to return to its historical detailed quarterly investor presentations.

- Investors will have their own views on the macroeconomic and political outlook. Our real estate analyst discussed his views in a couple of interviews: (see *Hardman Talks REITs: Looking at UK office investments* (13 May 2024); and *Hardman Talks | Are REITs cheap?* (12 January 2024).

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 to be in line with best practice.

Yield

12p annual dividend expected

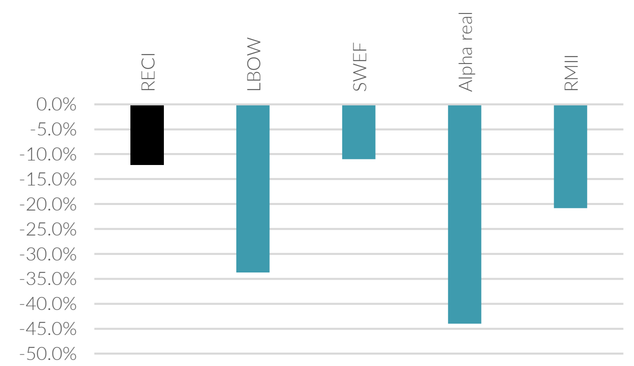
Through the COVID-19 crisis, when RECI took large, early MTM hits in 2020, and then steadily released them throughout the rest of the year, it maintained a consistent 3p quarterly dividend. The yield was covered largely by stable monthly interest income, and the bond MTM saw capital gains/losses feeding 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 9.4%, and a 12p annual dividend is expected.

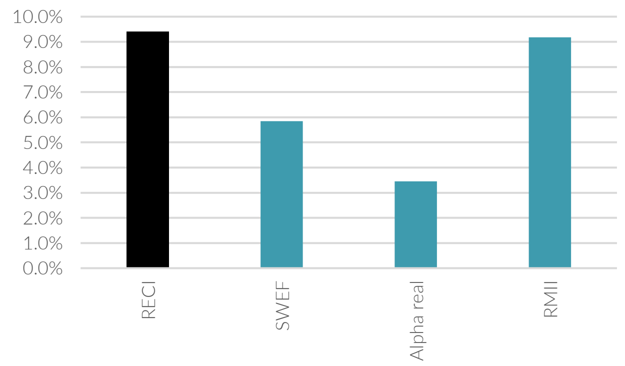
Relative

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.

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





Source: Latest factsheets, priced at close at 14 October 2024, Hardman & Co Research

Financials

Profit and loss

Year-end Mar (£m)	2022	2023	2024	2025E	2026E
Interest income bonds	3.2	5.0	1.5	0.2	-
Interest income loans	23.7	26.7	28.4	36.3	49.1
Other interest income	0.0	0.2	0.4	0.4	0.4
Interest income	**27.0**	**31.9**	**30.3**	**37.0**	**49.6**
Net (losses)/gains on investments	5.4	0.8	0.6	-	-
Net losses on options	-	-	-	-	-
Net gains on foreign exchange instruments	0.0	(2.1)	0.4	-	-
Total net gains on fin. assets at FV through P&L	5.4	(1.3)	1.0	-	-
Operating income	**32.4**	**30.7**	**31.4**	**37.0**	**49.6**
Management fee	(4.4)	(4.3)	(4.2)	(4.1)	(4.0)
Performance fee	-	-	-	-	-
Other operating expenses	(1.5)	(1.8)	(1.8)	(1.9)	(2.1)
Operating expenses	(5.8)	(6.1)	(6.0)	(6.0)	(6.1)
Profit before finance costs	**26.5**	**24.5**	**25.4**	**31.0**	**43.5**
Finance costs	(2.0)	(4.0)	(3.5)	(4.5)	(8.5)
Net profit	**24.6**	**20.6**	**21.9**	**26.5**	**35.0**

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)	2022	2023	2024	2025E	2026E
Statutory profit	24.6	20.6	21.9	26.5	35.0
Capital gains & FX movements	5.4	(1.3)	1.0	-	-
Profit excl. capital gains & FX	**19.2**	**21.8**	**20.8**	**26.5**	**35.0**
Adjustment to management fee	1.0	0.4	0.5	(0.8)	(1.8)
Adjusted profit	**20.2**	**22.2**	**21.3**	**25.7**	**33.2**
Cost of dividend	(27.5)	(27.5)	(27.4)	(27.0)	(34.4)
Statutory cover	0.89	0.75	0.80	0.98	1.02
– excluding capital gains cover	0.73	0.81	0.78	0.95	0.96

Source: RECI Report and Accounts, Hardman & Co Research

Balance sheet

@ 31 Mar (£m)	2022	2023	2024	2025E	2026E
Bonds	98.5	49.2	7.9	0.0	0.0
Loans	295.9	351.5	321.5	419.4	544.4
Financial assets at FV through P&L	**394.3**	**400.7**	**329.4**	**419.4**	**544.4**
Cash and cash equivalents	47.4	14.1	18.3	4.9	4.7
Cash collateral at broker	5.2	2.4	4.5	4.5	4.5
Derivatives	0.0	1.8	0.0	0.0	0.0
Other assets	0.0	0.0	0.1	0.1	0.1
Receivables for investments sold	0.0	0.0	0.0	0.0	0.0
Total current assets	52.6	18.2	22.9	6.3	10.8
Total assets	**447.0**	**419.0**	**352.3**	**428.8**	**553.7**
Current liabilities					
Derivatives	1.1	0.0	0.0	0.0	0.0
Financing	100.4	80.2	23.8	105.0	135.0
Cash collateral due to broker	0.0	0.0	0.0	0.0	0.0
Preference shares	0.0	0.0	0.0	0.0	0.0
Other liabilities	1.6	1.9	2.1	2.1	2.1
Total liabilities	103.0	82.0	25.9	107.1	137.1
Net assets	**343.9**	**337.0**	**326.4**	**321.7**	**416.6**
No. shares (m)	229.3	229.3	225.2	221.9	286.9
NAV per share (p)	**150.0**	**146.9**	**144.9**	**145.0**	**145.2**

Source: RECI Report and Accounts, Hardman & Co Research

Disclaimer

Hardman & Co provides professional independent research services and all information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable. However, no guarantee, warranty or representation, express or implied, can be given by Hardman & Co as to the accuracy, adequacy or completeness of the information contained in this research and they are not responsible for any errors or omissions or results obtained from use of such information. Neither Hardman & Co, nor any affiliates, officers, directors or employees accept any liability or responsibility in respect of the information which is subject to change without notice and may only be correct at the stated date of their issue, except in the case of gross negligence, fraud or wilful misconduct. In no event will Hardman & Co, its affiliates or any such parties be liable to you for any direct, special, indirect, consequential, incidental damages or any other damages of any kind even if Hardman & Co has been advised of the possibility thereof.

This research has been prepared purely for information purposes, and nothing in this report should be construed as an offer, or the solicitation of an offer, to buy or sell any security, product, service or investment. The research reflects the objective views of the analyst(s) named on the front page and does not constitute investment advice. However, the companies or legal entities covered in this research may pay us a fixed fee in order for this research to be made available. A full list of companies or legal entities that have paid us for coverage within the past 12 months can be viewed at http://www.hardmanandco.com/legals/research-disclosures. Hardman may provide other investment banking services to the companies or legal entities mentioned in this report.

Hardman & Co has a personal dealing policy which restricts staff and consultants' dealing in shares, bonds or other related instruments of companies or legal entities which pay Hardman & Co for any services, including research. No Hardman & Co staff, consultants or officers are employed or engaged by the companies or legal entities covered by this document in any capacity other than through Hardman & Co.

Hardman & Co does not buy or sell shares, either for their own account or for other parties and neither do they undertake investment business. We may provide investment banking services to corporate clients. Hardman & Co does not make recommendations. Accordingly, they do not publish records of their past recommendations. Where a Fair Value price is given in a research note, such as a DCF or peer comparison, this is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price. Hardman & Co may publish further notes on these securities, companies and legal entities but has no scheduled commitment and may cease to follow these securities, companies and legal entities without notice.

The information provided in this document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Hardman & Co or its affiliates to any registration requirement within such jurisdiction or country.

Some or all alternative investments may not be suitable for certain investors. Investments in small and mid-cap corporations and foreign entities are speculative and involve a high degree of risk. An investor could lose all or a substantial amount of his or her investment. Investments may be leveraged and performance may be volatile; they may have high fees and expenses that reduce returns. Securities or legal entities mentioned in this document may not be suitable or appropriate for all investors. Where this document refers to a particular tax treatment, the tax treatment will depend on each investor's particular circumstances and may be subject to future change. Each investor's particular needs, investment objectives and financial situation were not taken into account in the preparation of this document and the material contained herein. Each investor must make his or her own independent decisions and obtain their own independent advice regarding any information, projects, securities, tax treatment or financial instruments mentioned herein. The fact that Hardman & Co has made available through this document various information constitutes neither a recommendation to enter into a particular transaction nor a representation that any financial instrument is suitable or appropriate for you. Each investor should consider whether an investment strategy of the purchase or sale of any product or security is appropriate for them in the light of their investment needs, objectives and financial circumstances.

This document constitutes a 'financial promotion' for the purposes of section 21 Financial Services and Markets Act 2000 (United Kingdom) ('FSMA') and accordingly has been approved by Capital Markets Strategy Ltd which is authorised and regulated by the Financial Conduct Authority (FCA).

(Disclaimer Version 8 – Effective from August 2018)

Status of Hardman & Co's research under MiFID II

Hardman & Co's research is paid for by the companies, legal entities and issuers about which we write and, as such, falls within the scope of 'acceptable minor non-monetary benefits', as defined in the Markets in Financial Instruments Directive.

The FCA Handbook (COBS 2.3A.19) states: 'An acceptable non-monetary benefit is one which:[…] (5) consists of: [...] (b) written material from a third party that is commissioned and paid for by a corporate issuer or potential issuer to promote a new issuance by the company, or where the third party firm is contractually engaged and paid by the issuer to produce such material on an ongoing basis, provided that the relationship is clearly disclosed in the material and that the material is made available at the same time to any firms wishing to receive it, or to the general public.'

The fact that Hardman & Co is commissioned to write the research is disclosed in the disclaimer, and the research is widely available.

research@hardmanandco.com

9 Bonhill Street
London
EC2A 4DJ

www.hardmanandco.com