1 March 2024

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

TRADING UPDATE AND DIVIDEND ANNOUNCEMENT

ART today publishes its trading update for the nine month period ended 31 December 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 31 December 2023, excluding sundry assets/liabilities, was as follows:

	31 December 2023	30 September 2023
High return debt:	43.4%	46.4%
High return equity in property investments:	28.0%	29.7%
Other investments:	19.5%	14.3%
Cash:	9.1%	9.6%

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 213.2p as at 31 December 2023 (30 September 2023: 214.3p).
- Basic earnings for the nine months ended 31 December 2023 of 1.9p per ordinary share (six months ended 30 September 2023: basic earnings of 1.5p per ordinary share).
- Adjusted earnings for the nine months ended 31 December 2023 of 7.9p per ordinary share (six months ended 30 September 2023: adjusted earnings of 4.6p per ordinary share).
- Declaration of a quarterly dividend of 1.0p per ordinary share expected to be paid on 12 April 2024.
- 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 31 December 2023, the size of ART's drawn secured loan portfolio was £54.5 million, representing 43.4% of the investment portfolio.
- The senior portfolio has an average Loan to Value ('LTV')** of 62.8% based on loan commitments (with mezzanine loans having an LTV range of between 49.5% and 68.0% whilst the highest committed senior loan LTV is 65.9%).

- 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 £1.4 million. Post period end a new secured mezzanine loan of £7.0 million was granted.
- H2O Madrid: during the period the bank debt loan facility has been extended for a term of up to 5 years.
- Cash management: the Company has invested £12.2 million in short term UK Treasury Bonds (Gilts) and £7.3 million in UK Treasury Bills to enhance returns on its liquid holdings.

Investment summary

Portfolio overview & risk analysis as at 31 December 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 (43.4%)						
Secured senior finance						
Senior secured loans (excluding committed but undrawn facilities of £2.4 million)	£35.2m [2]	10.3% [3]	UK	Diversified loan portfolio focussed on real estate investments and developments	Senior secured debt	28.0%
Secured mezzanine finance						
Second charge mezzanine loans	£19.3m [2]	18.6% [3]	UK	Diversified loan portfolio focussed on real estate investments and developments	Secured mezzanine debt and subordinated debt	15.4%
High return equity in property investments (28.0%)						
H2O shopping centre						
Indirect property	£16.4m (€18.9m)	6.3% [4]	Spain	Dominant Madrid shopping centre and separate development site	30% shareholding; moderately geared bank finance facility	13.1%
Long leased industrial facility, Hamburg						
Direct property	£7.5m [5] (€8.7m)	8.1% [4]	Germany	Long leased industrial complex in major European industrial and logistics hub with RPI linked rent	Long term moderately geared bank finance facility	6.0%
Long leased hotel, Wadebridge						
Direct property	£3.6m	5.3% [6]	UK	Long leased hotel to Travelodge, a large UK hotel group with CPI linked rent	No external gearing	2.9%
Long leased hotel, Lowestoft						
Direct property	£2.7m	5.2% [6]	UK	Long leased hotel to Travelodge, a large UK hotel group with RPI linked rent	No external gearing	2.2%
Long leased hotel, Yardley						
Direct property	£4.8m	7.7% [6]	UK	Long leased hotel to Travelodge, a large UK hotel group with RPI linked rent	No external gearing	3.8%
Other investments (19.5%)						
Listed and authorised fund investments	£4.2m	8.8% [4]	UK & Channel Islands	Commercial real estate, infrastructure and debt funds	Short to medium term investment in listed and authorised funds	3.4%
Affordable housing						
Residential Investment	£0.6m	n/a	UK	High-yield residential UK portfolio	100% shareholding; no external gearing	0.5%
UK Treasury Bonds	£12.2m	4.8% [7] 3.1% [8]	UK	UK government bonds	-	9.8%
UK Treasury Bills	£7.3m	5.5% [7]	UK	UK government bonds	-	5.8%
Cash and short-term investments (9.1%)						
Cash [9]	£5.4m	2.1% [10]	UK	'On call' and current accounts	-	4.3%
Morgan Stanley Sterling Liquidity Fund	£6.0m	5.3% [11]	UK	Money market fund, daily liquidity	-	4.8%

* Return from underlying investment excluding Fund fees
[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 2023
[5] Property value including sundry assets/liabilities, net of associated debt
[6] Annualised monthly return
[7] Weighted average annualised yield to maturity
[8] Weighted average fixed annual coupon
[9] Group cash of £5.6m excluding cash held within the Hamburg holding company of £0.2m
[10] Weighted average interest earned on call accounts
[11] Annualised daily return

Further to the half year results announcement on 24 November 2023, the following are key investment updates.

ART's investment portfolio benefits from diversification across geographies, sectors and asset types and the Company remains on a robust financial footing and is well placed to capitalise on new investment opportunities.

The impact from higher interest rates, and speculation regarding the timing of a reduction, continues to dominate the economic backdrop in which the Company operates and clouds the outlook for the real estate market. The uncertain market offers potential opportunities in the medium term for ART to grow its diversified investment portfolio. The Company is currently focussed on risk managing and selectively growing its loan portfolio and opportunistically extending its wider investment strategy to target mezzanine opportunities as companies seek to refinance and recapitalise. The Company is also seeking to invest further in assets offering inflation protection via index linked income adjustments and investments that have potential for capital appreciation.

ART's investment portfolio benefits from diversification across geographies, sectors and asset types. We continue to take a cautious approach to new investment, including new lending, as we observe ongoing pressures in the economy. Recently the Company has again focused on recycling capital into more conservative asset backed lending while reducing exposure to development risk. In this time of heightened uncertainty, the Company is benefiting from that strategy and it has placed the Company on a robust financial footing.

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.

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 31 December 2023, ART had committed £62.6 million across eighteen loans, of which £54.5 million (excluding a £5.7 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 ended 31 December 2023, no new loans were drawn and additional drawdowns of £2.6 million were made on existing loans, two loans totalling £2.5 million (including accrued interest and exit fees) were fully repaid and a further £4.7 million (including accrued interest) was received as part repayments.

Post period end, a new secured mezzanine loan of £7.0 million was granted, £0.4 million of drawdowns were made on existing loans, two loans totalling £10.7 million (including accrued interest and exit fees) were fully repaid and a further £0.5 million (including accrued interest) was received as part repayments; as of today, the remaining committed capital for existing loans amounts to £1.4 million.

As at 31 December 2023, 64.6% of the Company's loan investments were senior loans and 35.4% were mezzanine loans. The portfolio has an average LTV of 62.0% based on loan commitments (with mezzanine loans having a LTV range of between 49.5% and 68.0% whilst the highest committed senior loan LTV is 65.9%). 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 31 December 2023 is a senior loan of £11.6 million which represents 18.5% of committed loan capital and 9.2% of the Company's NAV.

Four loans in the portfolio have borrowers in 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 has calculated an Expected Credit Loss ('ECL') on these four loans of approximately £4.0 million; the Group has also provided for an ECL on the remainder of the loan portfolio for an additional £1.7 million: in total, the Group has provided for an ECL of £5.7 million in its consolidated accounts.

Aside from the cases of receivership, discussed 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 31 December 2023 had geographic diversification with a London and South East focus. London accounted for 25.7% and the South East of England accounted for 18.9% of the committed facilities within the loan investment portfolio.

Long leased assets

The Company's portfolio of long leased properties, comprising three 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.

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 31 December 2023 was 93.4%. The centre's visitor numbers remain below pre-Covid highs; however, a recovery is evident. In the calendar year to 31 December 2023, visitor numbers were approximately 4.8% above 2022 and 7.6% below those in 2019 (pre-Covid).

The works to deliver the new 3,000 square metre store for anchor retailer Primark continue to advance on schedule. The store is expected to be opened during 2024.

Other investments

Investment in listed and authorised funds

The Company has invested (value as at 31 December 2023: £4.2 million) across three investments that offer 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.

Cash management

The Company adopts an active approach to enhance returns on its cash balances.

As at 31 December 2023, the Company had invested a total of £12.2 million in short dated UK Treasury Bonds (Gilts) (weighted average annualised yield to maturity of 4.8% with maturity in September 2024 and October 2025) and £7.3 million in UK Treasury Bills (annualised yield to maturity of 5.5% with maturity in March 2024). These government backed short term investments offer the Company enhanced returns over cash balances.

The Company also has £6.0 million invested in the Morgan Stanley GBP Liquidity Fund, which invests in high quality short-term money market instruments denominated in sterling, offers same day liquidity and earns an annualised return, net of Morgan Stanley's fees, of 5.3%.

Net asset value ('NAV')

As at 31 December 2023, the unaudited NAV per ordinary share of the Company was 213.2p (30 September 2023: NAV of 214.3p).

The decrease in NAV in the quarter is primarily due to the fair value movement on the H2O joint venture investment.

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 12 April 2024 (ex-dividend date 14 March 2024 and record date 15 March 2024).

The dividends paid and declared for the 12 months to 31 December 2023 total 4.0 pence per share, representing a dividend yield of 3.1% 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 31 December 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 26 March 2024 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 67,098,721 (including 7,717,581 ordinary shares held in treasury) and the total voting rights in the Company is 59,381,140.

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:€1.151 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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