

HONEYCOMB INVESTMENT TRUST PLC

31 December 2020

INVESTMENT MANAGER'S COMMENTARY

Honeycomb Investment Trust plc (the "Company") delivered a NAV return of 0.67% for the month, which is equivalent to 7.9% per annum. This brings total NAV return for 2020 to 7.7%.

Alongside the strong return performance for the year the Company has also made significant progress in a number of other areas including moving to a main market listing, putting in place an active buyback program, diversifying the shareholder register and securing long term debt facilities. This leaves Honeycomb in a robust position heading into 2021.

2020 Performance and Portfolio

The portfolio has performed well throughout 2020 despite the challenging macro backdrop. This was demonstrated by a reduction in bad debts and impairments in the year with 1.0% charge on credit assets in 2020 vs 1.3% in 2019. This performance can be attributed to:

- 1) A focus on credit investments secured on loan portfolios of non-bank lenders with strong downside protection from senior ranking to the lender or borrower equity as well as security over the cashflow generated by the loan portfolio. This senior ranking provides insulation from increasing defaults in the portfolio and provides a stability of returns; and
- 2) Resilience exhibited by the specialty finance industry throughout COVID with cash collections from loan portfolios returning to pre-pandemic levels by Q3. We have also seen the significant majority of customers, who took payment holidays, return to full contractual payments (see figure 1).

The Company has also benefited from the decision taken at the beginning of 2019 to reduce the exposure to consumer direct unsecured loans where the Company owns the entire loan rather than having the senior exposure with the non-bank retaining the junior equity. Whilst the yield on these loans is higher the potential volatility, running impairments and cost to service means it is more attractive to reallocate the capital to secured exposures. This part of the portfolio has reduced to 6% at December 2020.

Investments assets finished the year at £571m which was broadly flat on prior year (Dec-19 £589m). Through the initial COVID period we reduced originations and stopped new investment activity and focused on portfolio management and cash collection to ensure robust performance. This resulted in the portfolio shrinking in Q2 and Q3 before seven new investment opportunities were completed in Q4.

Offsetting some of the strong performance in the asset portfolio was one off costs incurred in relation to the debt facilities. The existing debt facilities matured in April 2020 and due to the COVID pandemic the refinancing with a new bank was delayed. This meant that there was additional costs in extending the existing facility before a short term 12 month facility could be arranged. In September the Company completed its longer term (3 year) Topco facility with a European Bank. In addition, two other SPV financings were completed in the year meaning Honeycomb ended 2020 with long term and larger debt facilities providing a strong liquidity position and an ability to grow without further refinancing.

Key Details

Monthly NAV Return (Annualised)	7.9%
Monthly NAV Return	0.67%
YTD NAV Return	7.7%
ITD* NAV Return	41.1%
NAV Cum. Income	£357.2m
NAV Ex. Income	£358.9m
Market Capitalisation	£332.3m
Net Investment Assets	£571.3m
Net Debt to Equity	59.4%
Debt to Equity	76.9%
Shares in Issue	35,259,741
Share Price	943.0p
NAV Cum. Income per Share	1,013.5p
NAV Ex. Income per Share	1,017.8p
Premium (Discount) to NAV Cum Income	(7.0)%

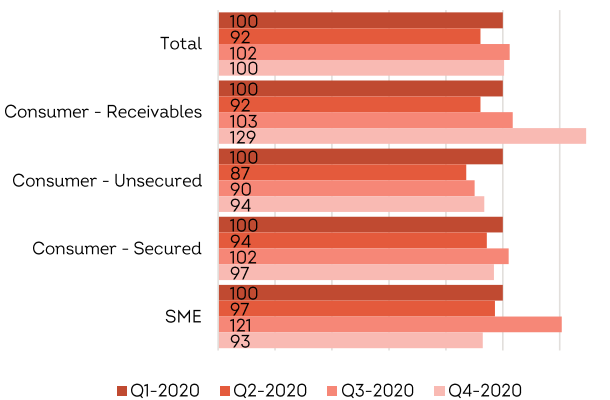
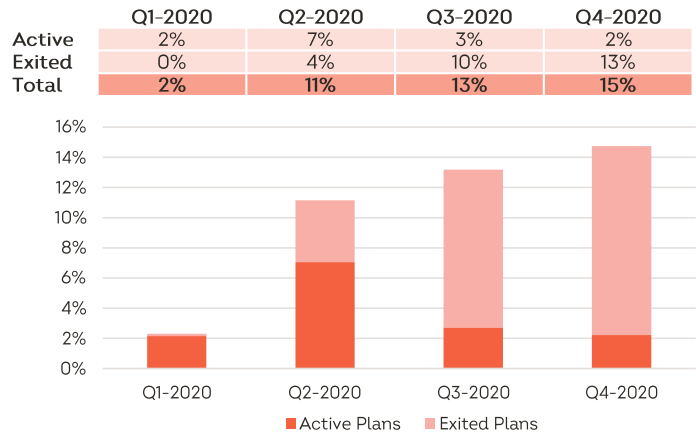
*ITD: Inception to Date – excludes IPO Issue Costs

Embedding ESG through the Company

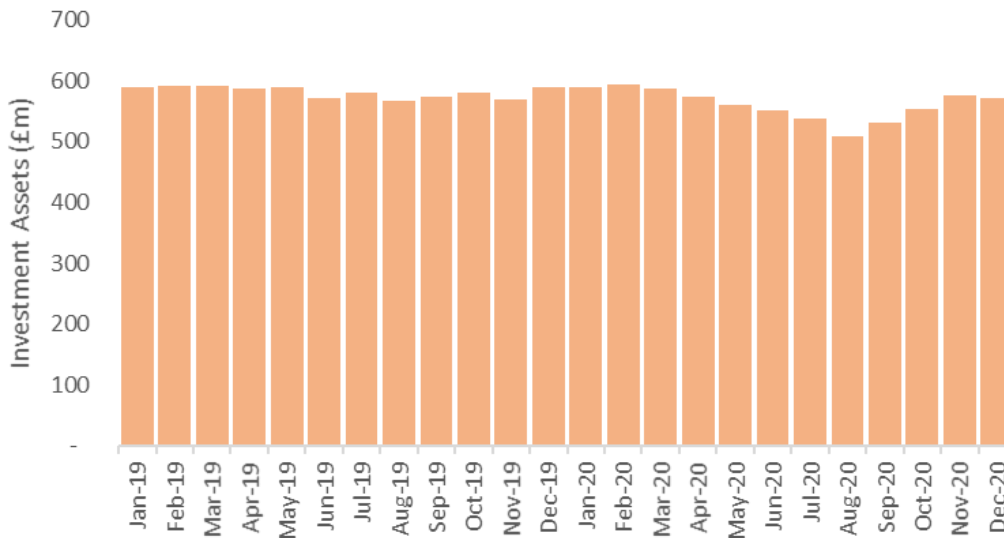
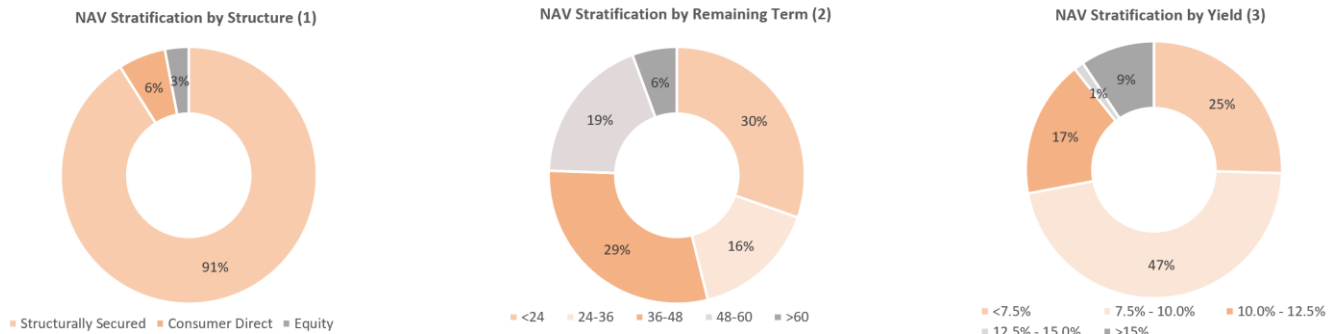
The Company's target markets have a strong positive ESG impact which have become ever more critical in the current environment in five key areas:

- 1) Lending to support SMEs and communities is ever more critical in the current environment and the Company works with lenders who are close to their customers and are able to offer tailored offerings to support them in a prudent way.
- 2) Our real estate lending strategy is critical to improving the quality of the property stock across the UK and Europe and the creation of affordable, efficient and good value homes.
- 3) Lending to support financial inclusion at a time when mainstream lenders are offering only the most vanilla automated products. Our partners that are nimble and work closely with customers are able to offer high quality lending offerings.
- 4) Lending to support improved energy efficiency in the home is one of the key ways that individuals can have a real positive impact on the environment. Starting with home improvements, this is now moving to the electrification of transport.
- 5) All our lending partners are required to demonstrate and embed the highest quality of governance and their own three lines of defence which we ensure is being complied with as part of our on-going monitoring.

Overall, the opportunity for specialist lenders with more nimble business models are able to work closely with customers, react quickly to the changing environment to create tailored and responsible lending products to support the economy in this challenging and dynamic environment.

Figure 1 - COVID-19 Impact: Industry Performance
CASH COLLECTION¹

FORBEARANCE PLANS²


¹Indexed to 100 in Q1-2020, lending platforms equally weighted and adjusted for growth / run-off of the asset base; ²At quarter-end, as a proportion of total accounts at that time, lending platforms equally weighted ;

Figure 2 – Investment Assets

Figure 3 – Composition of Investment Assets

Figure 4 – Top 10 Deals

Investment	Type	Country	Asset Class	Value at 31-Dec-20			Number of loans/Receivables
				£m	% of Net Assets	LTV	
UK Agri	Real Estate Backed	UK	Property	51	14.1%	49%	54
Creditfix	Structured	UK	Consumer	50	13.9%	41%	76,763
Nucleus	Structured	UK	Consumer	46	12.8%	96%	792
Sancus	Real Estate Backed	UK	Property	45	12.4%	51%	34
GE Portfolio	Real Estate Backed	UK	Property	40	11.2%	61%	17,290
Oplo Mezz	Structured	UK	Consumer	35	9.7%	95%	25,160
Propfin	Structured	UK	Property	22	6.0%	68%	32
Amicus Commercial	Real Estate Backed	UK	Property	21	5.8%	64%	53
Downing	Structured	UK	Consumer	18	5.0%	65%	13
Oplo Forward Flow	Real Estate Backed	UK	Property	31	8.5%	81%	1,042

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%	1.80% ⁽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%	1.36% ⁽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	0.65%	0.65%	0.25%	0.42%	0.42%	0.75%	0.61%	0.87%	0.28%	0.58%	0.62%	0.67%	7.71%	41.15%⁽²⁾
Share Price Performance**	2016	1.50%	-	-	-	-	-	-	-	-	-	-	0.54%	2.05%	2.05%
Share Price Performance**	2017	3.92%	3.72%	0.45%	1.81%	(0.89%)	4.93%	2.78%	0.42%	(1.24%)	(0.84%)	(0.63%)	(1.49%)	13.42%	15.75%
Share Price Performance**	2018	(1.94%)	-	-	(1.76%)	-	-	0.90%	-	0.89%	(0.44%)	-	-	(2.38%)	13.00%
Share Price Performance**	2019	-	-	-	-	(1.33%)	(0.45%)	-	(0.45%)	(6.33%)	(3.86%)	(1.51%)	(0.77%)	(13.94%)	(2.75%)
Share Price Performance**	2020	(2.13%)	(2.13%)	(18.48%)	(1.33%)	-	1.69%	1.33%	7.21%	12.54%	1.63%	-	0.80%	(3.08%)	(5.75%)
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	-	-	20.00	-	20.00	-	80.00	372.90

* 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 0.60%

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	Main Market 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.