RAW
CAPITAL PARTNERS

RAW Mortgage Lending Fund FAQs

How does the Fund work?

Put simply, it operates like a 'building society'.

Cash from investors is managed carefully and lent via a mortgage to owners of UK residential property. Each mortgage is secured against the borrowers' property with a first legal charge giving the Fund first call on the property as security for the loan if the borrower were to default. Borrowers pay interest to the Fund.

BACK TO QUESTIONS

What is the current size of the Fund?

As of the end of July 2018, the Fund had more than £28m in assets having made over 135 loans. The value of the property securing these loans was more than £59m. The average loan to value ratio across the entire loan book was less than 46%.

The Fund has a three year track record with a 100% record of positive monthly increases in value since launch in 2015. There is a strong pipeline of new loans and the expectation is that the Fund lending will continue to grow steadily.

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What is the minimum investment in the Fund?

The minimum investment in the Fund is £10,000. This is the minimum amount of capital that can be held by anyone in the Fund.

Furthermore, the minimum additional investment value is £5,000 but you cannot have less than £10k in the Fund at any one time.

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What sort of property does the Fund lend against?

The Fund lends against UK residential and Channel Island property predominately at the lower to mid-range of the market.

The typical properties lent against are modern apartments in South East England, within the M25, with a value between £200,000 and £1,000,000. Properties within these parameters have historically performed better in a property downturn than more expensive property and maintained good rental demand. There is also a more fluid market in terms of sales of property at the lower value end of the market.

The Fund has begun lending outside of South East England, although at the moment this represents a small proportion of the loan portfolio.

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Could I lose my capital in this Fund?

Such as in any fund, yes, you could potentially lose the capital that you invest.
However, the Fund is designed to protect against capital losses, even in a property downturn, through prudent lending secured against residential property. The Fund only lends to a maximum 55% loan to property valuation, and a maximum, average of 50% across the entire Fund portfolio.

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What happens if property prices crash?

The borrowers from the Fund would suffer the first losses from any reduction in property values. In fact, property values would need to fall quite substantially before the Fund investors are impacted as the Fund only lends up to 55% of the property value.

The prudent lending approach provides a good degree of downside protection in a property price crash. For example, after the financial crisis of 2008, whilst property in the South East of England fell in value for several months, the largest falls were around 30%.

Fund investors would only be affected if the price of a particular property fell below the value of the amount lent (maximum 55%) and any rolled up costs.

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What happens when interest rates rise?

Investors should benefit immediately from rising interest rates. Each mortgage loan is directly linked to the Bank of England Base Rate so when interest rates rise the borrowers' payments increase. These increased interest payments flow back to the Fund and benefit investors.

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What happens when interest rates fall?

At the present time we are in a period of historic lows with the Bank of England Base Rate ("BOEBR") currently at 0.75%. Since 5th March 2009, apart from a dip to 0.25% in August 2016, the BOEBR remained at 0.50% until 2nd August when it rose to 0.75%.
Borrowers from the Fund are charged a minimum interest rate at a margin over BOEBR and so interest income to the Fund is protected from base rate reductions below 0.5%.

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What happens in the void of a rental property?

We are selective as to the type of borrower we lend to and usually the borrower will have other liquid assets to fund the interest payments on the loan.

On the basis that we have advanced a loan at the maximum of 55% of the property value then we fully expect that there should be more than enough equity in the property to see a sale achieved, all fees paid and the loan and any outstanding interest debt repaid.

In the unlikely event that the borrower does not have other liquid assets and cannot secure an income stream from the property then, in the very worst-case situation, we would foreclose on the loan, repossess the property and sell it to recover assets and lost interest.

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What is the Fund's performance track record?

To date, the Fund has a 100% record of positive monthly increases in value, over three years since launch in 2015.

The Fund returns are consistent because they reflect the regular interest payments made by the mortgage borrowers. The continual diversification of the Fund's underlying loan investments with a range of borrowers, secured on a broad range of properties helps maintain a diverse book of loans that is aimed to reduce the risk of any single default impacting the Fund's performance. Low loan to valuation ratios, all with a first legal charge, help minimise the chances of capital losses to investors.

The performance of the Fund has significantly outperformed returns available from banks and building societies in fixed term or notice accounts.

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What is the track record of bad debts / borrowers in default?

To date the Fund has had a 0% default rate.

The Fund has been in existence for over three years since launch in 2015 and in that time, has not experienced a situation where we have had to foreclose on a loan and take possession of the property.
We have had a very small number of situations where borrowers have not paid their interest on the due date and, in these situations, we have charged penalty interest.

The manager of the Fund, RAW Capital Partners Limited, operates a very robust credit committee process and is selective of both lending property type and quality as well as the merit of the borrowing counterparty.
This robust credit committee process has meant that we have, to date, had a 0% default rate.

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What happens when stock markets crash?

This Fund is not linked to stock market performance. Returns from the Fund are linked to mortgage interest payments from the borrowers, and so is closely linked to interest rates.
The Fund has underlying capital protection driven by first legal charge and a maximum Loan-To-Valuation of 55%.

The Fund is designed to deliver consistent returns to investors, uncorrelated to the stock markets, that improve (increase) as interest rates rise and protect capital. The fact that the returns for investors are linked to interest rate movements also provides a good degree of protection against inflation as interest rates tend to rise when inflation rises.

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What happens to my money if it gets lost somehow?

There is plenty of protection against your money being lost. The Fund has an independent custodian; the Royal Bank of Canada ("RBC"). All cash is held in accounts controlled by RBC as Custodian or lent with a first legal change on residential property. It is RBC's job to ensure that cash is used in line with the Fund supplemental particulars. And so, for instance, they make independent checks on solicitors' client accounts and confirm that a solicitor's report on the title of a property is received before releasing lending funds.

The independent administrator, JTC (a listed company on the London Stock Exchange) is responsible for accounting to investors for their investment, calculating investment returns and reporting.

The independent roles of RBC as custodian and JTC as administrator, plus the independent board of the fund and the strong regulations in Guernsey help look after your investment safely.

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What is the notice period to redeem my investment in the Fund?

For investors with less than £5mn, the notice period is 90 days and the Fund operates redemption dealing dates on the 1st business day of January, April, July and October. So, for example, if an investor submits a redemption request on the 1st April they will receive their redemption proceeds after the 1st July dealing date. So that there is no misunderstanding if an investor submits a redemption request on say the 20th April, the investor would then receive their redemption proceeds after the 1st October dealing day.

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How risky is it to invest in the Fund?

The Fund is designed to be a very low risk investment. The Fund holds first legal charge over each and every property it extents loans to. Loans are only to a maximum of 55% Loan-To-Valuation and a 50% average across the whole fund.

These measures, along with careful lending assessment (including individual professional valuers) help to protect investor capital.

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How is low risk ensured?

The Fund limits downside risk by focusing on originating Mortgage Backed Loans secured by quality collateral and contractual protection alongside a review of each lending proposal, borrower and property security. All loans are secured with a first legal charge.

Risk is spread across a diverse range of counterparties with debt secured against a large number or properties. Average loan to property valuation will be no more than 50% with a cap of 55% for individual properties based on an independent professional valuation of the property at the time the loan is granted.

Higher value properties that tend to have more price volatility will be avoided. A five-step process for recovery of any arrears has been established and will be rigorously enforced.

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Does diversification mean returns are less than if it were all in one place?

Diversifying money does not necessarily have a negative impact on returns. In fact, it actually means that risk is lower in which in turn can increase returns.

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Do I get a say in which properties my money is lent to?

No. The fund chooses properties in which to lend to and aims to have a diversified portfolio of loans. Currently there is a portfolio of more than 130 loans. Your investment is pooled in a regulated fund and distributed across all the loans that the fund holds at any one time, diversifying your risk.

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If 4.75% is the Target Annualised Return, what is the Actual return?

In July 2018, the Gross Annualised Return was 4.40%, in June 2018 it was 4.37% and in May 2018 it was also 4.37%.

In 2017, the highest Gross Annualised Return was 4.74% in February, and the lowest was in June at 4.37%.

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What is the difference between investing in mortgages and investing in property?

When you invest in mortgages, the volatility in value of property does not impact the lenders directly. When investing in property, although you can benefit from the increase in value, you will also suffer if you sold when the value of the property went down.

The first legal charge when investing in mortgages is to secure the loans, which essentially means debt is repaid first.

The borrower wears the first part of the downside in any reduction in values.

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When do I get my returns?

Returns can be received in one of two ways;

1. Receive returns regularly through quarterly dividends

2. Or you can roll your dividends back up into the Fund and can request to redeem them after 90 days' notice on the first business day of January, April, July and October.

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What happens if I want to redeem sooner?

When you want to redeem your capital, there is a notice period you must adhere to.

For investors with less than £5mn, the notice period is 90 days and the Fund operates redemption dealing dates on the 1st business day of January, April, July and October. So, for example, if an investor submits a redemption request on the 1st April they will receive their redemption proceeds after the 1st July dealing date.

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Is investing in the RAW Mortgage Fund better than securing my money in a bank?

There are many differences between investing in the RAW Mortgage Fund and securing money in the bank, a few are outlined below;

The Mortgage Fund only lends on high quality residential property. Banks lend to a variety of people including unsecured lending such as overdrafts, car loans and credit cards.

The Fund concentrates on low Loan-to-Value lending secured against residential property with a first legal charge; whereas a bank will also lend a higher percentage of valuation, for example, to first time buyers in addition to unsecured lending. The Mortgage Fund lending is all linked to the Bank of England Base Rate so returns should rise as rates rise. In contrast, banks often offer fixed rate savings or do not increase savings rates in line with base rates.

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What protection do I have as an investor?

There are a number of protections in place for investors.

Firstly, the Fund is regulated in Guernsey by the Guernsey Financial Services Commission ("GFSC").
In addition, RAW Capital Partners Limited (the Manager of the Fund) is licensed and regulated by the GFSC. These regulations impost strict standards for the management and operation of the Fund.

Furthermore, all investors cash is deposited with an independent Custodian, The Royal Bank of Canada (Channel Islands) Limited ("RBC") who are part of a Global Bank and licensed and regulated by the GFSC. RBC control all the bank accounts for the Fund and undertake checks on the management of the Fund including where cash is sent, for example they make independent checks on solicitors' client accounts before a loan is advanced.

Finally, an independent administration company, JTC Fund Solutions (Guernsey) Limited ("JTC") which is also licensed and regulated by the GFSC and listed on the London Stock Exchange, ensure that the Fund is managed in line with the restrictions documented in the Fund's scheme particulars. JTC also deal with subscriptions and redemptions from investors and independently account for the financial transactions in the Fund to ensure investors returns are calculated correctly.

In summary all three firms involved in the operation of the Fund are licensed and regulated with an overarching view of these firms undertaken by the regulator, the GFSC.

The Fund is audited by Price Bailey Limited, part of Price Bailey Group – a leading, top 30, firm of Chartered Accountants headquartered in the UK.

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What is the return of the Fund?

For the full calendar year of 2016, the Fund produced a net return of 4.17% and in 2017 produced a net return of 3.94% to Institutional A Share Class investors; and a net return of 3.67% in 2016 and 3.44% in 2017 to smaller investors (in the Wholesale A Share Class).

On a comparative basis, a typical 90-day notice bank account is currently producing a return of around 1.40% and a typical 180-day notice bank account is currently producing a return of around 1.60%

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Why should the RAW Mortgage Fund form part of my investment strategy?

The RAW Mortgage Fund provides very stable returns and asset protection.
It is a strong position to be in to protect your capital when mixed with more volatile assets, such as stock market investments.

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How do I borrow from the Fund?

To enquire to borrow from the Fund, please contact RAW Capital Partners at info@rawcapitalpartners.com or call on 01481 708250.

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How are my returns calculated?

As the value of units in the fund increases, so does the value of your investment. We currently aim for a target Gross Annualised Return of 4.75%. See our monthly performance report for most recent performance information

Returns will be calculated on each Valuation Date. Mortgage Backed Loans will be valued at their principal plus accrued interest calculated on a daily basis. Other assets and liabilities for the Fund will be valued in accordance with the Scheme Particulars as set out in the section entitled 'Valuation'.

Where Mortgage Backed Loans fall into arrears interest may be capitalised at a loan level but once aggregate arrears of more than three months interest are accumulated, any interest not received or capitalised will not be included in the Net Asset Value of the Fund until such time that it is repaid or the property is sold.

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