

HONEYCOMB INVESTMENT TRUST PLC

31 May 2020

INVESTMENT MANAGER'S COMMENTARY

Honeycomb Investment Trust plc (the "Company") delivered a NAV return of 5.0% on an annualised basis, which is equivalent to 0.42% for the month.

The result includes an elevated level of provision to cover potential expected losses in the whole loan portfolio as opposed to realised losses as the Manager prudently builds additional coverage on loans that are on forbearance and payment plans in line with Bank of England and regulatory guidance.

The result also includes the impact of the reduced portfolio size with net investment assets reducing from a peak of £595m in February 2020 to £560m at the end of May with debt being reduced over the same period from £221m to £183m.

Portfolio

Across all three sectors the assets continue to perform well. In SME we are seeing a positive impact of the government support schemes with the Bounce Back Loan Scheme ("BBLS") and Coronavirus Business Interruption Loan Scheme ("CBILS"), in particular, providing material support to the SME's and leading to significant refinancing activity.

In Consumer we are seeing the number of forbearance plans starting to reduce with the early sign that the majority of the customers who are reaching the end of their forbearance plans electing to return to full payments in July. This transition is being monitored closely.

In Real Estate we are seeing a strong refinancing market driven by competition in the mortgage market and the early signs that the sales market is starting to pick up. This is likely to drive strong cash collections over the coming months.

Conclusion

The performance of the underlying portfolio remains robust with continued strong cash collections and a deleveraging of the Company.

The Manager is starting to see a significant pipeline of opportunities that represent attractive returns with yields higher than pre COVID and risk metrics lower (i.e. lower LTVs, higher credit scores etc). After reducing the portfolio and leverage over the past few months the Manager is selectively reviewing a number of these opportunities.

Key Details

Monthly NAV Return (Annualised)	5.0%
Monthly NAV Return	0.42%
YTD NAV Return	3.33%
ITD* NAV Return	36.62%
NAV Cum. Income	£383.2m
NAV Ex. Income	£374.8m
Market Capitalisation	£275.6m
Net Investment Assets	£559.9m
Debt to Equity	47.8%
Shares in Issue	37,249,919
Share Price	740.0p
NAV Cum. Income per Share	1,028.7p
NAV Ex. Income per Share	1,006.2p
Premium (Discount) to NAV Cum Income	(28.1)%

*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%	7.85%	7.83%
NAV Return IAS 39 2017	0.69%	0.69%	0.78%	0.62%	180% ⁽¹⁾	0.55%	0.65%	0.62%	0.63%	0.61%	0.61%	0.79%	9.11%	17.24%
NAV Return IFRS 9 2018	0.66%	0.59%	0.72%	136% ⁽³⁾	0.56%	0.60%	0.63%	0.67%	0.67%	0.67%	0.65%	0.60%	8.43%	25.12% ⁽²⁾
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%	7.79%	33.17% ⁽²⁾
NAV Return IFRS 9 2020	0.60%	0.60%	0.25%	0.42%	0.42%								3.33%	36.62% ⁽²⁾
Share Price Performance**	2016	150%	-	-	-	-	-	-	-	-	-	0.54%	2.05%	2.05%
Share Price Performance**	2017	3.92%	3.72%	0.45%	181%	(0.89%)	4.93%	2.78%	0.42%	(124%)	(0.84%)	(149%)	13.42%	15.75%
Share Price Performance**	2018	(194%)	-	-	(176%)	-	-	0.90%	-	0.89%	(0.44%)	-	(2.38%)	13.00%
Share Price Performance**	2019	-	-	-	-	(133%)	(0.45%)	-	(0.45%)	(6.33%)	(3.86%)	(151%)	(13.94%)	(2.75%)
Share Price Performance**	2020	(2.13%)	(2.13%)	(18.48%)	(133%)	-							(23.91%)	(26.00%)
Dividend Per Share (Pence)***	2016	-	-	-	2.11	-	-	-	19.66	-	23.13	-	44.90	44.90
Dividend Per Share (Pence)***	2017	-	-	23.5	24.50****	-	-	-	20.00	-	-	20.00	88.00	132.90
Dividend Per Share (Pence)***	2018	-	-	20.00	20.00	-	-	-	20.00	-	-	20.00	80.00	212.90
Dividend Per Share (Pence)***	2019	-	-	20.00	-	20.00	-	-	20.00	-	-	20.00	80.00	292.90
Dividend Per Share (Pence)***	2020	-	20.00	-	-	-							20.00	312.90

* 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

⁽¹⁾ NAV return excluding effect of capital raise and issuance at a premium would have been 0.77%

⁽²⁾ Inception to date NAV return affected by IFRS 9 initial recognition on 2018 brought forward retained earnings

⁽³⁾ NAV return excluding effect of capital raise and issuance at a premium would have been 0.63%

⁽⁴⁾ 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.