James Robson:

Good afternoon and welcome to the RM Secured Direct Lending Interim results & portfolio update call.

I am James Robson the Chief Investment Officer at RM funds and we have on the line Pietro Nicholls the portfolio co-manager. This is the second portfolio update call for 2020 and is really a follow on from the speedily arranged call that we organised at the start of lockdown towards the peak of the market sell off during March.

Turning to today's update, I will give an overview on the dividend, the NAV performance and the share price over H12020 before Pietro goes into further detail on the portfolio. For the portfolio discussion I would ask investors to have page 5 of the factsheet released today to hand as he will be going through the top ten of the investments listed on this page and it will be easier to follow. For this call we have asked for any shareholder questions to be emailed over in advance if possible, however we will also be taking investors questions at the end of this call. Should you wish to pick up directly with RM Funds or the Company brokers after this call we would welcome any further one on one discussions.

Please note an important disclaimer for this call, you will hear a number of forward-looking statements which are based on the Investment Managers assumptions, estimates, outlook, and other judgments made in light of information available at the time of preparation and involve both known and unknown risks and uncertainties.

Accordingly, comments, objectives, and other statements may not be realized as described, and actual financial results, success/failure or progress of development, and other projections may differ materially from those presented herein.

The RMDL Investment Strategy targets stable income returns distributed as dividends generated from a portfolio of secured corporate loans. The focus is lending to well established businesses with excellent management teams and strong sponsors who requiring bespoke funding packages. Such investments offer our investors income returns which are superior to traditional high yield or corporate bonds. All of the Loans are originated and are subject to stringent due diligence by the team at RM Funds.

The confidence we have in the portfolio is a reflection of the initial credit work and diligence undertaken for each loan which focused on documentation and security, the focused lending criteria adopted by RM Funds, coupled with the government policy measures which have been very welcome in supporting some of the companies which sit within this loan portfolio.

In addition, RM Funds has demonstrated that we are happy to step in a protect value and our shareholders' interests, as evidenced by the support given to the buyout of Energie Fitness in the first half.

With an actively managed portfolio and limited duration risk, supported by tangible security packages RMDL offers an extremely attractive fixed income proxy in a post-Covid world where central banks are compressing yields and stable income returns are getting increasingly hard to find.

Dividend

First the dividend. It is pleasing that the Company has been able to generate sufficient income to continue to pay a covered dividend at our 6.5 pence per share target level. Given the significant reduction in traditionally high dividend paying stocks over the period as a result of Covid-19 we recognise now more than ever for our investors the importance of maintaining our dividend

RMDL's distribution in first two quarters of the year has been 1.625 pence per share each, which on a run rate basis meets the annual 6.5 pence per share target.

As we've outlined in our monthly factsheets, this income over the first six months of the calendar year was a mixture of 80% paid in cash and the remainder in Pay in Kind (or PIK) - with PIK income arising from five of 34 borrowers.

Since inception, cash management has been one of the key reasons we have stated for having a percentage of more broadly syndicated facilities within the portfolio with some liquidty meaning that the Investment Manager has been able, and expects to continue to meet, the cash distribution commitments.

NAV

Moving onto the NAV return we can see year to date NAV total percentage return has been -2.4%. This can be viewed as ahead the MarkIT iBOX EUR liquid HY index return of –2.60% and slightly behind the S&P European Leveraged Loan Index of -2.1% for the same period.

The NAV has been recovering modestly on a month by month basis since the initial sharp fall in March and this we expect to continue. We will discuss below how there are considerable returns to be made from existing holdings repaying at par as we envisage. In addition, we will go on to discuss some specific catalysts for valuation improvements, which we are expecting to feed through later in the year.

Both Pietro and I have always said when it comes to listed debt, one of the first questions investors should ask is: "what is your accounting policy and do you use an external valuation agent?"

As a reminder, the valuation agent for RMDL is Mazars and the Company marks the portfolio to market monthly following IFRS 13. This means in practice the valuation agent takes the bid price from external pricing sources for those securities with discernible pricing and uses a discounted cash flow model for those securities which are completely illiquid. In discussions with investors, we at RM Funds have always stated that this is preferable to IFRS9 for a listed debt vehicle of this nature, and we maintain this view.

As at the half year, should all the loans repay at par as envisaged the uplift from current valuations would be £11.75m. In our view, there is considerable upside from the current NAV levels.

We can look at specific examples of our portfolio investments such as Zellis, which was valued at 59.75% of par at the end of August yielding 20% Yield to Maturity, or Valeo Foods at 85% of par offering a Yield to Maturity of 12.5%. In our view, both of these valuations – which come from external pricing sources – are not representative of the underlying business, or security we have over these businesses. In our view, other Loans such as our exposure to automotive parts manufacturing and a hotel under development have been typical of a very conservative approach to valuing these assets on the companies' balance sheets. We think this is a sensible approach and one which enables investors to have confidence in the published NAV of the company.

Share price performance

Finally, I would like to discuss the share price. The H1 share price total return was -19.5%, with a large discount opening up to the NAV.

While this is naturally disappointing, some of the reasons for this share price move are beyond our control and can be attributed back to sector events and sentiment even beyond the start of the pandemic.

However, there are other areas where we can be proactive in reducing this share price discount .

The first and most important area is providing confidence by maintaining our considerable track record with continued good trading performance and strict underwriting criteria in order to continue to originate high quality loans. Secondly over the last few months, the Board have been managing a buy-back process and have judiciously deployed a limited amount of capital in order to conduct these buy-backs, which were immediately accretive to NAV.

In addition we recognise that investor transparency is also a key component and the Board and RM Funds always are open to dialogue with shareholders – there is a full list of portfolio of investments, their marks and credit metric and the availability of the manager should they wish to conduct their own additional due diligence.

Finally, I would like to reiterate that RMDL's balance sheet remains strong with full availability of the £10m revolving credit facility at Oak North Bank, and cash on the balance sheet with no unfunded commitments.

I will now turn over to Pietro, to provide an update on the Portfolio.

Pietro Nicholls:

Thank you James. I am pleased to be able to give investors an update on the portfolio.

Since mid-March the team at RM Funds have been working remotely with limited operational impact from an investment management perspective. The Investment team's focus has been predominantly on the monitoring and control of existing investments within the Investment Trust.

From a very high level, we believe the portfolio is in a better place than we expected when we initially went into the lockdown phase – this is due a number of factors including a) the strict initial underwriting and loan selection process but also b) the various forms of government support such as the ability for firms to furlough staff.

This support was critical for many businesses that were effectively mandated to shut by the Government over this period.

Like many other credit investors, RMDL's portfolio was impacted by the lockdown as asset intensive sectors such as hotels, student accommodation, child care and forecourt operators saw demand evaporate overnight.

As we outlined in the March call, a large number of our loans contain some form of structural protection for a "rainy day". This is exactly why we have such reserves in place, for unforeseen circumstances.

James mentioned there have been five loans that had PIK'd over the period – for these loans their risks have clearly increased (due to COVID) and by virtue of the fact that they are having to use this payment mechanism.

As a consequence under the Investment Trust's external valuation process, the principal amounts have been written down by more than the PIK element over the period. We think this is a conservative and sensible approach and one that offers NAV upside as the investments trade through this period.

In line with our commitment to provide transparency over the trusts investments there is a granular breakdown of the loan book which can be seen on page 5 of the monthly factsheet released this morning.

Wherever possible we have given the borrower names – however some of the project finance loans are to Special purpose entities so we have anonymised these.

I will now discuss the top 10 investments which represent circa £70 million of nominal value which accounts for circa 55% of the portfolio.

We focus on two metrics to analyse the leverage and liquidity. The key metrics are Loan to Value and the Interest cover, and these metrics are derived from recent reporting where available.

<u>#1 Asset Finance</u> (£10.1m nominal)

This is our largest individual loan. The loan is secured over a diverse pool of real assets. There are approximately 2,600 asset finance agreements in place with lessees within the portfolio, split over a number of industry sectors.

The collateral is predominantly plant and equipment. There are a number of covenants which restrict loan concentrations within the portfolio, including ESG covenants

Quarterly, there is an external third-party audit of the portfolio for the benefit of the Investment Trust.

This facility has an Interest Cover covenant of 1.5x. Current portfolio income is in excess of this covenant – the covenants protect the lender and assist with the deleveraging of the business should revenues reduce. There is considerable borrower equity in the vehicle and furthermore, the additional lessees' equity paid at inception as a deposit for each of the equipment items funded.

Embedded Value (receivables vs. associated liabilities) is in excess of £5.5m.

Initial commentary from the borrower's management team regarding the Covid-19 impact is that they expected Q2 2020 to become more challenging as the country was heading for lockdown. However, data is now showing a far less adverse impact than originally expected and all covenants are being met. The sponsor entered this disruption phase from a position of strength given the performance of the portfolio and their strong credit and underwriting process. The sponsor remains committed to supporting the business.

The Loan to Value is 71%.

<u>Loans 2 & 3 UK Hotels (£16.8m nominal)</u>

As a recap, the sponsor is one of the largest private owners of Hilton branded hotels in the UK. The five branded and operational hotels are split across two SPVs.

The brands also cover Crowne Plaza, Radisson, Premier Inn and Travelodge across five geographically disbursed regions within the UK. The assets are operated under full repair and insure or have revenue sharing agreements.

As a credit enhancement, whilst both Loans are legally separate, they both cross guarantee each other so from a credit perspective we review them as one. Both portfolios of hotels have a stabilised LTV of c.80%.

RMDL agreed to waive the Interest Cover covenant until December 2020 given the reduction in revenue during the lockdown period.

The borrower is servicing the interest from cash equity injections where required, and has committed to continue to do so whilst revenues are insufficient to cover debt interest servicing. The borrower is still forecasting Interest Cover in excess of 1.0x for the period.

In terms of trading, all the hotels are now back up and running and the anecdotal feedback has been positive. A trading update is due at the end of Q3 from the hotel operators.

All rental payments are up to date and received.

The Loan to value is 80% and Interest cover is 1.37x

<u>4.Auto Parts Manufacturing – Beinbauer (7.7m euros nominal)</u>

Beinbauer was acquired by HIG Capital in 2017 and is a manufacturer and supplier of high-precision cast parts, forgings and anti-roll bars primarily to the commercial truck industry in Germany and other Western European countries.

The business secured a German government-backed facility as a safety net from KFW, the German state owned development bank which has remained undrawn.

Overall, the business has been managed well through the pandemic, with virtually all sites running and at close to full capacity for the last month. Short-term labour and cost reduction incentives have aided in cash flow management throughout the key periods affected.

The Sponsor has shown continued support and has a clear and achievable recovery plan for the business post-pandemic. The company re-forecasted their top-line, EBITDA and cash flow projections in light of the pandemic in Q1 2020, and have exceeded their expectations thanks to their effective costs management.

The Loan to Value is 75%.

<u>5. Gym Franchisor</u> - <u>Energie Fitness (£7.6m nominal)</u>

As previously announced, RMDL supported a management buy-out of the Energie Fitness loan which ultimately led to the existing £7m loan staying in place, including a new mezzanine & equity capital in excess of £1m from external investors being injected alongside a commitment of £500k from RMDL (note this was funded via calling on the previous sponsor guarantee).

RMDL now own a net 28% of this business and is working with the management to execute on a plan to restore trading to pre-Covid levels which would offer material upside to the Company.

RM Funds has every confidence in the management team, led by the original founder Jan Spaticchia to deliver the business plan.

It is early days but indications are that re-opening gym membership is ahead of expectations (with over 100,000 members), further franchise sales pipeline looks promising and growth within the international market offers a strong business opportunity.

The valuation of this Loan is at 90% of par value, which is appropriate given the uncertain outlook for any further lockdowns.

The Loan to Value is 81%.

6. Zellis - HR & Payroll Services (£7m nominal)

Zellis provides payroll and human resources services to a number of business ranging in size. Zellis processes 60 million payslips a year and processes 830,000 payments per month. The attraction of this business is the recurring nature if its revenue streams, a strong sponsor In the form of Bain Capital and a significant equity amount invested by Bain Capital when they purchased the business in late 2017. The Loan is senior secured.

In April, the company released quarterly results to January and outlined how the risks associated with COVID-19 would be managed. This was well received by RM Funds and the company is due to report results for the full year to April 2020 within the next month.

The business has historically performed to a satisfactory standard and yet in our view due to its illiquidity and the long period since the last reporting, it has been penalised by the market valuations.

As previously highlighted by James, this Loan is a good example along with Valeo, Elysium and Voyage Care of the conservative marks currently being received for these investments currently from our external pricing provider MARKIT

The Loan to Value is 78%.

7. Social infrastructure – Student Accommodation (£6.1m nominal)

This purpose-built student accommodation occupying a prime location in Coventry's city center, close to Coventry University was completed on budget in February 2020.

The borrower is appointing an agent to sell the asset in order to allow the repayment of the facility which matures in early October 2020. RMDL will be supportive throughout this process as we recognise the disruption caused by Covid-19 to the borrower's refinancing/exit strategy.

In addition to this, as a backup, the Borrower is also in the process of securing a temporary planning extension to partly run the asset as a serviced apartment scheme. A consultancy report requested by the Sponsor suggests limited investment required with good demand and similar Net Operating Income at only 60% occupancy.

The LTV is c.75% on stabilised valuation (pre-Covid) and c.86% on Vacant Possession (again pre-Covid). With regards to what we are seeing in the market for valuations for Purpose Built Student Accommodation, most traded names have reported a 2-3% drop in valuations with very little movement in yields. A recent report from CBRE suggests that there is still high demand from investors with regards to these types of assets.

8. Social infrastructure – Student Accommodation (£6m nominal)

This loan is secured over five fully operational student accommodation schemes in key prime regional university cities. Locations include: Coventry, Newcastle, Leicester & Sheffield. The investment benefits from interest reserve accounts.

The sponsor has taken a proactive approach to its marketing strategy for the next academic year and offered discounts to strengthen bookings, which are currently tracking close to last year's levels across most of the assets. The latest bookings update from the sponsor show occupancy has been growing over the period.

For a technical reason, and to satisfy the senior lender, RM has agreed to utilise part of its interest reserve account to satisfy Q2 and Q3 interest payments. Reserves will then be rebuilt and paid in cash in Oct 2020.

The implied Loan to Value is currently c.75%

9. Social infrastructure – Elysium Healthcare (£6m nominal)

This Company, spun out of the Priory Group in 2016, specialises in providing services within the UK focusing on mental illness, learning disabilities, autism and predominantly focuses on high-fee services. BC Partners is the sponsor and, being focused on healthcare, Elysium is operating in a defensive sector providing critical & essential services.

The business has traded well through Covid, showing very little impact with robust occupancy level as of July 2020 with continued year on year revenue growth. As of June 2020, the reported net leverage has fallen since March 2020 and December 2019 which is pleasing and a reminder as to the defensive qualities of this investment.

Security is comprised of the whole group, including all of the property and trading assets.

The Loan to Value 71%.

10. Hotel (£5.1m nominal)

Finally, I will discuss the one development asset within the portfolio which is a hotel under construction in Glasgow. This scheme initially had issues with a cost overrun related to the original operator. This has been a key focus for the investment team to resolve, with the senior lender and sponsor to progress the development to completion.

I am pleased to report that, as indicated in our July factsheet, a new hotel management agreement has been signed and the sponsor has indicated they will be injecting additional capital in order to allow further development funding to be released allowing fit out to be progressed. The hotel is expected to open in 2021.

This loan was conservatively valued at 62.5% of face value at the end of June and now offers a considerable opportunity for capital appreciation as the hotel moves towards completion. Both the senior lender and RMDL stopped accruing income in early 2020 in order to finalise a plan with the sponsor that would see this development completed. Income will start being accrued again when the final stage of the construction is signed off by both lenders and will be recognised as PIK as is usual for a development asset whose funding costs are rolled up during the construction.

The signing of the hotel management agreement was a key component of this final phase. The second key component is an injection of £5m from the sponsor; this has been verbally committed. The senior and Junior lenders will then fund the final phase of the project. The LTV on this scheme when completed will be c75% and 64% on a stabilised trading basis.

I will now hand back to James who will wrap up before we take questions.

James Robson

Having spent the period of March to July ensuring the portfolio was performing, RM Funds then turned to pipeline opportunities in August.

RM Funds became accredited as a Coronavirus Business Interruption Lender in August; the first listed specialist listed debt fund manager to receive such accreditation.

I would like to thank the RM Funds team for this – behind the scenes this took a huge amount of time up and such accreditation by the British Business Bank validates the work we are doing at RM Funds in making high quality loans which support British business.

This heavy lifting has enabled a strong pipeline of transactions eligible under the scheme so we expect a number of transactions to close during September. These transactions have Government guarantees for a minimum of 80% of the principal amount in addition to the first years interest payment being paid by the Government as a Business Interruption or BIP payment. We expect the volume of CBILS loans to represent <10% of NAV, however we do see enormous value for shareholders in the eligible loans which are planned to be made over the coming weeks. This is because the Government guaranteed return is a material credit enhancement and offers an extremely attractive risk adjusted return.

In summary, we are generally pleased with the performance of the portfolio over the period – we are certainly at a better place with regards to portfolio performance than we had planned for in March.

From a relative value perspective given RMDL is made up of a portfolio of corporate loans the company can be viewed as that that of a bond proxy and the dividend yield can be analysed versus the spread over a risk free-rate. The current share price and stated dividend target equates to an 8.125% yield which is a spread of about 830 hundred basis points over the September 2023 gilt which is the closest gilt corresponding to the average life of the portfolio. Amazingly the gilt maturing in September 2023 has a negative yield of -16bp! This 830bp spread we see as very attractive for investors.

We believe that, given the measures the Board and the Investment Manager are taking to reduce the NAV discount and the stable income yield, the current share price offers a compelling value opportunity.

We now go to Q&A and hand over to the moderator

I will start with the written questions received in advance of the call,

1. 5 portfolio companies are making payments in kind - how much of the company assets do these investments represent? Page 6 of June 2020 report?
   Approximately £25m by nominal value and £22.m under current marks on balance sheet – so there is about £2.6m of valuation changes on these assets. These can be viewed on page 5 of the factsheet released this morning.

2. Level 3 financial assets (page 30) have seen a relatively small decrease in value since end 2019. Have there been any changes in the DCF assumptions used for valuation?
   The portfolio is dynamic so this figure is not just affected by valuations but also the volume of level 3 loans which is increasing as a % of the portfolio – again on page 5 of the factsheet today you can see the valuation changes which are very specific to each loan

3. Some discussion on the composition / classification of level 2 financial assets would be useful.
   On the annual report the definition of level 2 financial assets is "Investments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2." On page 5 of the factsheet released today that would represent Loans which in the right hand column have an external pricing source which is MARKIT.