15 September 2023

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

TRADING UPDATE AND DIVIDEND ANNOUNCEMENT

ART today publishes its trading update for the three month period ended 30 June 2023 and the period up until the date of this announcement. The information contained herein has not been audited.

About the Company

ART 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 selectively focusses on asset-backed lending, debt investments and high return property investments in Western Europe that are capable of delivering strong risk adjusted returns.

The portfolio mix at 30 June 2023, excluding sundry assets/liabilities, was as follows:

	30 June 2023	**31 March 2023**
High return debt:	45.5%	44.5%
High return equity in property investments:	26.1%	26.5%
Other investments:	19.9%	15.2%
Cash:	8.5%	13.8%

The Company is currently focussed on selectively increasing its loan portfolio and opportunistically extending its wider investment strategy to target high return property investments offering inflation protection via index linked income adjustments and investments that have potential for capital gains.

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

Highlights

- NAV per ordinary share 216.2p as at 30 June 2023 (31 March 2023: 216.8p).
- Basic earnings for the quarter ended 30 June 2023 of 2.1p per ordinary share (Twelve months to 31 March 2023: earnings of 1.1p per ordinary share).
- Adjusted earnings for the quarter ended 30 June 2023 of 2.0p per ordinary share (Twelve months to 31 March 2023: earnings of 7.7p per ordinary share).
- Declaration of a quarterly dividend of 1.0p per ordinary share expected to be paid on 27 October 2023.
- Robust financial position: ART remains on a robust financial footing and is well positioned to take advantage of new investment opportunities.
- Investment targets: the Company is currently focussed on selectively increasing its loan portfolio and opportunistically extending its wider investment strategy to target investments offering inflation protection via index linked income adjustments and investments that have potential for capital gains.
- Diversified portfolio of secured senior and secured mezzanine loan investments: as at 30 June 2023, the size of ART's drawn secured loan portfolio was £56.7 million, representing 45.5% of the investment portfolio.

- The senior portfolio has an average Loan to Value ('LTV') of 65.8% based on loan commitments (with mezzanine loans having an LTV range of between 55.0% and 78.6% whilst the highest approved senior loan LTV is 73.3%).
- Loan commitments: including existing loans at the balance sheet date and loans committed post period end, ART's current total committed but undrawn loan commitments amount to £6.0 million.
- H2O Madrid: post period end, three Inditex group brands entered into updated lease contracts to extend the footprint of existing stores and extend the lease terms.
- Cash management: during the quarter the Company invested a further £6 million in short term UK Treasury Bonds (Gilts) to enhance returns on its liquid holdings.

Investment summary

Portfolio overview as at 30 June 2023

Investment name Investment type	Carrying value	Income return p.a.	Investment location	Property type / underlying security	Investment notes	% of portfolio[1]
High return debt (45.5%)						
Secured senior finance						
Senior secured loans (excluding committed but undrawn facilities of £8.8 million)	£39.7m [2]	8.3% [3]	UK	Diversified loan portfolio focussed on real estate investments and developments	Senior secured debt	31.8%
Secured mezzanine finance						
Second charge mezzanine loans	£17.0m [2]	16.5% [3]	UK	Diversified loan portfolio focussed on real estate investments and developments	Secured mezzanine debt and subordinated debt	13.7%
High return equity in property investments (26.1%)						
H2O shopping centre						
Indirect property	£17.5m (€20.4m)	5.3% [4]	Spain	Dominant Madrid shopping centre and separate development site	30% shareholding; moderately geared bank finance facility	14.1%
Long leased industrial facility, Hamburg						
Direct property	£8.3m [5] (€9.7m)	6.3% [4]	Germany	Long leased industrial complex in major European industrial and logistics hub with RPI linked rent	Long term moderately geared bank finance facility	6.7%
Long leased hotel, Wadebridge						
Direct property	£3.8m	5.3% [6]	UK	Long leased hotel to Travelodge, a large UK hotel group with CPI linked rent	No external gearing	3.1%
Long leased hotel, Lowestoft						
Direct property	£2.8m	5.2% [6]	UK	Long leased hotel to Travelodge, a large UK hotel group with RPI linked rent	No external gearing	2.2%
Other investments (19.9%)						
Listed and authorised fund investments	£4.1m	6.2% [4]	UK & Channel Islands	Commercial real estate, infrastructure and debt funds	Short to medium term investment in listed and authorised funds	3.3%
Affordable housing Residential Investment	£0.6m	n/a	UK	High-yield residential UK portfolio	100% shareholding; no external gearing	0.5%
UK Treasury Bonds	£13.1m	4.0 - 4.8%[7] (2.25 - 2.75)[8]	UK	UK government bonds	-	10.5%
UK Treasury Bills	£7.0m	4.2% [7]	UK	UK government bonds	-	5.6%
Cash and short-term investments (8.5%)						
Cash [9]	£10.6m	1.3% [10]	UK	'On call' and current accounts	-	8.5%

[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 30 June 2023
[5] Property value including sundry assets/liabilities, net of associated debt
[6] Annualised monthly return
[7] Annualised yield to maturity
[8] Fixed annual coupon
[9] Group cash of £11.6m excluding cash held with the Hamburg holding company of £1.0m
[10] Weighted average interest earned on call accounts

Further to the annual results announcement on 23 June 2023, the following are key investment updates.

ART's investment portfolio benefits from diversification across geographies, sectors and asset types. As inflationary pressures increasingly dominate the economic backdrop in which the Company operates, ART remains on a robust financial footing and is well placed to capitalise on new investment opportunities.

Inflationary pressures and rising central bank interest rates continue to dominate the economic agenda. The impact of these events on real asset prices is yet to be fully determined. The uncertain market will offer opportunities in the medium term for ART to grow its diversified investment portfolio. In recent years the Company focused on recycling capital into cashflow driven investments. The Company is currently focussed on selectively increasing its loan portfolio and opportunistically extending its wider investment strategy to target investments offering inflation protection via index linked income adjustments and investments that have potential for capital gains.

ART continues to adhere to its disciplined strategy and investment underwriting principles which seek to manage risk through a combination of operational controls, diversification and an analysis of the underlying asset security.

Long leased assets

The Company's portfolio of long leased properties, comprising two hotels leased to Travelodge in the UK and an industrial facility in Hamburg, Germany, leased to a leading industrial group are well positioned in the current inflationary environment. The leased assets have inflation linked rent adjustments which offer the potential to benefit from a long term, predictable, inflation linked income stream and the potential for associated capital growth.

Post period end ART acquired a hotel and public house in Yardley, Birmingham, United Kingdom for £5.1 million including acquisition costs, leased to Travelodge Hotels Limited reflecting an initial yield of 8.3% p.a. ART has acquired the asset for cash.

The property is let until November 2060 with a tenant only break option in 2035, providing 12 years term certain to the break clause and the rent has inflation linked adjustments.

The 64-bedroom hotel and public house is held freehold and is situated to the east of Birmingham City Centre off the A45. The hotel is in a well-connected location equidistant between Birmingham City Centre to the west and Birmingham Airport to the east.

Diversified secured lending investment

The Company invests in a diversified portfolio of secured senior and mezzanine loan investments. The loans are typically secured on predominately residential real estate investment and development assets with attractive risk adjusted income returns. As at 30 June 2023, ART had committed £69.5 million across nineteen loans, of which £56.7 million (excluding a £4.0 million provision for Expected Credit Loss discussed below) was drawn.

The Company's debt portfolio comprises predominately floating rate loans. Borrowing rates are typically set at a margin over Bank of England ('BoE') Base Rate and benefit from rising interest rates as outstanding loans deliver increasing returns as loan rates track increases in the BoE Base Rate.

During the quarter, one loan totalling £1.5 million (including accrued interest and exit fees) was fully repaid and a further £2.4 million (including accrued interest) was received as part repayments.

Post period end, one new loan was drawn for £0.7 million and additional drawdowns of £3.7 million were made on existing loans, one loan was fully repaid for £0.5 million (including accrued interest and exit fees) and part payments for other loans were received amounting to £1.0 million (including accrued interest).

As at 30 June 2023, 70.0% of the Company's loan investments were senior loans and 30.0% were mezzanine loans. The portfolio has an average LTV of 65.8% based on loan commitments (with mezzanine loans having an LTV range of between 55.0% and 78.6% whilst the highest approved senior loan LTV is 73.3%). Portfolio loans are underwritten against value for investment loans or gross development value for development loans as relevant and collectively referred to as LTV in this report.

The largest individual loan in the portfolio as at 30 June 2023 is a senior loan of £9.9 million which represents 14.2% of committed loan capital and 7.9% of the Company's NAV.

Three loans in the portfolio have entered receivership: ART is closely working with stakeholders to maximise capital recovery. The Company has considered the security on these loans (which are a combination of a first charge and a second charge over the respective assets and personal guarantees) and have calculated an Expected Credit Loss ('ECL') on these three loans of approximately £3.2 million; the Group have also provided for an ECL on the remainder of the loans' portfolio for an additional £0.8 million: in total, the Group have provided for an ECL of £4.0 million in its consolidated accounts.

Aside from the isolated cases of receivership, illustrated above, the Company's loan portfolio has proved to be resilient despite the recent extended period of heightened uncertainty and risk. In terms of debt servicing, allowing for some temporary agreed extensions, interest and debt repayments have been received in accordance with the loan agreements. Where it is considered appropriate, on a case-by-case basis, underlying loan terms may be extended or varied with a view to maximising ART's risk adjusted returns and collateral security position. The Company's loan portfolio and new loan targets continue to be closely reviewed to consider the potential impact on construction timelines, building cost inflation and sales periods.

The underlying assets in the loan portfolio as at 30 June 2023 had geographic diversification with a London and Southeast focus. The South East of England (including London) accounted for 61%, of which London accounted for 44%, of the committed capital within the loan investment portfolio.

H2O, Madrid

ART has a 30% stake in a joint venture with CBRE Investment Management in the H2O shopping centre in Madrid.

H2O occupancy, by area, as at 30 June 2023 was 91.5%. The centre's visitor numbers remain below pre-Covid highs; however, a recovery is evident. In the calendar year to 30 June 2023, visitor numbers were approximately 7.1% below those in 2019 (pre-Covid) and 8.5% above 2022.

Post period end, a notable asset management action was secured when three Inditex group brands entered into updated lease contracts to extend the footprint of existing stores and extend the lease terms. The works to deliver the new 3,000 square metre store for anchor retailer Primark was signed for a new continue to advance on schedule. The store is expected to be delivered during 2024.

Other investments

Investment in listed and authorised funds

The Company invested a total of £6.0 million (value as at 30 June 2023: £4.1 million) across three investments that offered potential to generate attractive risk adjusted returns. Current market volatility and rises in interest rates have impacted the capital value of these investments. The investment yield offers a potentially accretive return to holding cash while the Company deploys capital in opportunities in line with its investment strategy. These funds invest in ungeared long-dated leased real estate, debt and infrastructure.

Investment in UK Treasury Bonds and Treasury Bills

In June 2023, the Company invested a further £6.0 million in short dated UK Treasury Bonds earning a 2.75% annual coupon with maturity 7 September 2024 and an annualised yield to maturity of 4.8%.

In addition to the above, as at 30 June 2023, the Company held £7.0 million in UK Treasury Bonds earning a 2.25% annual coupon and an annualised yield to maturity of 4.0% (value as at 30 June 2023: £7.0 million): this investment matured on 7 September 2023 generating sales proceeds of £7.1 million: these proceeds have been reinvested in further UK Treasury Bills maturing on 4 March 2024 with an annualised yield to maturity of 5.5%.

These government backed short term investments offer the Company enhanced returns over cash balances.

Post period end, on 7 August 2023, the initial investment in UK Treasury Bills (value as at 30 June 2023: £7.1 million) came to maturity generating sales proceeds of £7.1 million (annualised yield to maturity of 4.2%).

Post period end, on 23 August 2023 the company also invested £6.0 million in the Morgan Stanley GBP Liquidity Fund to enhance returns on the Company's cash balances.

Net asset value ('NAV')

As at 30 June 2023, the unaudited NAV per ordinary share of the Company was 216.2p (31 March 2023: NAV of 216.8p).

The decrease in NAV in the quarter is mainly due to adverse foreign currency movements.

Dividends

The current intention of the Company is to pay a dividend each quarter.

The Board announces a dividend of 1.0 pence per ordinary share which is expected to be paid on 27 October 2023 (ex-dividend date 28 September 2023 and record date 29 September 2023).

The dividends paid and declared for the 12 months to 30 June 2023 total 4.0 pence per share, representing a dividend yield of 3.0% on the average share price over the period.

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 calculated using 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 30 June 2023. 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 12 October 2023 to benefit from the scrip dividend alternative for the next dividend.

Share buybacks

Following the Annual General Meeting held on 7 September 2023 the Company has the authority to buy back 14.99% of its share capital (assessed on 29 June 2023) for a total of 8,709,579 shares. No shares have been yet bought back under this authority.

During the quarter and post quarter end, the Company did not purchase any shares in the market.

As at the date of this announcement, the ordinary share capital of the Company is 66,210,179 (including 7,717,581 ordinary shares held in treasury) and the total voting rights in the Company is 58,492,598.

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:€1.164 as appropriate.

Strategy and outlook

ART's investment portfolio benefits from diversification across geographies, sectors, and asset types. As inflationary pressures and interest rate policy continue to shape the economic backdrop in which the Company operates, ART remains on a robust financial footing and is well placed to capitalise on new investment opportunities.

ART remains committed to growing its diversified investment portfolio. In recent years the Company focused on reducing exposure to direct development risk and recycling capital into cashflow driven investments. The Company is currently focussed on its loan portfolio and also on its wider investment strategy which targets investments offering inflation protection via index linked income adjustments and investments that have potential for capital gains.

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