

# **HONEYCOMB INVESTMENT TRUST PLC**

**30 June 2020**

## INVESTMENT MANAGER'S COMMENTARY

Honeycomb Investment Trust plc (the "Company") delivered a NAV return of 9.1% on an annualised basis, which is equivalent to 0.75% for the month.

The underlying monthly return was 5.9% per annum for the month. The portfolio has remained stable throughout the Covid crisis, with the underlying return increasing from April and May as many customers are ending their forbearance plans and returning to full payments across all sectors. The reduced underlying return was largely as a result of reduced investment assets (see below) as the Trust has continued to use cash generation to reduce the outstanding debt and to execute value accretive buybacks where possible. In the month we have also updated the IFRS 9 provisioning models to reflect the latest available base forecasts for the UK economy.

The one-off items for the month include:

- Repurchase of 735,000 of the Company's own shares as part of the active discount management program
- Incurring the final costs associated with the extension of the debt facility
- Updating the IFRS 9 provision models to align them to the latest economic forecasts produced by Oxford Economics

### Investment Assets and Leverage

Net investment assets reduced from a peak of £595m in February 2020 to £550.9m at the end of June. Cash collections have remained strong, driven by the structural benefits of the strategy and prudently managing the Credit Asset portfolio. The Company's outstanding debt has reduced from £220.6m to £192.7m in the same period. The debt to equity ratio decreased from 58.2% to 51.9% over the same period.

### Key Details

Monthly NAV Return (Annualised)	9.1%
Monthly NAV Return	0.75%
YTD NAV Return	4.09%
ITD* NAV Return	37.40%
NAV Cum. Income	£371.1m
NAV Ex. Income	£369.8m
Market Capitalisation	£274.8m
Net Investment Assets	£550.9m
Debt to Equity	51.9%
Shares in Issue	36,514,919
Share Price	753.0p
NAV Cum. Income per Share	1,016.4p
NAV Ex. Income per Share	1,012.7p
Premium (Discount) to NAV Cum Income	(26.0)%

\*ITD: Inception to Date – excludes IPO Issue Costs

**Performance Dividend History**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	ITD*	
NAV Return IAS 39 2016	0.04%	0.13%	0.19%	0.92%	0.60%	0.79%	0.68%	0.70%	0.88%	0.89%	0.92%	0.94%	<b>7.85%</b>	<b>7.83%</b>	
NAV Return IAS 39 2017	0.69%	0.69%	0.78%	0.62%	180% <sup>(1)</sup>	0.55%	0.65%	0.62%	0.63%	0.61%	0.61%	0.79%	<b>9.11%</b>	<b>17.24%</b>	
NAV Return IFRS 9 2018	0.66%	0.59%	0.72%	136% <sup>(3)</sup>	0.56%	0.60%	0.63%	0.67%	0.67%	0.67%	0.65%	0.60%	<b>8.43%</b>	<b>25.12%</b> <sup>(2)</sup>	
NAV Return IFRS 9 2019	0.58%	0.54%	0.67%	0.67%	0.64%	0.65%	0.67%	0.66%	0.66%	0.67%	0.67%	0.67%	<b>7.79%</b>	<b>33.17%</b> <sup>(2)</sup>	
NAV Return IFRS 9 2020	0.60%	0.60%	0.25%	0.42%	0.42%	0.75%							<b>4.09%</b>	<b>37.40%</b> <sup>(2)</sup>	
Share Price Performance**	2016	150%	-	-	-	-	-	-	-	-	-	0.54%	<b>2.05%</b>	<b>2.05%</b>	
Share Price Performance**	2017	3.92%	3.72%	0.45%	181%	(0.89%)	4.93%	2.78%	0.42%	(124%)	(0.84%)	(149%)	<b>13.42%</b>	<b>15.75%</b>	
Share Price Performance**	2018	(194%)	-	-	(176%)	-	-	0.90%	-	0.89%	(0.44%)	-	<b>(2.38%)</b>	<b>13.00%</b>	
Share Price Performance**	2019	-	-	-	-	(133%)	(0.45%)	-	(0.45%)	(6.33%)	(3.86%)	(151%)	<b>(13.94%)</b>	<b>(2.75%)</b>	
Share Price Performance**	2020	(2.13%)	(2.13%)	(18.48%)	(133%)	-	169%						<b>(22.62%)</b>	<b>(24.75%)</b>	
Dividend Per Share (Pence)***	2016	-	-	-	-	2.11	-	-	-	19.66	-	23.13	-	<b>44.90</b>	<b>44.90</b>
Dividend Per Share (Pence)***	2017	-	-	23.5	-	24.50****	-	-	-	20.00	-	-	20.00	<b>88.00</b>	<b>132.90</b>
Dividend Per Share (Pence)***	2018	-	-	20.00	20.00	-	-	-	-	20.00	-	-	20.00	<b>80.00</b>	<b>212.90</b>
Dividend Per Share (Pence)***	2019	-	-	20.00	-	-	20.00	-	-	20.00	-	-	20.00	<b>80.00</b>	<b>292.90</b>
Dividend Per Share (Pence)***	2020	-	20.00	-	-	-	20.00						<b>40.00</b>	<b>332.90</b>	

\* ITD: Inception to Date – excludes IPO Issue Costs  
 \*\* Based on IPO Issue Price of 1000p  
 \*\*\* Recognised in the month when marked ex-dividend  
 \*\*\*\* Based upon the number of shares at the ex-dividend date  
<sup>(1)</sup> NAV return excluding effect of capital raise and issuance at a premium would have been 0.77%  
<sup>(2)</sup> Inception to date NAV return affected by IFRS 9 initial recognition on 2018 brought forward retained earnings  
<sup>(3)</sup> NAV return excluding effect of capital raise and issuance at a premium would have been 0.63%  
<sup>(4)</sup> NAV return excluding effect of buy backs would have been 0.66%

**Background and Investment Objective**

Honeycomb Investment Trust plc (the “Company”) is a specialist lending fund whose investment objective is to provide shareholders with an attractive level of dividend income and capital growth through the acquisition of interests in loans made to consumers and small business as well as other counterparties.

The Company may also make selected equity investments that align with the Company’s strategy, and that present opportunities to enhance the Company’s returns from its investments.

The Company believes that consumer, property and SME loans are asset classes that have the potential to provide attractive returns for investors on a risk-adjusted basis. Changes in the focus of mainstream lenders together with the implementation of new models that utilise data, analytics and technology more effectively, provide an opportunity to deliver better products to borrowers while generating attractive returns for the Company.

The Company and the Investment Manager seek to acquire credit assets which meet the specified underwriting criteria through two routes; (1) providing structured loans to specialist lenders; and (2) acquiring portfolios of whole loans.

**Investment Features**

- Investment team has a combined 100+ years credit underwriting and consumer lending experience.
- Highly granular and well diversified portfolio.
- Majority of portfolio benefiting from downside protection or seasoning.
- 8% targeted dividend on issue price when fully invested and leverage applied, payable quarterly.
- UK Investment Trust tax treatment.

**Fund Facts**

Type of Fund	Closed – Ended Fund
Listing	Specialist Fund Segment of the London Stock Exchange
Ticker	HONY
ISIN	GB00BYZV3G25
Inception Date	23 December 2015
Dividend	Quarterly
NAV Calculation	As of last day, of each month
Management Fee	1%
Performance Fee*	10%

\*subject to 5% preferred return hurdle and high watermark

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## Glossary

**NAV (Cum Income)** is the value of investments, other assets and cash, including current year revenue, less liabilities.

**NAV (Ex Income)** is the value of investments, other assets and cash, excluding current year revenue, less liabilities

**NAV Return** is calculated as NAV Cum. Income at the end of the period, plus dividends declared during the period, divided by NAV Cum. Income at the start of the period, calculated on a per share basis.

**Share Price** closing mid-market share price at month end (excluding dividends reinvested).

**Premium / (Discount)** the amount by which the price per share is either higher (at a premium) or lower (at a discount) than the NAV Cum. Income, expressed as a percentage of the NAV Cum. Income per share.

**Net Assets** total assets minus any liabilities.

**Market Capitalisation** the closing mid-market share price multiplied by the number of shares outstanding at month end.

**Debt to Equity** the value of total leverage including any accrued interest and fees divided by the NAV

**Annualisation Methodology** Monthly returns have been calculated by multiplying the actual number of days in the year divided by the actual number of days in the month.