28 February 2020

ALPHA REAL TRUST LIMITED ("ART" OR THE "COMPANY")

TRADING UPDATE AND DIVIDEND ANNOUNCEMENT

ART today publishes its trading update for the period ended 31 December 2019 and the period up until the date of this announcement. The information contained herein has not been audited.

About the Company

Alpha Real Trust Limited ("the Company" or "ART" or the "Trust") targets investment, development, financing and other opportunities in real estate, real estate operating companies and securities, real estate services, infrastructure, infrastructure services, other asset-backed businesses and related operations and services businesses that offer attractive risk-adjusted total returns.

ART currently focusses on asset-backed lending, debt investments and high return property investments in Western Europe that are capable of delivering strong risk adjusted cash flows. The portfolio mix at 31 December 2019, excluding sundry assets/liabilities, was as follows:

	31 December 2019	30 September 2019
High return debt	39.4%	38.6%
High return equity in property investments	25.5%	36.0%
Other investments	6.4%	7.1%
Cash	28.7%	18.3%

The Company's Investment Manager is Alpha Real Capital LLP ("ARC").

Highlights

- NAV per ordinary share 212.7p: 31 December 2019 (213.5p: 30 September 2019).
- Basic earnings for the period ended 31 December 2019 of 5.7p per ordinary share (2.7p per ordinary share 30 September 2019).
- Adjusted earnings for the period ended 31 December 2019 of 4.8p per ordinary share (3.0p per ordinary share 30 September 2019).
- Declaration of a quarterly dividend of 1.0p per ordinary share expected to be paid on 9 April 2020.
- Increased portfolio weighting towards secured loan investment: ART continues to augment and diversify its portfolio of secured senior and secured mezzanine loan investments. As at 31 December 2019, the size of ART's secured loan portfolio was £48.0 million, representing 39.4% of the investment portfolio; post period end, further loans totalling £1.0 million have been funded.
- Galaxia update: The Supreme Court upheld the arbitration award in favour of ART. Logix have been ordered to pay INR 860 million (£9.3 million) to ART, of which INR 292 million (£3.1 million) is due within 3 months and the balance within 8 months. The Galaxia site (which was previously charged in favour of ART) is currently under offer for INR 568 million (£6.1 million) and these sale proceeds will be deposited with the Supreme Court towards the settlement amount.
- UK industrial portfolio: £5.2 million of disposals successfully completed, with proceeds to be recycled into the Company's loan portfolio.
- H2O shopping centre Madrid: record visitor numbers were recorded in the 2019 calendar year, increasing 5.2% over 2018; a new pre-let retail park unit is under construction on the surface parking area.

Investment summary

Portfolio overview as at 31 December 2019

Investment name Investment type	Carrying value	Income return p.a.	Investment location	Property type / underlying security	Investment notes	% of portfolio[1]
High return debt (39.4%)						
Secured senior finance						
Senior secured loans (excluding committed but undrawn facilities of £9.2million)	£25.5m [2]	8.7% [3]	UK	Diversified loan portfolio focussed on real estate investments and developments	Senior secured debt (during the period the average senior facilities commitments were £31.1m)	20.9%
Secured mezzanine finance						
Second charge mezzanine loans	£22.5m [2]	14.5% [3]	UK	Diversified loan portfolio focussed on real estate investments and developments	Secured mezzanine debt and subordinated debt (during the period the average mezzanine facilities commitments were £17.8m)	18.5%
High return equity in property investments (25.5%)						
H2O shopping centre						
Indirect property	£18.6m (€21.9m)	5.7% [4]	Spain	Dominant Madrid shopping centre and separate development site	30% shareholding; medium term moderately geared bank finance facility	15.2%
Long leased industrial facility, Hamburg						
Direct property	£6.8m [5] (€8.0m)	7.1% [4]	Germany	Long leased industrial complex in major European industrial and logistics hub	Long term moderately geared bank finance facility	5.6%
Alpha UK Property Fund Asset Company (No 2)						
Indirect property	£4.0m	10.5% [6]	UK	High-yield commercial UK property	100% shareholding; no external gearing	3.3%
Cambourne Business Park						
Indirect property	£1.7m	9.8% [4]	UK	High-yield business park located in Cambridge	Medium term moderately geared bank finance facility	1.4%
Other investments (6.4%)						
Unity and Armouries, Birmingham						
Development, Site held for sale	£4.5m	n/a	UK	Central Birmingham residential	Planning consent for 90,000 square feet / 162 units plus commercial Heads of Terms and exclusivity agreed for offer of £4.5m	3.6%
Galaxia						
Joint venture in arbitration	£2.5m (INR 235m)	n/a	India	Development site located in NOIDA, Delhi, NCR	Legal process underway to recover investment by enforcing arbitration award	2.1%
Realhousingco						
Residential Investment	£0.6m	n/a	UK	High-yield residential UK portfolio	100% shareholding; no external gearing	0.5%
Healthcare & Leisure Property Limited						
Indirect property	£0.2m	n/a	UK	Leisure property fund	No external gearing	0.2%
Cash and short-term investments (28.7%)						
Cash [7]	£34.9m	0.1% [8]	UK	'On call' and current accounts		28.7%

[1] Percentage share shown based on NAV excluding the company's sundry assets/liabilities
[2] Including accrued interest/coupon at the balance sheet date
[3] The income returns for high return debt are the annualised actual finance income return over the period shown as a percentage of the average committed capital over the period
[4] Yield on equity over 12 months to 31 December 2019
[5] Property value net of associated debt including sundry assets/liabilities
[6] Annualised income return, post tax
[7] Company only
[8] Weighted average interest earned on call accounts

Further to the half year results announcement on 29 November 2019, the following are key investment updates.

Income focussed investment

Following an active period of capital recycling, ART currently focusses on asset-backed lending, debt investments and high return property investments in Western Europe that are capable of delivering strong risk-adjusted cashflows. In line with this focus, capital is predominantly being deployed to augment and diversify its portfolio of secured senior and secured mezzanine real estate loan investments. Over the medium term the Company's returns are likely to see greater contributions from the growing senior debt and mezzanine loan portfolio and less from capital gains.

The Company continues to maintain a pipeline of new investment opportunities under active review which compete for capital allocation. ART benefits from the depth of experience, strength and size of its Investment Manager. Alpha Real Capital has a well-resourced team of investment professionals based throughout the UK and Europe. ART's active management approach has helped deliver improvements in underlying asset values, in both directly and indirectly held investments across our investment markets.

New secured lending investment

The Company's portfolio of secured senior and mezzanine loan investments continues to increase in scale and diversity. The loans are typically secured on real estate investment and development assets with attractive risk-adjusted income returns.

As at 31 December 2019, ART had committed £57.0 million across forty-one loans, of which four were completed during the quarter to 31 December 2019 and of which £48.0 million was drawn. Over the past twelve months the loan portfolio has more than doubled, with £22.8 million of investment into the secured loan portfolio completing in the nine-month period ended 31 December 2019, with an additional £0.4 million of loans granted post period end and £0.6 million drawn post period end from previously committed loans. The largest individual loan in the portfolio is a senior loan of £5.3 million which represents 9.3% of committed capital.

In the quarter to 31 December 2019, ART invested in four new loans with a total capital commitment of £5.1 million. Of this, £3.7 million were senior secured development loans and £1.4 million were mezzanine secured development loans.

As at 31 December 2019, 54% of the Company's loan investments were senior loans and 46% were mezzanine loans. The underlying assets in the loan portfolio as at 31 December 2019 had geographic diversification with a London and South East weighting. The South of England (including London) accounted for 56% and London accounted for 31%, of the committed capital within the loan investment portfolio. Loans will continue to be made throughout the UK with a target of continued geographic diversification.

During the period ended 31 December 2019, seven loans totalling £5.3 million (including accrued interest and exit fees) were fully repaid and eight loans were partly repaid (repayments totalling £9.6 million). Post period end, further loan repayments of £7.4 million were received.

Each loan will typically have a term of up to two years, a maximum 75% loan to gross development value ratio and be targeted to generate attractive risk-adjusted income returns. Repayment proceeds will be re-invested into new facilities. The Company continues to develop a strong pipeline of new lending opportunities.

To date the fund has experienced no defaults.

UK industrial

During the period, the sale of the penultimate asset in the Alpha UK Property Fund Asset Company (No. 2) Limited (“Alpha2”) portfolio completed realising proceeds of £5.2 million (the sale price was in line with the asset’s 30 September 2019 valuation).

H2O, Madrid

ART has a 30% stake in joint venture with CBRE Global Investors in the H2O shopping centre in Madrid. H2O continues to benefit from ongoing asset management initiatives, attracting record visitor numbers during the 2019 calendar year, increasing 5.2% above 2018.

Earlier in 2019, 9,000 square metres of building rights were transferred to the H2O plot from a small vacant site located in the same planning zone and held as part of the H2O investment. An active leasing programme has helped secure a pre-let of a 1,100 square metre retail park unit. Construction has commenced and is targeted for completion in the first quarter of 2020. The new unit is to be located on part of the centre’s surface car park area, as envisaged within a recently completed masterplan design for the shopping centre.

Other investments

Galaxia, India

The Supreme Court of India has rejected Logix’s challenge of the ICC Arbitration award.

Following breaches by Logix with respect to the Galaxia joint venture, ART initiated arbitration proceedings to protect its Galaxia investment - a 50:50 joint venture with Logix that owns an 11.2 acre development site located in NOIDA, the National Capital Region, India. In January 2015, the International Chamber of Commerce Arbitration declared an award in favour of ART ordering Logix to return the entire amount invested by ART along with interest and costs.

Logix challenged the arbitration award at both the Delhi High Court and latterly a Division Bench of the Delhi High Court, however both courts declared in favour of the Company and rejected Logix’s appeal. Logix later appealed the dismissal before the Supreme Court. The Supreme Court ordered Logix to deposit INR 200 million with the court to partially secure the Company’s claim. This amount, reflecting £2.3 million at the prevailing exchange rate and including interest, has since been successfully recovered by the Company.

On 18 February 2020, the Supreme Court upheld the arbitration award in favour of ART and dismissed Logix’s appeal. In addition to the court held deposit historically recovered by the Company, Logix were ordered to pay INR 860 million (£9.1 million) to ART, of which INR 292 million (£3.1 million) is due within 3 months and the balance within 8 months. The court is permitting Logix to sell the Galaxia site, which was previously charged in favour of ART, in order to raise capital. The site is currently under offer for INR 568 million (£6.0 million) and these sale proceeds will be deposited with the Supreme Court towards the settlement amount. Failure by Logix to make payment would result in higher interest rates applicable under the arbitration award.

As announced in December 2019, the Supreme Court permitted ART to withdraw the remaining INR 100 million plus interest accrued totalling INR 115 million (£1.2 million) of the court held deposit funded by Logix.

Although ART continues to actively pursue its claim, the Company carried the joint venture in arbitration in its accounts as at 30 September 2019 at INR 350 million. The further sum of INR 115 million has since been received by the Company. The amount recognised in the accounts as at 31 December 2019 (INR 235 million, £2.5 million) does not include the additional compensation awarded by the courts, above the carried value, due to uncertainty over timing and final value of this award.

Selective asset disposals

ART owns Unity and Armouries, a development site located in central Birmingham with planning consent for 90,000 square feet of net saleable space comprising 162 residential apartments with ground floor commercial areas. Contracts have been exchanged based on an offer of £4.5 million.

Share buybacks

Under the general authority, approved by Shareholders on 8 January 2019, the Company announced a tender offer on 14 June 2019 for up to 16,666,771 ordinary shares at a price (before expenses) of 175.0 pence per share. In total 13,065,348 ordinary shares were validly tendered under the tender offer. All purchased ordinary shares were cancelled.

The Company additionally purchased 62,124 shares in the market during the nine month period ended 31 December 2019: these shares are held in treasury.

As at the date of this announcement, the ordinary share capital of the Company is 61,654,242 (including 1,940,797 ordinary shares held in treasury) and the total voting rights in the Company are 59,713,445.

Dividends

The Board announces a dividend of 1.0 pence per ordinary share which is expected to be paid on 9 April 2020 (ex-dividend date 12 March 2020 and record date 13 March 2020).

Scrip dividend alternative

Shareholders of the Company have the option to receive shares in the Company in lieu of a cash dividend, at the absolute discretion of the Directors, from time to time.

The number of ordinary shares that an Ordinary Shareholder will receive under the Scrip Dividend Alternative will be the average of the closing middle market quotations of an ordinary share for five consecutive dealing days after the day on which the ordinary shares are first quoted "ex" the relevant dividend.

The Board has elected to offer the scrip dividend alternative to Shareholders for the dividend for the quarter ended 31 December 2019. Shareholders who returned the Scrip Mandate Form and elected to receive the scrip dividend alternative will receive shares in lieu of the next dividend. Shareholders who have not previously elected to receive scrip may complete a Scrip Mandate Form (this can be obtained from the registrar: contact Computershare (details below)), which must be returned by 26 March 2020 to benefit from the scrip dividend alternative for the next dividend.

Net asset value ('NAV')

As at 31 December 2019, the unaudited NAV per ordinary share of the Company was 212.7p (213.5p: 30 September 2019).

The movement in NAV mainly reflects the earnings of the Company less the dividend paid in the period less negative foreign currency movements.

Foreign currency

The Company monitors foreign exchange exposures and considers hedging where appropriate. Foreign currency balances have been translated at the period end rates of £1:€1.178 or £1:INR94.363, as appropriate.

Strategy and outlook

ART's diversified portfolio continues to increase the weighting towards debt driven investments, particularly senior debt, whilst retaining scope for creating capital value growth. Following an active period of capital recycling, ART currently focusses on asset-backed lending, debt investments and high return property investments in Western Europe that are capable of delivering strong risk-adjusted cashflows.

ART continues to actively augment and diversify its portfolio of secured real estate loan and secured mezzanine loan investments which are expected to enhance the Company's current earnings. Over the past twelve months the loan portfolio has more than doubled, with £22.8 million of investment into the secured loan portfolio completing in the nine-month period ended 31 December 2019, with an additional £1.0 million of loans granted post period end.

As the Company continues to actively reposition its investments to deliver attractive income returns, for the medium term, the Company's returns are likely to see greater contributions from the growing senior debt and mezzanine loan portfolio and less from capital gains. The Company maintains an active pipeline of potential new secured senior and mezzanine loans and equity investment opportunities under review.

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