The RAW Mortgage Fund Investor Update January 2024

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HAWES & CURTIS

Executive summary

The RAW Mortgage Fund continued to provide investors with consistent monthly returns in 2023, its 8th straight year of positive returns.

- Current portfolio expected net returns: 8.75%*
- Current average LTV 46%, max per loan of 55%.
- AUM increased to £168m (34% increase on 2022)
- £65.3 million of new loans (27% increase on 2022)
- 643 loans in the portfolio (15% increase on 2022)
- Average new loan size £301,000 (21% increase on 2022)
- Year-end loan pipeline £36.5m (52% increase on 2022)

Investor returns are expected to be 8.75% for institutional investors at current (5.25%) Bank of England Base Rate as the benefits of rising interest rates from the underlying variable rate loan book come through. Given the robust performance of our loan book to date, low LTV's and a generally cash liquid borrower base, we don't anticipate higher interest rates or economic uncertainty creating issues which will impair the Fund's performance.

To keep up with growth, RAW continued to invest in and grow the team, now 42 people, a 62% increase on 2022. The London team grew from 1 to 4 over the year and our head office in Guernsey grew from under 20 to around 30. A final key part of this employee growth involved opening a new office in Southampton, which is now home to 4 new employees specifically catering to finance, risk and compliance teams.

The outlook for continued improved positive performance looks strong.

ANNUALISED RETURN

Institutional A share class

NEXT 12 MONTHS	PRIOR 12-MONTHS PERFORMANCE	
EXPECTED NET	ACTUAL GROSS	ACTUAL NET*
8.75%	9.24%	8.55%

*Prior 12-months net performance includes the old OCF of 0.69% p.a., OCF from January 2024 is 0.99%

Investment Returns

I am pleased to report that the Fund returned 8.55% net for Institutional investors, 7.92% to Quarterly Dealing investors and 7.31% to Monthly Dealing investors in the 12 months to end October 2023 (up significantly on calendar year 2022 performance with rising interest rates).

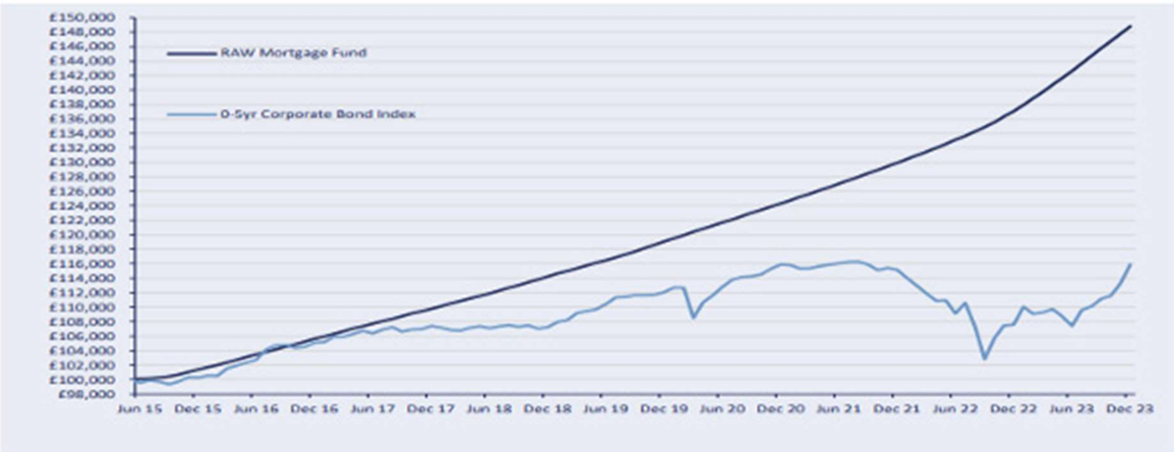
I am delighted by this performance which has benefitted from:

- Strong average loan margins – loan book currently generating 4.27% over BoE Base Rate.
- Loan margins of 3.35% plus base rate average for new loans written in 2023, although many of these include a first-year discount and revert to 4.25% margin year two.
- Tight cash management in H1 reflected in very strong monthly performance, in H2 we held more cash as a result of strong investment inflow and larger than expected loan redemptions.
- We have a strong pipeline of new lending business.

Consistent monthly performance

Month by month performance remains remarkably consistent as illustrated by the graph below. The Fund currently has an average loan to property valuation ("LTV") of only 46%. The track record of loan performance continues to be solid, and the Fund still has no bad debt or write downs of loans. The loan book now stands at over £158 million, with an average loan of c£250,000.

VALUE OF £100,000 INVESTED SINCE INCEPTION



Past performance is not necessarily a guide to future performance and may not be repeated

We successfully raised new capital in H2, with AUM reaching c£168 million. This, combined with 2 months of high value loan repayments resulted in the Fund holding more cash than it has done for some time. Excess cash was invested across four AAA Fitch rated money market funds, each returning c5% p.a. This caused a little cash drag compared to the return from the loan book of c9.5% gross, however record deployment in Q4 is expected to improve monthly performance in early 2024 and additionally we have a very strong pipeline of new lending business.

Current performance of mortgage loans

The performance of our underlying mortgage loan book continues to be very resilient, despite rising interest rates and the continued global economic impact post the Covid-19 pandemic. This remains testament to the low loan to valuation lending, careful consideration of security and borrowers by the credit committee. We anticipate this will continue to be the case given the conservative nature of our lending over the last five years.

As interest rates have risen, we have begun to experience a little more arrears in interest payments. We have had to instruct receivers in a small number of cases but anticipate full recovery from all of those borrowers due to our very low loan to value ratios. One case has already concluded with full recovery.

Early action to tackle borrowers in arrears helps protect investors

Our policy has been tightened in the last 12 months as rates have risen. It is now policy to instruct independent Receivers when arrears hit 3 months unless there is a credible plan to rectify matters. Because of strong downside protection, we do not expect capital write offs. Any arrears should not impact the protection of capital within the Fund.

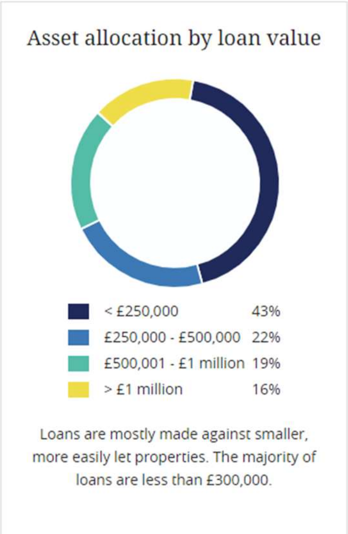
Portfolio

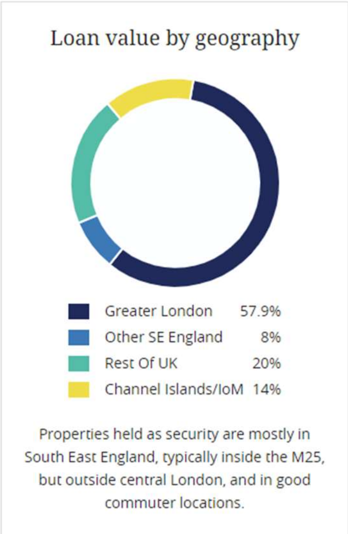
Fund assets are fundamentally protected by the underlying value of UK residential property because each loan is secured with a first legal charge.

The Fund has lent on average only 46% of the value of the underlying property portfolio, with the maximum individual loan exposure at 55% of valuation, across over 630 mortgage loans.

These factors provide very strong protection to investor capital held in the Fund.

The majority of loans are <£500,000, although ~50 loans are over £500,000, representing 35% of the loan book by value; and 11 loans are over £1 million, representing 16% of the loan book.





Credit decisions and borrower characteristics

We continue to put a strong emphasis on specific factors of each and every property on which we are asked to lend. Our Credit Committee consider each loan application on its merits, and analyses factors including property characteristics such as:

- 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
- relative marketability in a property market downturn

The security portfolio remains focused on modern one and two bedroomed apartments, mostly newly completed by one of the major developers.

Borrowers remain largely non-UK, although a good proportion hold a UK passport. They tend to be moderately wealthy individuals who are professionals or business owners, seeking to invest in property in a more politically stable jurisdiction than their residence with a stronger record in property values and legal title.

The Credit Committee focuses on borrower circumstances, including consideration of income, outgoings and net assets. Our typical borrowers have strong income, often from multiple sources and a range of other investment assets. Our conservative strategy has served investors well to date, we believe it will continue to do so.

The UK property market outlook

According to the Halifax House Price Index – December 2023:

- Average house prices rose by +1.1% in December, the third monthly rise after a -0.3% fall in September;
- Property prices dropped by +1.7% overall in 2023);
- Typical UK home now costs £287,105, around £3,000 more than the previous month;
- South East England continues to see most downward pressure on house prices.

We had anticipated 12 months ago that UK property prices would reduce by 10 to 15% over 2023 and 2024. Savills predictions are outlined in the chart below. These predictions combined with what we are seeing in the leading data above suggest that the lower end of this range may have been a little pessimistic.

Savills UK - Residential Property Market Forecast (November 2023)

Savills latest forecast is considerably more positive that 12 months ago, for example, 5 year UK growth forecast to be 17.9% now versus 6.2% in November 2022.

	2024	2025	2026	2027	2028	5 years to 2028
UK	-3.0%	3.5%	5.0%	6.5%	5.0%	17.9%
North East	-1.5%	4.5%	5.5%	7.0%	4.5%	21.4%
Wales	-2.0%	4.5%	5.5%	7.0%	5.0%	21.4%
North West	-2.5%	4.5%	5.5%	7.0%	4.5%	20.2%
Scotland	-2.0%	4.0%	5.5%	6.5%	5.0%	20.2%
Yorkshire and The Humber	-2.5%	4.5%	5.5%	7.0%	4.5%	20.2%
West Midlands	-2.0%	4.0%	5.5%	6.5%	5.0%	20.2%
East Midlands	-2.5%	4.0%	5.5%	6.5%	5.0%	19.6%
South West	-3.0%	3.5%	5.0%	6.5%	5.0%	17.9%
South East	-3.5%	3.0%	4.5%	6.5%	5.5%	16.7%
East of England	-3.5%	3.0%	4.5%	6.5%	5.5%	16.7%
London	-4.0%	2.0%	4.0%	6.0%	5.5%	13.9%

Source: *Savills Research*

Note: These forecasts apply to average prices in the second hand market. New build values may not move at the same rate.

UK private rental prices

Rental prices (and so buy-to-let yields) also continue to increase.

Private rental prices paid by tenants in the UK rose by 6.1% in the 12 months to October 2023, up from 5.7% in the 12 months to September 2023.

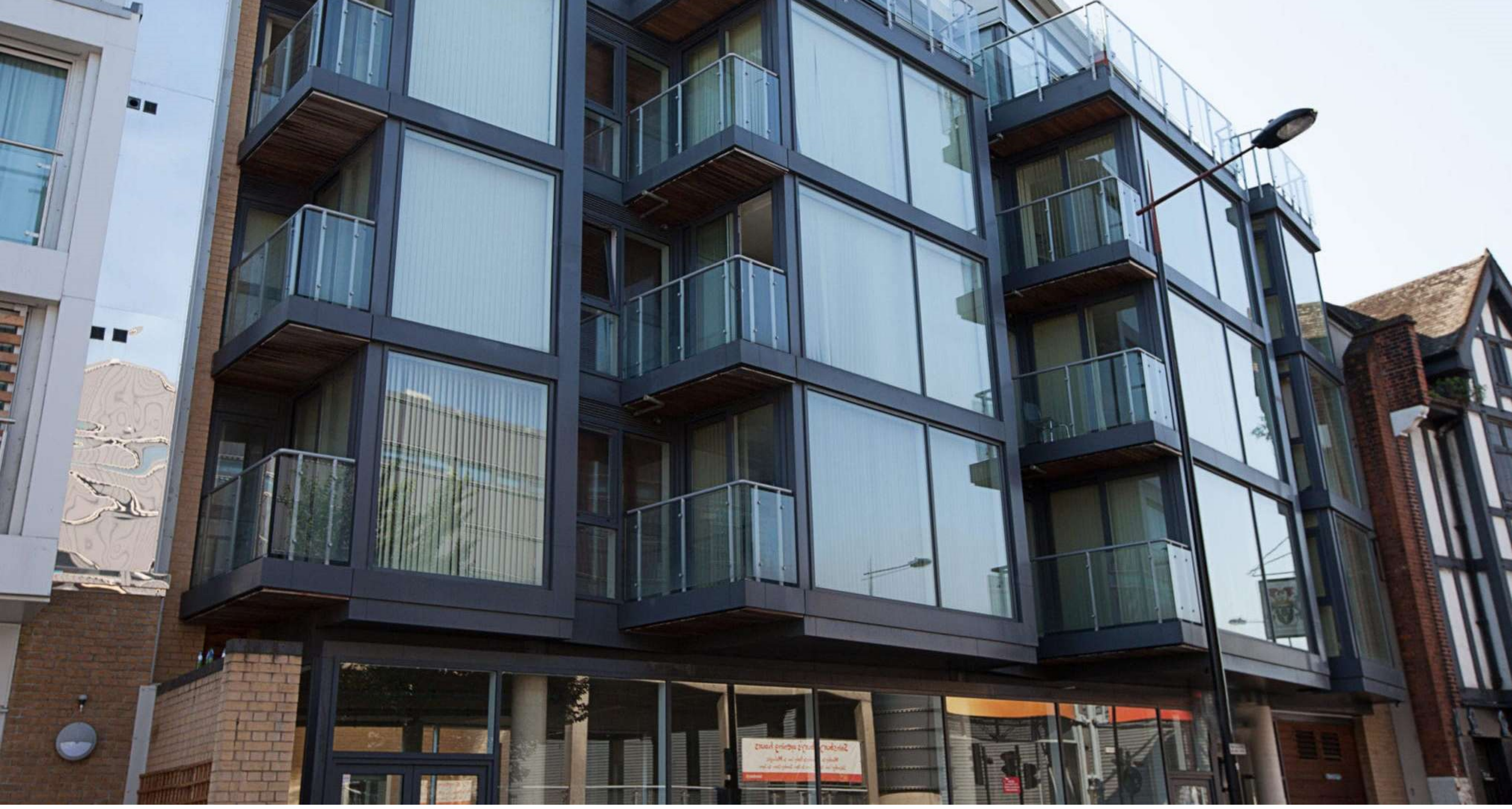
London had the highest annual percentage change in private rental prices in the 12 months to October 2023 at 6.8%. London's annual percentage change in private rental prices was at its highest annual rate since the London data series began in January 2006.

For our borrowers, increasing income makes the private rental market more attractive and Savills latest forecast below from November 2023, predicts continued growth in rental costs for the next 5 years.

	2024	2025	2026	2027	2028	2024-2028
UK	6.0%	3.5%	3.0%	2.5%	2.0%	18.1%
London	5.5%	3.5%	3.0%	2.5%	2.5%	18.2%
UK Income growth (OE)	2.5%	2.7%	3.2%	3.1%	3.4%	15.8%

Source: *Savills Research using Oxford Economics*

Note: *These forecasts apply to average rental values in the second hand market. New build rental values may not move at the same rate.*



Other market commentators, such as Knight Frank, predict a 5% growth in rent prices in 2024, and continued solid demand for UK buy-to-let property from overseas buyers. This is partly driven by the weakness of GBP – it makes UK prices look cheaper than a couple of years ago even before any expected price reductions.

We continue to see demand for lending focused on London and Manchester, the latter providing considerably stronger rental yields. Some demand for borrowing on property in other cities, principally Birmingham, Liverpool, Leeds and Bristol and occasionally other locations.

Reports of lack of supply continue, which may be part of the driver of rental increases over the past year.

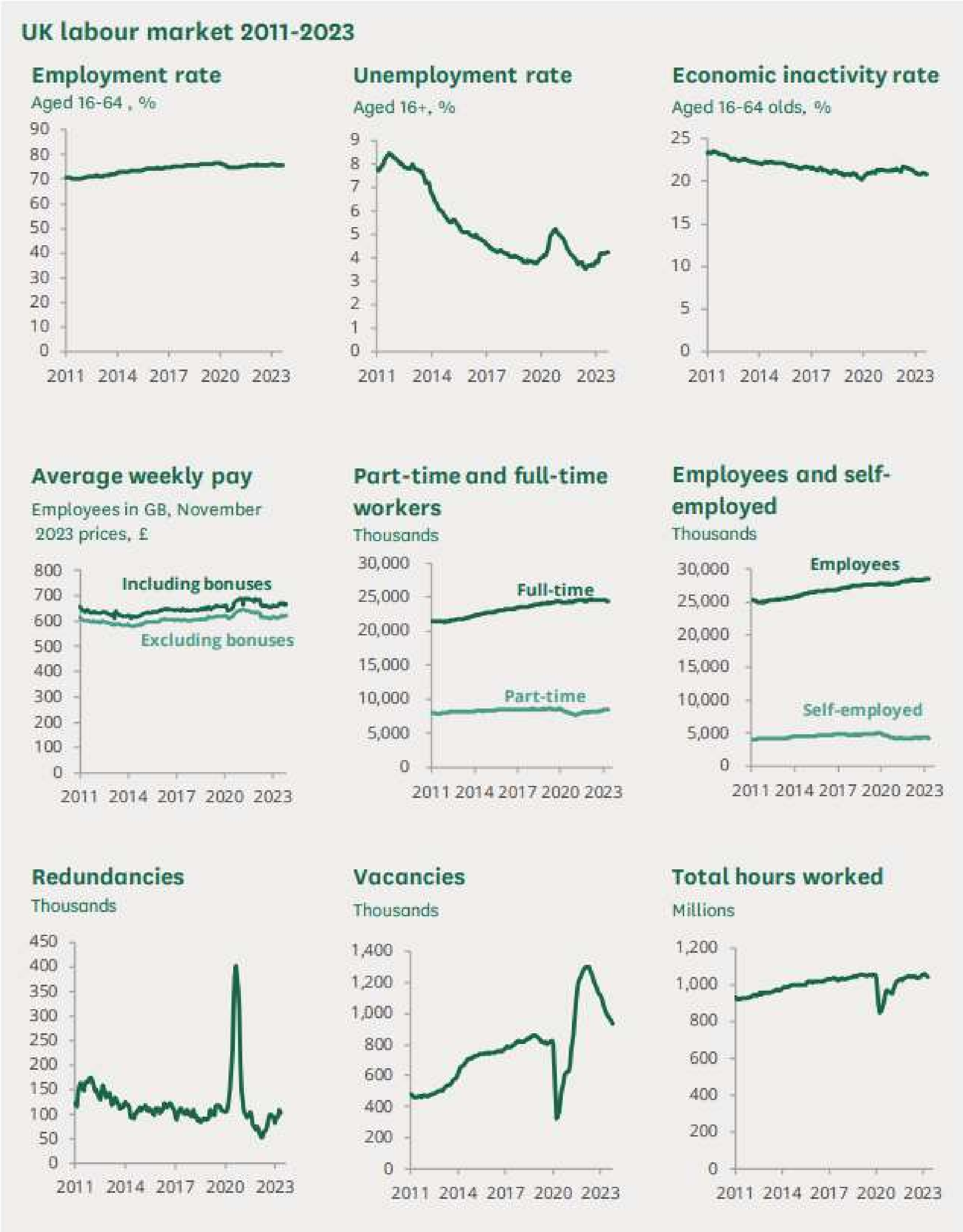
Fundamentals

UK fundamentals for residential property longer term are still strong, with for example:

- Long term demand for residential property is outstripping supply.
- Net annual immigration to June 2023 was 672,000.
- A growing population needs more accommodation.
- Annual housing supply in England amounted to 234,400 net additional dwellings.
- UK Jobless Rate has risen slightly over the last year to 4.2% but is still historically low.
- UK inflation now stands at 4.7% annually (although previous months were higher).
- Growth in average earnings in the whole economy rose by 6.1%.

A population growing faster than the supply of housing in an economic environment with low unemployment and wage rises ahead of inflation is likely to drive both property prices and rental costs up in the medium term. The counter to this now is the higher costs of borrowing.

Broader indicators in the labour market are interesting, notably the reduction in vacancies since interest rates started to rise, although absolute numbers are still above pre-pandemic.



Source: ONS, Labour Force Survey, Tables X10, A01, EARN01, RED01, VACS01 and HOUR01

Scenario Analysis: Major UK property shock

Should there be, despite our analysis, a major shock to property prices in the UK, we believe that investors are still well protected. The Example below works through a **potential** 'Black Swan' scenario.

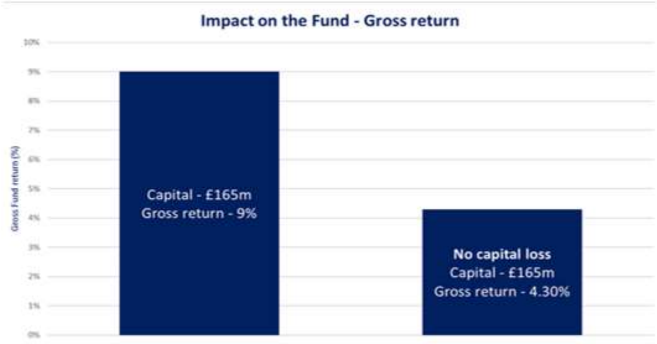
Assumption: **25%** of our loan book is in default and every property has fallen in value by **50%**

We repossess **150 properties** of average value, and each loan is then impaired by 10% = £25,000 av loss (£250k average x 10%)

This results in a c£3.75m impact but the Fund now generates **c£14.5m** gross interest per annum, £3.6m of interest also not received (£14.5m -£3.6m - £3.75m = £7.15m)

Result is still a net positive income of £10m income so **no capital losses**, but returns would reduce a little

Reasons for high capital security:
- Low average loan-to-value ratio
- Contractual interest payments
- Borrowers are heavily invested
- Borrowers have multiple sources of income



No impact to capital values but returns would decrease

Conclusion

After a year of record growth and performance, our strategy for the Fund remains the same. To provide an attractive and consistent level of return to investors with strong capital protection. We expect returns to move broadly in line with any interest rate falls (or rises) the Bank of England might pursue.

We continue to see attractive mortgage lending opportunities to good quality borrowers, secured against high quality residential property, at average loan to property valuations of around 50%.

The growing team is well placed to serve our investors and our borrowers, and we look forward to another strong year.

Tim Parkes
Managing Director
RAW Capital Partners