RAW Mortgage Fund

Investor update

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Executive Summary

The RAW Mortgage Fund ("the Fund") delivered attractive and consistent risk-adjusted returns to investors during 2020, along with a high level of capital security and diversification from other assets classes.

The Fund delivered gross returns of 4.93% and net returns of 4.43% to institutional investors with little volatility and no negative months' performance. For context, the Fund's target net return is 4.00% and its benchmark, a 0-5 year GBP Corporate Bond Index, delivered 3.39% to investors with greater volatility of returns and a maximum drawdown of 3.69%.

The Fund's performance is thanks to that of its underlying book of more than 300 individual mortgage loans worth £78.3 million. The Fund has recorded no defaults and has had no write-offs since launch in May 2015. At the time of writing, the Fund has no arrears of more than 1 month.

Given its track record, we believe the RAW Mortgage Fund will continue to provide attractive and consistent risk-adjusted returns along with a high level of capital security.

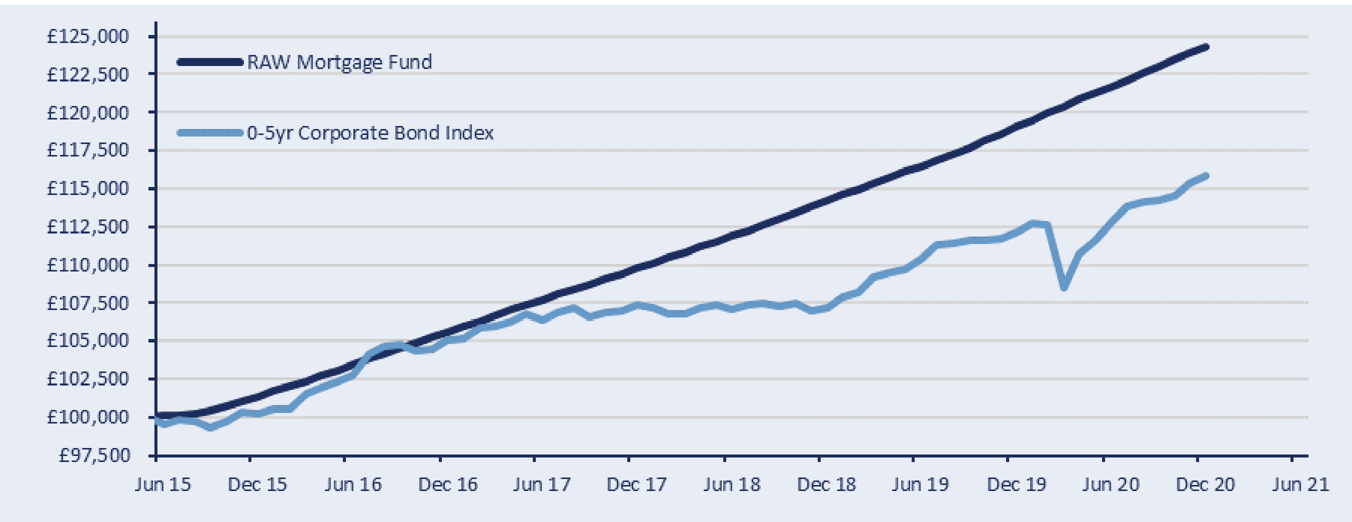

Chart A – performance of the RAW Mortgage Fund since launch vs. its benchmark

Investment strategy

The Fund's investment objective is to generate attractive and consistent returns with a high level of capital security from the origination, execution and servicing of a diversified portfolio of mortgage loans – all of which are secured with a first legal charge on residential property in the United Kingdom, Channel Islands and Isle of Man.

Target borrowers are typically relatively wealthy individuals seeking to invest in residential property in the UK in their own names or via a trust or corporate structure. The Fund also offers non-regulated bridging finance (with a maximum term of 12 months) to UK residents.

The majority of the Fund's loans are secured on new or nearly new properties located in London and the South East of England with a smaller proportion in other major towns and cities in the UK.

The Fund limits downside risk by focusing on mortgage loans secured on high-quality collateral to a maximum 55% loan-to-value (LTV) ratio based on the lower of purchase price or independent professional valuation of the property.

Portfolio characteristics

Despite challenging market conditions, the Fund and the loan book grew strongly during 2020.

The assets under management (AUM) of the Fund grew 63.4% year on year from £49.3 million as of 31 December 2019 to £80.6 million a year later.

During the same period, the loan book grew from £49.3 million to £78.3 million and from 229 to 344 mortgage loans.

£80.6m
AUM

344
mortgage loans

Conservative lending criteria

While the value of the Fund has grown considerably, the measures of central tendency and variation have been stable – testament to our belief in the Fund's investment strategy.

The average value of loans within the loan book has increased modestly from £215k to £228k and there remain only a handful of loans of £1 million or more. The average value of properties against which our loans are secured rose from £452k to £491k. Our typical mortgage loan is 50% loan to property value (LTV) and the average LTV reduced during 2020 from 47.6% to 46.4%.

It is worth noting that, during 2020, the average market valuation provided by our independent panel of RICS qualified surveyors was 9% lower than purchase price. The Fund's average loan to purchase price (LTPP) is only 40.6%. The remaining 59.4% represents borrower equity. We consider the borrowers having 'skin in the game' is a key mitigator of credit risk.

46.6%
average LTV

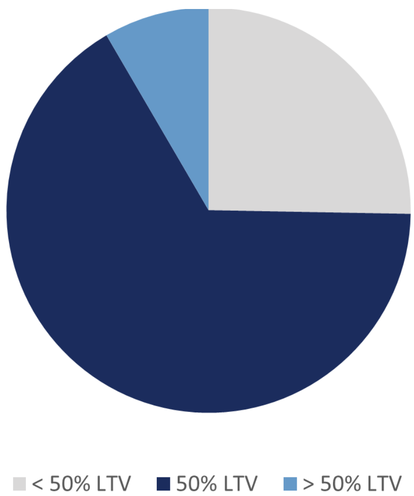

Chart B - loan to value ratio of mortgage loans

High-quality security

Location of security

The majority of our lending (c.80%) is secured on properties in London and the South East of England. In the long-term, we believe that London will continue to prosper, and we continue to see plenty of good quality lending opportunities at low LTV ratios in the region.

Our loan book in and around London is broadly spread across many boroughs and generally secured against modest, modern or well maintained properties. We have a little more lending in high quality developments in boroughs such as Merton and Lambeth in the south and Haringey in north London and in and around Canary Wharf where close proximity to work is important for private renters.

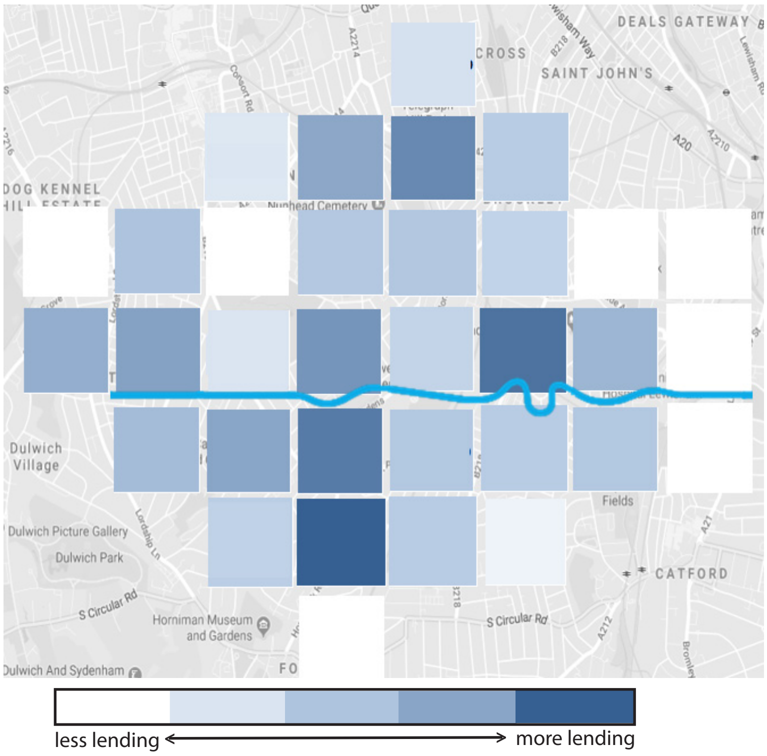

Chart C – concentration of mortgage loans borough

Outside of London, we are seeing greater interest in Birmingham, Manchester, Liverpool and elsewhere from overseas property investors. We attribute this to lower capital values and higher rental yields than are found in London and the South East of England.

We are happy to consider lending opportunities in these and other major towns, which now make up c. 20% of the loan book by value.

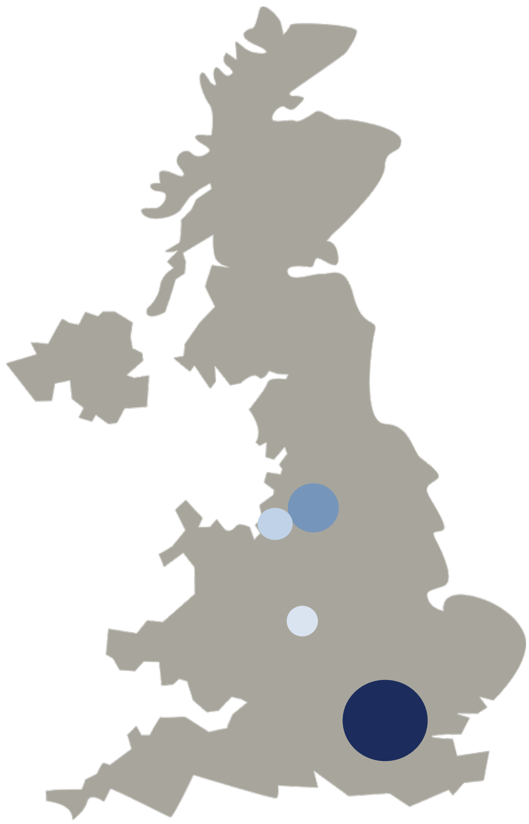

Chart D – concentration of mortgage loans by city

Type of security

The majority of mortgage loans are secured against modern one and two-bedroom apartments in major towns and cities. These are attractive to property investors as they benefit from many potential tenants when the borrower seeks to let the property and many potential buyers when the borrower seeks to exit their investment.

For every ten properties on which the Fund takes security, nine are apartments. Of these, nine are located in major towns and cities in the UK (the remainder are located in South East of England, in commuting distance to London).

Typically, these properties have been built by major developers in the last 10 years. They benefit from modern building control standards, planning controls, and new home warranties.

The average capital value of these properties is £439k and typical rental value less than £1,500 per calendar month.

While we have lent on a high volume of apartments during the previous 5 years, we rarely lend against studio apartments, apartments within high-rise buildings, or those without access to outside space.

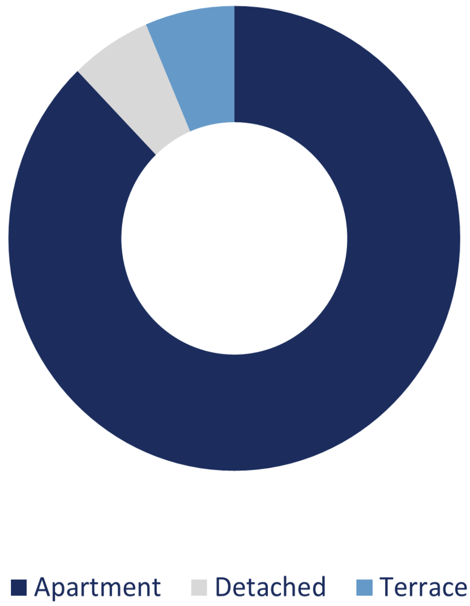

Chart E - security by property type

When we lend we always consider the location of the property as well as the property itself, for example we avoid lending on properties next to unsightly commercial or industrial units. Outside of London we have secured lending against quality properties in Hertfordshire, Kent and Surrey.

What we look for	What we avoid
• Loans secured against completed residential properties • Residential properties in major towns and cities, which are more easily sold or let – even during a market downturn • Properties that are new or relatively new and in a decent state of repair	• Development property –there is much more risk when properties are being (re)developed • Properties that are less likely to let or sell during a downturn, such as unsightly properties or those surrounded by lower quality housing • Properties likely to be volatile in value, for example those in prime central London

Investment performance

Since inception, the Fund has delivered average annual returns of more than 4.00% per annum to institutional investors and positive returns in all market conditions. The contractual cashflows delivered by the underlying mortgage loans provide very consistent returns.

In 2020, the Fund delivered gross returns of 4.93% and net returns of 4.43% to institutional investors with little/no volatility and no drawdowns. For context, the Fund's benchmark, a 0-5 year GBP Corporate Bond Index, delivered 3.39% to investors with greater volatility of returns and a maximum drawdown of 3.69%.

The Fund's performance is thanks to that of its underlying book of mortgage loans, now 334 individual mortgage loans worth £78.3 million, recorded no defaults and no write-offs. At the time of writing, the Fund has £0 arrears over 1 month.

4.43%
net return
(2020)

£78.8m
loan book

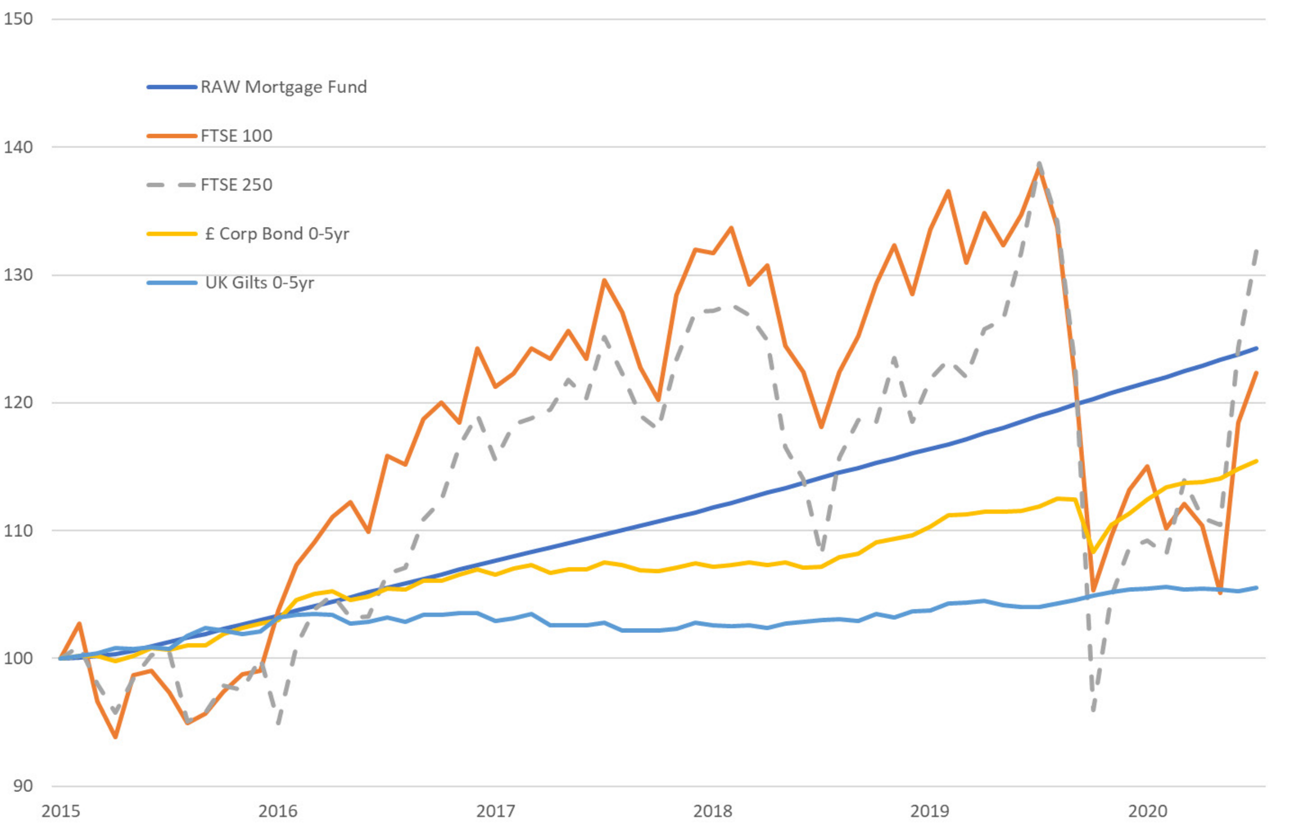

Chart F - investment performance May 2015 to date vs iShares Core FTSE 100 UCITS ETF, iShares FTSE 250 UCITS ETF, iShares £ Corporate Bond 0-5 year UCITS ETF, iShares UK Gilts 0-5yr UCITS ETF

Outlook for 2021

We continue to believe strongly that mortgage loans secured against UK residential property at an average 46% LTV and maximum 55% LTV will provide a safe haven for investors.

It is our expectation that investor capital and accrued interest could be recovered on all of our loans in all but the most extreme of circumstances.

The UK residential property market

The government-mandated closure of large sections of the economy is perhaps a good candidate to be the cause of a significant fall in property prices but they have remained surprisingly robust to date. Some sources are even reporting increases - Nationwide Building Society stated that annual house price growth accelerated 5.8% during the year to October 2020.

We consider this to be due to the income effect (falling demand due to a fall in earnings) being more than compensated by the substitution effect (increasing demand for housing as residents spend more time at home).

We think it likely that the relative strengths of these effects to reverse during 2021, as the government withdraws financial support and people are permitted to return to their places of work, leading to no or negative growth in property prices.

While we are prudent, it is worth noting that some market participants are cautiously optimistic about the outlook for residential property prices in 2021 (see chart G).

Whatever happens this year, we believe new or nearly new UK residential property in central or commutable areas provides high-quality security in the long-term, especially while the national housing shortage goes unaddressed by central government.

Location, location, location

To supplement the macro-economic environment, we continue to put a strong emphasis on specific factors of each and every property on which we are asked to lend, considering factors including:

- **location and proximity to local amenities, public transport and places of work**
- **quality and condition or the subject property and those around it**
- **value relative to wages and to other properties in the area**

In response to the pandemic and resulting 'stay at home' orders, we are placing higher emphasis on the size of the subject property (preferring spacious properties and those with additional bedrooms), access to outdoor spaces, and proximity to places of work.

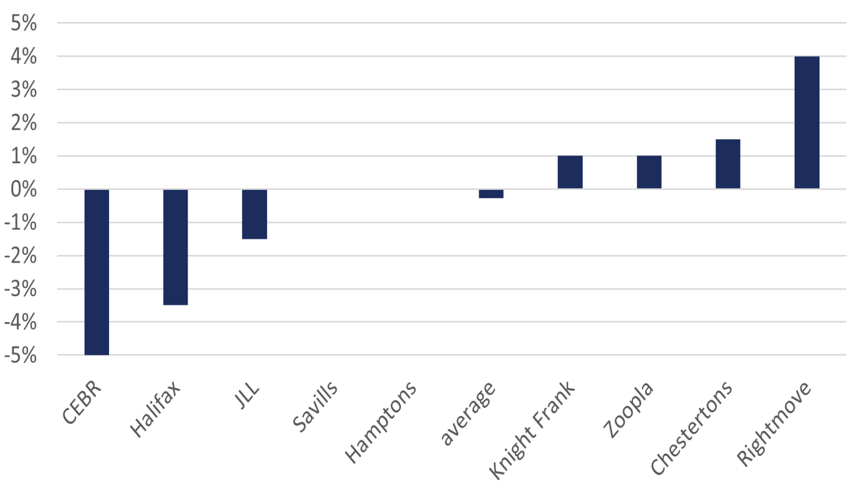

Chart G – market participants' forecasts of average property price growth during 2021

Servicing of interest

While it is our expectation that investor capital and accrued interest could be recovered on all of our loans in all but the most extreme circumstances, the full and timely collection of payments remains imperative to the Fund's investment performance.

To ensure borrowers service the interest due on their mortgage loans, we prefer borrowers with relatively high incomes and/or liquid assets.

We also prefer subject properties with higher rental yields, so the average interest coverage (rental amount divided by interest amount) of the loan book is 186% on a loan by loan basis.

Our conservative strategy has served investors well to date, with the Fund recording no defaults or write-offs since launch and no arrears greater than one month at the time of writing.

Interest rate risk

The Fund's assets are floating rate mortgage loans, on which interest is charged at a margin above the Bank of England Base Rate (subject to a minimum base rate of 0.50 or 0.75%).

If base rate were to rise above the minimum, investors in the Fund would benefit from the upside. Meanwhile, the minimum base rate has provided downside protection to historically low interest rates (and will continue to do so if base rate is negative).

Despite the prevailing monetary environment, the Fund beat its target return in 2020 by producing higher margins than it did historically. We consider this as evidence that the market in which the Fund operates is characterised by low price elasticity of demand that should provide resilience to investor returns for the time-being.

Liquidity risk

The Fund's assets are illiquid and cannot be easily unwound or offset. To ensure capital can be returned to investors when they request it, liquidity is provided through the following means:

1. **the Investment Manager has sought to construct a portfolio of mortgage loans with a mix of loan durations (the loan book has a maximum duration of 5 years and a value-weighted average duration of less than 3 years - see Chart H);**
2. **the receipt of interest from the underlying loans serves to provide liquidity to the Fund (c. £4 million pa)**
3. **the Fund benefits from a £40 million revolving loan facility from OakNorth Bank Plc, of which a proportion is held to meet investor redemptions; and**
4. **loans may be 'sold' to new investors seeking consistent returns, given the solid performance and low-risk nature of the Fund's loan book, this is always a potential option for us to provide liquidity.**

While we take management of liquidity risk seriously, the likelihood of a large capital withdrawal is relatively low.

For the time-being, the 10 largest investors in the Fund make up c. 75% of AUM. However, the largest single investor has committed capital for 5 years and related parties including directors and staff of the Investment Manager represent more than 50% of the Fund's AUM.

As the Fund grows, the risk associated with any one investor redeeming their holdings is reduced. The Fund onboarded five new institutional investors during 2020 and has the ambition to reach 20 institutional investors within the next 3 years.

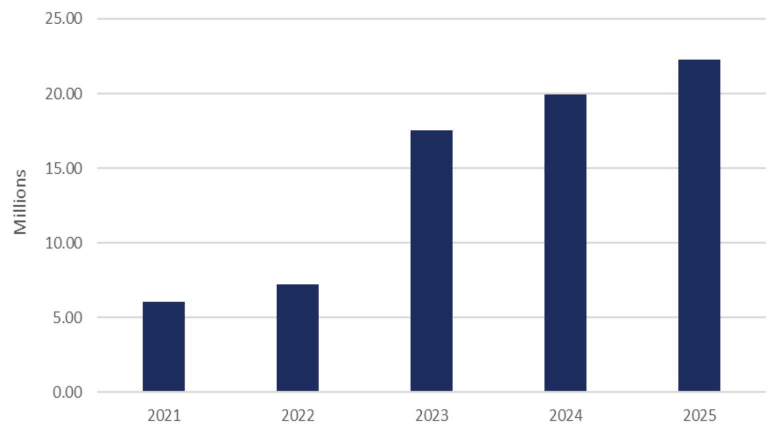

Chart H – loan value by maturity date

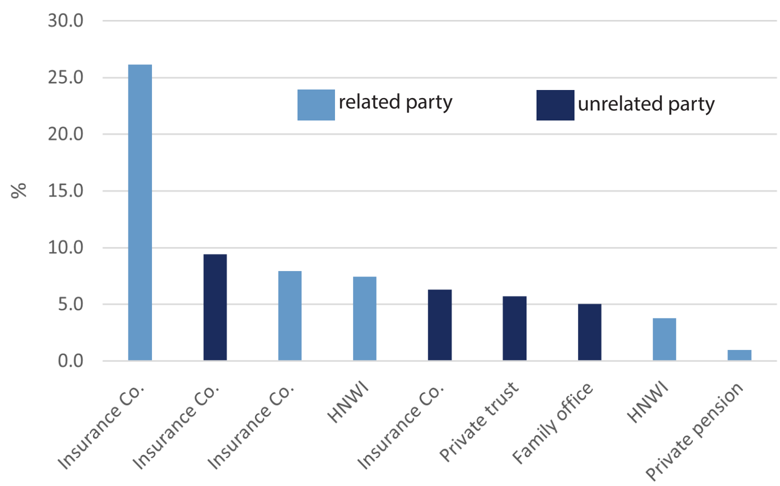

Chart I – largest investors in the Fund

Conclusion

The RAW Mortgage Fund continues to deliver attractive and consistent risk-adjusted returns to investors. The performance of our underlying mortgage loan book has been very resilient through 2020, an exceptional year by any standards, and is testament to the careful consideration of each opportunity by an experienced credit committee.

We approach 2021 with the same strategy and focus that has served us so well since the Fund was launched in May 2015 and with great momentum.

Evidence shows there is plenty of opportunity to continue to grow this strategy and we have the track record and operational capacity to accept institutional investment and grow the Fund to many times its current size.

To learn more about the RAW Mortgage Fund, contract us on the details overleaf.

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