# Net Asset Value and Investment Update

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GCP Asset Backed Income Fund Ltd
20 April 2021

**GCP Asset Backed Income Fund Limited**

(the "Company" or "GCP Asset Backed")

LEI: 213800FBBZCQMP73A815

**Net Asset Value and Investment Update**

**20 April 2021**

GCP Asset Backed, which invests in asset backed loans, announces that, as at 31 March 2021, the unaudited net asset value ("NAV") per ordinary share of the Company (including current period revenue) is 102.49 pence.

**NAV**

The NAV performance for the 3 month period is a positive movement of 0.31 pence per share after the payment of dividends, a rise of 0.30 per cent.

The Company's investments continued to perform in the period to 31 March 2021, with all principal and interest payments received as expected[1]. The performance in this period means that all expected interest and principal payments have been received in their entirety since the onset of the COVID-19 pandemic in early 2020.

The Board, after due consideration to advice from the independent Valuation Agent and recommendations from the Investment Manager, has determined to continue with its prudent approach to discount rate movements to reflect continued uncertainties related to the COVID-19 pandemic on several loans. However, during the period a number of the discount rate adjustments have been unwound or scaled back as a result of the continued strong performance of the underlying borrower.

[1] As previously reported by the Company the CHP and ROC loan referred to below remains in default and no payments are expected on this loan until the anticipated sale completes.

**Year end results**

The Company's results were published on 23 March 2021 for the period ending 31 December 2020. The results highlighted the Company's resilience during a challenging year. Despite the impact of the pandemic, the Company was able to raise its dividend for the fifth consecutive year and pay out a special dividend.

The Company announced in its results that it has increased its target dividend for the current year to 6.30pps[2].

The results and a link to the analyst presentation can be found here:

https://www.graviscapital.com/funds/gcp-asset-backed/literature

[2] The target dividend set out above is a target only and not a profit forecast or estimate and there can be no assurance that it will be met.

**Portfolio Update**

As described further below, whilst we are maintaining a cautious and prudent approach on discount rates, the continued performance of the portfolio has meant we are continuing to unwind several of the provisions put in place in March 2020. During the period, provisions across 15 loans were scaled back.

We continue to allocate our loans on a high-level basis into three categories. In line with previous updates, the portfolio continues to move towards a lower risk rating with discount rates being adjusted to reflect this risk reduction:

| Impact | Commentary | % of Portfolio March 21 | % of Portfolio December 20 | Movement (as % of portfolio) |
|---|---|---|---|---|
| **Low** | No major impact to the way the business operates, with revenue and costs remaining in line with previous quarters.<br><br>No expected long term impact as a result of change in the medium term. | 56.5% | 52.1% | 4.4% |
| **Medium** | Some impact on how the business operates, some increased costs or reduction in revenues<br><br>Limited expected disruption to markets in the medium term. | 34.7% | 39.1% | (4.4%) |
| **High** | Significant impact on how the business operates, increases in costs or reductions in revenues<br><br>Expected disruption to the business model in the medium term. | 8.8% | 8.8% | - |

The Investment Manager will be holding a webinar on 29 April 2021 at 10am to provide more detail on the portfolio. For any investor interested

in joining, please e-mail zoe.french@graviscapital.com.

***Sector update***

***Co-living - Discount Rate unchanged from 31 March 2020***

The borrower, which provides a mixture of long stay and short stay accommodation, has a facility in place with a security package comprising 10 operational assets, 5 assets in construction and 12 sites in pre-development.

The borrower's long and short stay business has seen resilience, as well as growth in certain areas, of occupancy levels during the most recent lockdown. The borrower's strategic review of funding options to deliver its development sites continues, and the business recently received funding to complete the acquisition of two of its most recently identified London assets.

These assets are valued with an LTV of less than 65 per cent. The Investment Manager continues to closely monitor this loan, but remains encouraged by the health of the sector, as the Investment Manager believes this project's occupancy levels continue to outperform those of the hotel and student accommodation sectors**.**

***Community Facility - Discount Rate unchanged from 31 March 2020***

The Group has provided loans to two community facilities. These facilities house a variety of small businesses, including bars, food outlets, co-working space and studio space.

One facility has been operational since December 2017. This facility remains impacted by the Government restrictions on working and hospitality. The site is open to studio members only with the food kiosk businesses continuing to operate via deliveries and the co-working space open at a reduced capacity to allow social distancing. The site has a formalised reopening plan which aligns with the Government guidance and, at this stage, expects to fully open by Step 4 of the Government's Roadmap out of lockdown (21 June at the earliest).

The loan utilised its debt service reserve account last year to pay interest due. However, the borrower has met the Q1 interest payment via operational cash flows from the parts of the site that remain open. Forecasts for the project anticipate that the borrower will meet all interest payments due this financial year. The Investment Manager continues to closely monitor this loan but is encouraged by the impact of the lifting of restrictions and the borrower's ability to make the period's interest payment.

The second facility recently reached practical completion on the buildings, with work starting on the fit-out and outside spaces. The fit-out has been delayed as a result of issues with the order of steel for the mezzanine floor. The site is now expected to open at the end of June. The mezzanine floor, will increase the amount of indoor seating at the site to 108 (with space for c.400 seats outdoors) and allow greater utilisation of the site during the winter period.

The site is opening to the public in a limited manner this month, offering outdoor bars and street food to make use of the significant outdoor space at the project. The food hall is expected to open in full in June to coincide with the anticipated lifting of restrictions on hospitality. The Investment Manager continues to remain cautious on this loan and is working closely with the borrower.

***CHP and ROC Engines - Discount Rate unchanged from 30 June 2020***

This loan defaulted in March 2019 and remains the only loan to have defaulted since IPO (it represents only 0.4% of net assets).

We have continued to work on a sale of the asset. As reported last quarter, the buyer instructed advisers with their suite of due diligence reporting completed pre-Christmas. The sale of the asset has been fully documented and is awaiting final credit approval from the bank's head office which the Investment Manager hopes will be obtained over the course of this week.

***Nurseries - Discount Rate reduced by average of 5bps***

The Group has lent to ten nurseries, all of which are now operational. The group lent against four additional nurseries in the period.

The borrower group continues to perform and occupancy remains high with particularly strong ramp-up seen on the recently opened sites showing demand for the high-quality service provision by the borrower group. Occupancy is expected to pick up further as lockdown restrictions ease and more people return to commuting and office-based working.

***Bridging Loans - Discount Rate reduced by average of 7bps***

The Group has lent to several parties which provide bridging loans secured against residential property. The loans are at a low loan-to-value ratio (less than 65 per cent) and typically have secondary protection in place, including personal guarantees.

The book has continued to perform throughout the period with support from government incentives such as the recent extension to the stamp duty holiday, which has continued to provide confidence in the housing market. We have reduced the COVID-19 related risk premium down to 15bps across several assets in this sector. We have left headroom in even the strongest performing assets to ensure there remains some prudence as a result of the medium-term economic uncertainty. However, the Investment Manager continues to remain confident in the performance of these loans.

***Student accommodation - Various rates***

The Group has four remaining loans secured against student accommodation projects. Of these loans, one is operational with the remaining units under development.

The operational project has performed well and is showing positive occupancy take-up for September, which has resulted in its discount rate adjustment being removed. One construction asset is due to be sold in the summer and another borrower is in discussions to partially pre-pay half of the outstanding loan through equity, in advance of scheduled repayments.

The Investment Manager remains confident in the sector and continues to see strong institutional demand for these assets.

**General**

**Share dealings**

Over the quarter, the Company purchased 325,000 of its own shares at an average price of 90.22 pence, to be held in treasury.

The Board and Investment Manager note that the Company's shares continue to trade at a discount to NAV and continue to monitor this closely.

**Dividends**

On 26 January 2021, the Company declared a quarterly dividend in respect of the period from 1 October 2020 to 31 December 2020 of 1.575p per share, which was paid on 5 March 2021.

In respect of the financial year ended 31 December 2020, the Company has paid quarterly dividends of 6.225p per share and the special dividend of 0.25p per share, totalling 6.475p per share.

**Outlook**

The Investment Manager remains encouraged by the financial position of our borrowers and hopeful that with the lifting of COVID restrictions across the UK, our loans will continue to perform. We continue to see refinancing of loans in the portfolio coming through and have access to a pipeline of opportunities in excess of our available capital.

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**Notes to Editors**

GCP Asset Backed is a closed ended investment company traded on the Main Market of the London Stock Exchange. Its investment objective is to generate attractive risk-adjusted returns primarily through regular, growing distributions and modest capital appreciation over the long term.

The Group seeks to meet its investment objective by making investments in a diversified portfolio of predominantly UK based asset back loans which have contracted, predictable medium to long term cash flows and/or physical assets.


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