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31 January 2022

Honeycomb Investment Trust plc

Honeycomb Investment Trust plc (the “Company” or “Honeycomb”) announces that the Investment Manager’s monthly factsheet for 31 December 2021 is now available on its website at <http://www.honeycombplc.com>.

Net Asset Value per Share

The Company delivered a NAV return of 0.69% for the month, which is equivalent to 8.1% per annum. This brings total NAV return for 2021 to 8.49%. This represents the strongest annual NAV return since 2017 and has been achieved through strong underlying Credit Asset returns of 9.6%.

2021 Performance

2021 has been a year of execution and consistency for Honeycomb Investment Trust. The Company entered 2021 in a strong position with a robust credit portfolio, long term debt facilities and a strong pipeline of compelling investment opportunities.

Over the course of 2021 HONY remained fully invested with investment assets increasing to £615m from £571m in December 2020 with total deployment of c.£250m as capital was reinvested from loans that repaid.

Through 2021 the Portfolio continued to deliver on the strategy, focusing on senior asset secured exposures and reducing the direct unsecured consumer exposure in the portfolio. In line with this secured strategy, the Investment Manager sold the remaining direct unsecured consumer portfolio in December 2021 for carrying value, with the proceeds reinvested in senior secured positions. This completes the final phase of the planned focus of Honeycomb’s asset base onto senior and asset secured debt with 78% of the credit portfolio in senior assets and 100% structurally secured.

As a result of this strategy, impairment charges continued to reduce throughout 2021. In addition, the Company’s listed bond portfolio was sold in June realising a small profit.

The portfolio has performed well throughout 2021 despite uncertainty in the macro environment. The Company’s ability to continue to deliver uninterrupted strong performance has demonstrated the portfolio’s consistent income generation, and the stability of the returns are a result of the diligent investment approach that focuses on senior investments secured on diverse pools of assets with strict risk adjusted returns criteria and strong credit quality. Proactive portfolio management lies at the heart of the investment philosophy and the Manager’s senior secured strategy protects the Company from underperformance in the asset base. There have been no significant changes to the debt facilities and the Company remains in a strong liquidity position.

Going in to 2022 the pipeline of new deals is strong at £1.5bn, with a number of opportunities in the sustainability sector.

2022 Outlook & Opportunities

As private lending markets continue to evolve in and beyond 2022, Pollen Street Capital continually assess how structural shifts in consumer behaviour and markets create attractive opportunities for Honeycomb Investment Trust. Below we explore the transition to a more sustainable ecosystem.

Sustainability

The rapid pace of the global sustainability transformation continues to outweigh the availability of finance for driving social and the environmental impact. At Pollen Street, we see this structural shift as a huge opportunity to be part of the solution and deliver a positive impact for society and our investors. In our view, structural shifts will create opportunities within three key segments:

1. Decarbonising the economy – Transport

An important part of the shift to a net zero emission economy is replacing high emission diesel and petrol vehicles with electric vehicles. Electric vehicles (EVs) are typically more expensive than their fossil fuel equivalents, increasing the need for financing solutions encouraging the transition. The Investment Manager sees two core customer bases with clear appetite for finance; consumers and ride-share drivers. Our focus within this sector is to provide senior facilities to operators of electric vehicle fleets, with our latest investment in the sector being a facility to Onto, the largest pure-play electric vehicle subscription business in Europe secured on their fleet of EVs. The Investment Manager continues to see opportunities in this sector, and expects it to form an integral part of 2022 deal flow. There are also growing opportunities in the electric micro-mobility sector for senior facilities collateralised by fleets, offering attractive return profiles with strong downside protection.

2. Energy efficiency – Home / Development

Newly constructed homes are on average 60%+ more energy efficient than the existing housing stock. Our focus for real estate investment is in financing the construction of new residential housing, thereby improving the energy-efficiency of buildings and reducing carbon emissions. In particular, we see clear and significant benefits in adopting modern construction methods, including modular housing, and specific guidance and government targets to ensure efficiency and sustainable build qualities.

3. Renewable energy

The transition towards a more sustainable society necessitates immediate action to replace polluting energy sources, with greener, more sustainable fuels. Research suggests that the UK is on course to double its solar capacity by 2030, but will need to treble it if the nation is to meet its net-zero target for 2050. Large scale renewable energy focused infrastructure projects are typically well funded through institutional and governmental capital, smaller more granular projects remain underfunded. For example, home-installed solar panels typically require significant upfront cost, and so are unaffordable for many households, yet create material energy savings, and are in many cases cash generative as excess electricity is sold to the grid. This creates an attractive opportunity to provide funding for the installation of the panels, helping customers save money while moving to more sustainable energy sources.

4. Sustainability Linked Loans

As the ESG lending space continues to grow, we see innovative Sustainable Finance products developing to align a company's ESG strategy with its financing structure. Sustainability Linked Loans (SLL) have become increasingly popular and are at the forefront of this trend. SLL differ from traditional green financing in that they have no restriction on the use of funds and are more akin to a traditional debt product. The key difference is that an SLL aligns a borrower's financing to one or more sustainability performance targets (SPTs) which are targets relating to ESG specific KPIs. The loans include downward ratchets on margins if these pre-determined KPIs are met thereby incentivising borrowers to improve their sustainability impact through a reduction in the cost of borrowing.

According to Dealogic global SLL issuance in FY20 was in excess of \$150bn and we see more growth ahead for Sustainability Linked Loans and Bonds. The Investment Manager already applies an impact lens and standard ESG diligence as part of the investment process. These SLLs are an opportunity for asset managers to further influence and help drive the positive impact of their credit partners. Clearly the benefits are broad, with increased transparency allowing borrowers to demonstrate their ESG credential in a way that allows investors to measure and understand the impact of their investments.

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