

# Quarterly Portfolio Update

**5.8 per cent Share Price Total Return during Q3;  
Resilient Performance from Robust Portfolio**

**Annual dividend yield of 5.6 per cent, paid quarterly**



Starwood European Real Estate Finance Limited (“SWEF” or “the Group”), a leading investor originating, executing and managing a diverse portfolio of high quality senior and mezzanine real estate debt in the UK and Europe, is pleased to announce a portfolio update for the quarter ended on 30 September 2021.

## SHARE PRICE / NAV AT 30 SEPTEMBER 2021



## HIGHLIGHTS

- **Income stability** - all loan interest and scheduled amortisation payments paid in full and on time
- **Strong cash generation** - the portfolio as a whole continues to support annual dividend payments of 5.5 pence, paid quarterly, and generates an annual dividend yield of 5.6 per cent on the share price as at 30 September 2021
- **Portfolio robust** - despite pandemic-related disruption, the portfolio continues to perform in line with expectations
- **Borrowers remain adequately capitalised** and are expected to continue to pay loan interest and capital repayments in line with contractual obligations
- On 21 July 2021 the Group announced that it had closed a £13.5 million floating rate whole loan secured by a mixed use hotel and office property in Northern Ireland
- In August 2021 the Group announced that during July 2021 it received the full and final repayment of its €54.2 million loan on a resort hotel in Spain
- **5.8 per cent** – Share price total return during quarter ended 30 September 2021
- **54.9 per cent** – Share price total return since inception in December 2012
- The Investment Manager believes the current investment pipeline is the strongest since the Company was established

**Quote from the Chair, Stephen Smith**

“We are pleased with the Company’s performance during the quarter which remains in line with expectations and is derived from an exceptionally robust portfolio of real estate loans that continue to deliver attractive income for our shareholders. Notably, the outlook for new loans origination remains very strong as the investment manager has seen significant activity across the hospitality and retail sectors and in office spaces as the UK and Europe starts to return to pre-pandemic activity levels. While the Board is encouraged with the progress achieved in narrowing the share price discount to NAV since the Company’s last quarterly update, the Board remains of the opinion that the current discount does not reflect the outstanding risk adjusted income represented by the quality of the portfolio which has not experienced any payment defaults, including since the onset of Covid-19.”

**PORTFOLIO CHANGES DURING THE QUARTER ENDED 30 SEPTEMBER 2021**

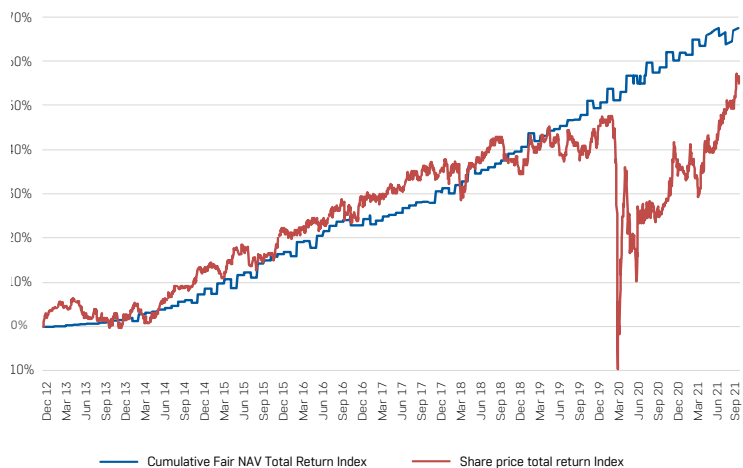
In July 2021 the Group announced that it had closed a £13.5 million floating rate whole loan secured by a mixed use hotel and office property. The financing has been provided in the form of an acquisition loan. The loan term is 3 years, and the Group expects to earn an attractive risk-adjusted return in line with its stated investment strategy.

In August 2021 the Group announced that during July 2021 it received the full and final repayment of its €54.2 million loan on a resort hotel in Spain.

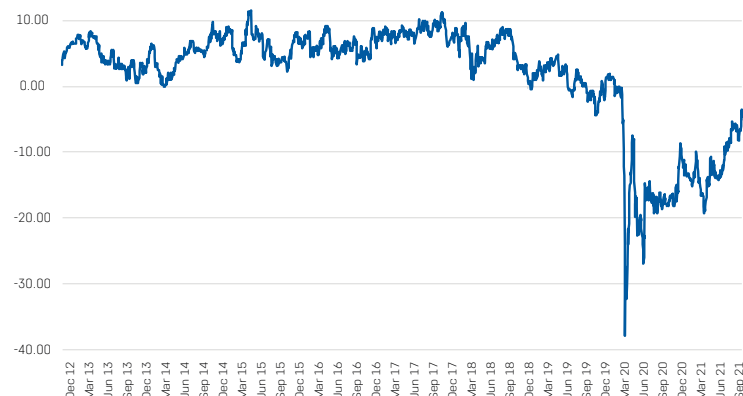
**DIVIDEND**

On 22 October 2021, the Directors declared a dividend in respect of the third quarter of 1.375 pence per Ordinary Share, equating to an annualised 5.5 pence per annum. The Board is targeting a dividend of 5.5 pence per annum (payable quarterly) which it considers to be a sustainable level of dividend. As a result of the early repayment of the Company’s large position in the Hotel, Spain it is anticipated that current year earnings will not fully cover the target dividend (the per cent shortfall is forecast to be in single digits) but the Group has a modest dividend reserve for this purpose which will be utilised to ensure that the target dividend is met. Given the extremely attractive environment for the Group’s investment strategy it is anticipated that the dividend will swiftly return to full coverage from earnings during the course of 2022 with any excess cash generated being used to replenish dividend reserves.

**SHARE PRICE AND CUM-FAIR NAV TOTAL RETURN**



**PREMIUM / DISCOUNT CUM-FAIR**



## KEY PORTFOLIO STATISTICS AT 30 SEPTEMBER 2021

Number of investments	<b>18</b>
Percentage of currently invested portfolio in floating rate loans	<b>76.7%</b>
Invested Loan Portfolio unlevered annualised total return <sup>(1)</sup>	<b>6.7%</b>
Portfolio levered annualised total return <sup>(2)</sup>	<b>6.7%</b>
Weighted average portfolio LTV – to Group first £ <sup>(3)</sup>	<b>18.7%</b>
Weighted average portfolio LTV – to Group last £ <sup>(3)</sup>	<b>64.2%</b>
Average loan term (based on current contractual maturity)	<b>4.6 years</b>
Average remaining loan term	<b>2.0 years</b>
Net Asset Value	<b>£423.4m</b>
Amount drawn under Revolving Credit Facilities (including accrued interest)	<b>£0.0m</b>
Loans advanced (including accrued interest)	<b>£393.5m</b>
Cash	<b>£20.2m</b>
Other net assets (including hedges)	<b>£9.7m</b>

Remaining years to contractual maturity*	Value of loans (£m)	% of invested portfolio
0 to 1 years	<b>112.0</b>	<b>28.7</b>
1 to 2 years	<b>88.5</b>	<b>22.6</b>
2 to 3 years	<b>42.9</b>	<b>11.0</b>
3 to 5 years	<b>147.5</b>	<b>37.7</b>

\*excludes any permitted extensions. Note that borrowers may elect to repay loans before contractual maturity.

## PORTFOLIO UPDATE

All loan interest and scheduled amortisation payments up to the date of this factsheet have been paid in full and on time in line with expectations. The pandemic impacted sectors such as hospitality and retail assets are now back open and trading, with positive initial recovery indicators in relation to average rate on hotel bookings and retail footfall. Additionally, office pre-leasing activity for portfolio assets under construction or heavy refurbishment is also showing positive indicators. The Group is monitoring supply chain dynamics in relation to building supplies and inflationary pressures particularly in relation to utilities, food and staff costs. We note that all loan positions remain well capitalised and typically sponsor's underwritten business models include hedging of key contracts such as gas, electricity and food, which are therefore expected to reduce the impact of the current price trends on margins.

### Key updates in relation to pandemic impacted sectors are outlined below:

#### Hospitality (35 per cent of funded investment portfolio)

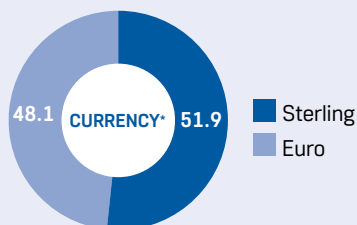
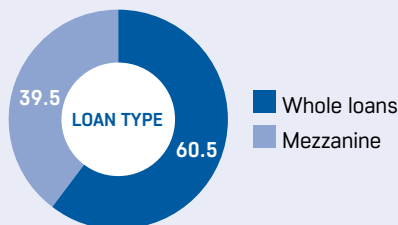
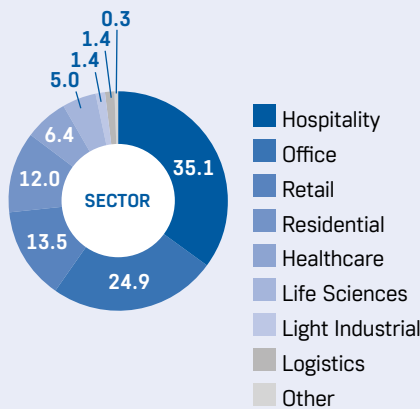
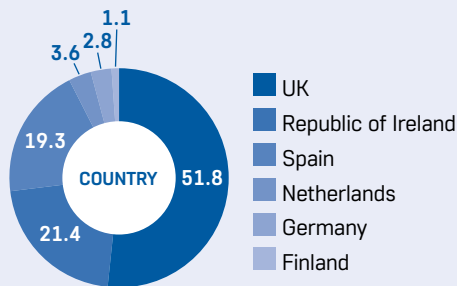
- As announced in August 2021, the Group's exposure to hospitality reduced to 35.1 per cent of the investment portfolio as a result of the repayment of the largest hotel exposure, the "Hotel, Spain". This followed the very successful execution of the sponsor's business plan of refurbishing the hotel to a high standard and then refinancing the Group's capex loan.
- Of the remaining hospitality exposure, 69 per cent is located in the UK, with the majority of this comprising three hotels (Hotel Oxford, Hotel Scotland and Hotel North Berwick). These assets have been undergoing comprehensive refurbishment projects, with all three hotels now open and trading under new brands. In line with the Group's underwritten expectations, the average room rates being achieved for the repositioned hotels is significantly higher than the pre-refurbished product and all three hotels are expected to trade very well in the future given the high quality of the new product and strong domestic demand for leisure breaks.
- The Hotel Dublin comprises the majority of the remaining hospitality exposure accounting for 31 per cent. This asset is planning to re-open fully during Q1 2022 following the expected conclusion of a very successful contract in place throughout the pandemic with the Irish health service. The position remains well capitalised and is expected to benefit from pent up demand for conference, events and leisure breaks once re-opened.

<sup>(1)</sup> The unlevered annualised total return is calculated on amounts outstanding at the reporting date, excluding undrawn commitments, and assuming all drawn loans are outstanding for the full contractual term. 15 of the loans are floating rate (partially or in whole and all with floors) and returns are based on an assumed profile for future interbank rates but the actual rate received may be higher or lower. Calculated only on amounts funded at the reporting date and excluding committed amounts (but including commitment fees) and excluding cash uninvested. The calculation also excludes the origination fee payable to the Investment Manager.

<sup>(2)</sup> The levered annualised total return is calculated as per the unlevered return but takes into account the amount of net leverage in the Group and the cost of that leverage at current LIBOR/EURIBOR.

<sup>(3)</sup> LTV to Group last £ means the percentage which the total loan drawn less any deductible lender controlled cash reserves and less any amortisation received to date (when aggregated with any other indebtedness ranking alongside and/or senior to it) bears to the market value determined by the last formal lender valuation received by the reporting date. LTV to first Group £ means the starting point of the loan to value range of the loans drawn (when aggregated with any other indebtedness ranking senior to it). For development projects the calculation includes the total facility available and is calculated against the assumed market value on completion of the relevant project.

**% of invested assets**



\*the currency split refers to the underlying loan currency, however the capital on all non-sterling exposure is hedged back to sterling.

**Retail (14 per cent of funded investment portfolio)**

- The Group's exposure to retail is predominantly comprised of the "Three Shopping Centres, Spain" and "Shopping Centre, Spain" loans. These are the only stand-alone retail loans in the portfolio and comprise 12 per cent of the Group's total funded investment portfolio and 87 per cent of total retail exposure. All other retail exposure is contained in a limited number of mixed use portfolios.
- As previously reported, with restrictions being eased over the second and third quarters of 2021 in Europe, along with high vaccination rates, retail footfall traffic has continued to recover to over 70 per cent of the comparable period in 2019. This is expected to continue to increase over the coming months particularly once cinemas recover further. Cinemas have suffered to a greater extent with a slower recovery than other retail outlets, however autumn 2021 new blockbuster releases are expected to drive greater footfalls.
- The sponsor continues active asset management of the centres, with occupancy remaining robust and the positions adequately capitalised.

**Construction & heavy refurbishment (18 per cent of funded investment portfolio)**

- The Group's construction and heavy refurbishment exposure has reduced down to 18 per cent from 25 per cent following the completion of the Hotel Scotland heavy refurbishment project in the third quarter of 2021. Over 90 per cent of the Group's construction and heavy refurbishment funded loans are located in the UK. Despite supply chain headwinds, all projects are progressing satisfactorily and no unfunded cost overruns have occurred. Ground up construction and heavy refurbishment projects underwritten by the Group typically have fixed price design and build construction contracts in place with established contracting firms who have managed their supply chain and sub-contractors well.

**MARKET COMMENTARY AND OUTLOOK**

Stock markets have moved mostly sideways over the last quarter but have been increasingly concerned around the risk of persistent inflation. As economies have opened up and the world moves back towards a normal level of activity we can see inflation everywhere in our everyday lives. There is clear inflation when eating and drinking out, buying groceries, paying utility bills and filling up at the petrol pump. Commodities, global shipping costs and some labour costs are increasing at rates significantly higher than the headline inflation rates. The general market opinion had been that this inflation is a short term effect connected to the rapid changes from reopening economies and is likely to normalise as a new equilibrium is reached. However the trend has been continuing, the reported inflation numbers keep on rising and the markets have become jittery on concerns as to whether inflation will continue at elevated levels for the longer term. The FTSE All-Share and the iShares UK Property ETF have moved by 1.10 per cent and 4.28 per cent over the quarter respectively. This in line with the markets generally exhibiting some volatility but not much over all movement over the quarter. In addition to these choppy market conditions we have now begun to see some impact with meaningful moves in the UK ten year Gilt and US ten year treasury which are now yielding 1.02 per cent and 1.49 per cent at the end of September 2021 versus 0.58 per cent and 1.28 per cent at the end of August 2021 respectively. So far this has not made a material impact on 3 month Euribor or Sterling Libor which are relatively steady at their historical low levels (as at the end of September 2021) of negative 0.55 per cent and positive 0.082 per cent respectively. If inflationary pressures do drive central banks to take action to increase base rates and Libor and Euribor rates follow, then the portfolio will benefit as 76.7 per cent of the portfolio has floating interest rates. In the case of Sterling loans the impact will be immediate, for Euro loans which have floors at zero, Euribor would have to exceed zero for the benefit to start.

## INVESTMENT RESTRICTIONS AND GUIDELINES

### LOCATION

UK & wider European Union's internal market. No more than 50% in any country except the UK where it is unlimited (subject to sector limits below).

### LOAN TERM

Between 3 and 7 years but discretion retained. At least 75% of loans 7 years or less.

### LOAN TYPE

Senior, subordinated and mezzanine loans, bridge loans, selected loan on loan financing and other debt instruments.

### LTV

Absolute maximum of 85% with a blended portfolio LTV of no more than 75%.

### REAL ESTATE SECTOR & PROPERTY TYPE

Commercial real estate. No more than 30% of NAV in residential for sale. No more than 50% of NAV in any single sector in the UK except office which is limited to 75%.

### COUNTERPARTY & PROPERTY DIVERSIFICATION

No more than 20% of NAV exposed to one borrower legal entity and no single investment exceeding 20% of NAV at time of investment.

As the world continues progress back to more conventional work patterns we are also seeing the early signs of business travel picking up. The Investment Advisor's teams have already been travelling extensively for international investment and lending opportunities but over the last few weeks they have seen other firms and banks doing more travel as well. The Advisor has also started to see non-essential travel picking up with relationship managers on trips for client meetings to re-kindle connections and relationships and to try to develop new ones. In the last week of September we saw a huge increase in bankers traveling from the United States. Networking drinks and dinners are back and last week there was an invite for one for every night including three separate events on the Monday. The Americans we met all noticed how far ahead London was in returning to normal compared to US cities. We can see from our offices that the West End of London is buzzing with activity. Pubs and restaurants are full, the streets are busy and at lunchtime there are regular queues at sandwich shops. The Bloomberg Pret Index backs our experience up with data from Pret sales. The index reports the West End is now right back where it was pre-pandemic. Consistent with the anecdotes from the Americans, Bloomberg comment that compared with New York, London's bankers have been much faster to return to trading floors in the City of London and Canary Wharf financial districts with these areas at 80 per cent of pre-pandemic sales versus 50 per cent for Wall Street.

In the office transaction market the most recent London office investment volume statistics from CBRE are already available for the third quarter. The third quarter figures brought year-to-date investment to £6.4 billion which is a 95 per cent increase on the same period last year, when only £3.3 billion of investment was recorded. Core transactions dominated the London investment market, accounting for 60 per cent of total volumes. It is particularly notable that Asian investment, which usually comprises a significant portion of London investment volume only accounted for 15 per cent of year-to-date investment volumes as many Asian investors are unable to travel and that when those Asian investors return and can freely deploy capital, we are likely to see increased competition and volume. Buyers are focused on the best buildings with superior ESG credentials which will be essential for buildings to appeal to investors, tenants and lenders. New ESG regulations will also require significant investment over the coming years. Colliers report one tenth of London offices could become unusable in two years unless landlords invest heavily to bring them up to new environmental standards. They estimate 20 million square feet of London workspace falls short of minimum energy efficiency standards that will be introduced in England and Wales in 2023. Under the new standards it will be an offence to lease an office with an energy performance certificate rated lower than E. In addition Colliers report that almost two-thirds of London's stock is rated D to G and that the government is consulting on legislation that will mean only A or B rated commercial buildings can be leased by 2030.

In addition to most market participants being firmly back in the office, we are beginning to see conference activity pick up in our industry. This October a small group from the Starwood team will be in Munich for Expo Real, the largest real estate industry event in Europe. In 2019 prior to COVID Expo Real drew 46,747 participants from 76 countries. We expect there to be far smaller numbers this year and with many restrictions still in place. However, the ability to see many contacts that the Investment Advisor has not met in person for almost two years and from many countries in one place will be incredibly valuable.

The steady recovery of the hotel operational markets continues. The Group's largest exposure to hotels is in regional UK markets where occupancy has continued to trend stronger since domestic restrictions lifted in May, with many tourists choosing to travel domestically whilst restrictions remained in place on international travel, particularly in Europe. For UK and Europe as a whole, while occupancies still need to catch up, the average rate paid per room per night across the industry as a whole achieved in August 2021 has now recovered to pre-pandemic levels.

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**Notes:**

Starwood European Real Estate Finance Limited is an investment company listed on the premium segment of the main market of the London Stock Exchange with an investment objective to provide Shareholders with regular dividends and an attractive total return while limiting downside risk, through the origination, execution, acquisition and servicing of a diversified portfolio of real estate debt investments in the UK and the wider European Union's internal market.

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On the hotel transactions side, we mentioned in previous factsheets that we expected numerous hotel transactions to come through later in the year. Since this time last year Starwood's own equity funds in Europe have acquired or committed to four new hotel purchases in the UK, Spain and Denmark including two in the third quarter of 2021. In the US at the beginning of the summer funds managed by Starwood and Blackstone completed the acquisition of Extended Stay America in a transaction valued at approximately \$6 billion. We had previously commented that markets tended to open first with smaller single asset transactions and then migrate to larger transactions and portfolios as markets settled. We are now seeing that trend in the market with larger portfolios transacting which boost the overall transaction volume. One example this month in the UK is Henderson Park have acquired a portfolio of twelve Hilton hotels with more than 2,400 rooms in a transaction reported to be worth £555 million. We are aware of a number of similar sized transactions in the market now that will likely close late 2021 or early in 2022. The investment market is very healthy and liquid for hotel assets across Europe.

Looking forward to the fourth quarter and beyond we anticipate a strong level of transactional activity to continue. The strength and potential of "beds, meds and sheds" have been strong themes and we continue to see interesting value add lending opportunities in these sectors and others for the Company.

**EXPECTED CREDIT LOSSES**

All loans within the portfolio are classified and measured at amortised cost less impairment. The Group closely monitors the loans in the portfolio for deterioration in credit risk. There are some loans for which credit risk has increased since initial recognition. However, we have considered a number of scenarios and do not currently expect to realise a loss in the event of a default. Therefore no credit losses have been recognised.

This assessment has been made, despite the continued pressure on the hospitality and retail markets from Covid-19, on the basis of information in our possession at the date of reporting, our assessment of the risks of each loan and certain estimates and judgements around future performance of the assets. The position on any potential ECLs on the Spanish retail assets in particular continues to be closely monitored and analysed, and we have sought input, analysis and commentary from Spanish market advisers in this regard, to supplement our own information. We have received independent, external valuations of the underlying assets secured against the Spanish loans during the current year. This information did not change our analysis on the Spanish loans and we note that valuation headroom remains on these loans. The updated valuations are reflected in the sector and portfolio LTV tables presented in this factsheet.

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**INVESTMENT PORTFOLIO AT 30 SEPTEMBER 2021**

As at 30 September 2021, the Group had 18 investments and commitments of £419.1 million as follows:

	Sterling equivalent balance <sup>(1)</sup>	Sterling equivalent unfunded commitment <sup>(1)</sup>	Sterling Total (Drawn and Unfunded)
Hospitals, UK	£25.0 m	–	£25.0 m
Hotel & Residential, UK	£49.9 m	–	£49.9 m
Office, Scotland	£5.0 m	–	£5.0 m
Office, London	£13.7 m	£6.8 m	£20.5 m
Hotel, Oxford	£20.1 m	£2.9 m	£23.0 m
Hotel, Scotland	£41.4 m	£1.2 m	£42.6 m
Hotel, Berwick	£14.1 m	£0.9 m	£15.0 m
Life Science, UK	£19.5 m	£7.1 m	£26.6 m
Hotel and Office, Northern Ireland	£13.5 m	–	£13.5 m
Logistics Portfolio, UK <sup>(2)</sup>	£0.6 m	–	£0.6 m
<b>Total Sterling Loans</b>	<b>£202.8 m</b>	<b>£18.9 m</b>	<b>£221.7 m</b>
Three Shopping Centres, Spain	£31.0 m	–	£31.0 m
Shopping Centre, Spain	£14.7 m	–	£14.7 m
Hotel, Dublin	£51.8 m	–	£51.8 m
Office, Madrid, Spain	£16.0 m	£0.9 m	£16.9 m
Mixed Portfolio, Europe	£24.1 m	–	£24.1 m
Mixed Use, Dublin	£4.6 m	£8.2 m	£12.8 m
Office Portfolio, Spain	£13.4 m	£0.2 m	£13.6 m
Office Portfolio, Ireland	£27.4 m	–	£27.4 m
Logistics Portfolio, Germany <sup>(2)</sup>	£5.1 m	–	£5.1 m
<b>Total Euro Loans</b>	<b>£188.1 m</b>	<b>£9.3 m</b>	<b>£197.4 m</b>
<b>Total Portfolio</b>	<b>£390.9 m</b>	<b>£28.2 m</b>	<b>£419.1 m</b>

<sup>(1)</sup> Euro balances translated to sterling at period end exchange rate.

<sup>(2)</sup> Logistics Portfolio, UK and Logistics Portfolio, Germany is one single loan agreement with sterling and Euro tranches.

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**LOAN TO VALUE**

On the basis of the methodology and valuation processes previously disclosed (see 30 June 2020 factsheet) and including new valuations received, at 30 September 2021 the Group has an average last £ LTV of 64.2 per cent (30 June 2021: 63.5 per cent).

The table below shows the sensitivity of the loan to value calculation for movements in the underlying property valuation and demonstrates that the Group has considerable headroom within the currently reported last LTVs.

Change in Valuation	Hospitality	Retail	Residential	Other	Total
-25%	84.2%	100.5%	79.5%	79.3%	84.1%
-20%	78.9%	94.2%	74.6%	78.3%	80.2%
-15%	74.3%	88.6%	70.2%	73.7%	75.5%
-10%	70.1%	83.7%	66.3%	69.6%	71.3%
-5%	66.4%	79.3%	62.8%	65.9%	67.6%
0%	63.1%	75.3%	59.7%	62.6%	64.2%
5%	60.1%	71.8%	56.8%	59.7%	61.1%
10%	57.4%	68.5%	54.2%	57.0%	58.3%
15%	54.9%	65.5%	51.9%	54.5%	55.8%

**SHARE PRICE PERFORMANCE**

During the third quarter of 2021, the Company's shares performed well, returning 5.8 per cent on a total return basis with the share price trading between 92.8 pence and 99.4 pence and ending the quarter at 98.0 pence. As at 30 September 2021, the discount to NAV stood at 5.4% per cent, with an average discount to NAV of 7.0% per cent over the quarter, a significant improvement from the discount to NAV of 12.1% per cent on average in the previous quarter. The Board, the Investment Manager and Adviser continue to believe that the shares represent attractive value at this level.

Note: the 30 September 2021 discount to NAV is based off the current 30 September NAV as reported in this factsheet. All average discounts to NAV are calculated as the latest cum-dividend NAV available in the market on a given day, adjusted for any dividend payments from the ex-dividend date onwards



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