Quarterly Update

RNS Number : 7372Q
GCP Asset Backed Income Fund Ltd
20 October 2023

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GCP Asset Backed Income Fund Limited

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

LEI: 213800FBBZCQMP73A815

Quarterly update

GCP Asset Backed, which invests in asset backed loans, announces that, at 30 September 2023, the unaudited net asset value ("NAV") per ordinary share of the Company (including current period revenue) was 93.36 pence per share.

NAV

The NAV represents a quarterly decrease of 0.60 pence per ordinary share (0.64%) from 30 June 2023. This is primarily due to a further write down during the quarter of c.£2.8 million to the value of the Co-living group investment for which further details are provided in the portfolio update below. The weighted average discount rate of the portfolio at 30 September was 10.3%, an increase of 1.1% over the quarter (30 June 2023: 9.3%), excluding the Co-living group investment that now represents 0.3% of the portfolio. Further detail on this increase is provided below. The weighted average yield generated by the Company's investments excluding the Co-living group investment has increased from c. 8.6% to c. 8.8% over the same period.

Cessation of combination discussions and introduction of continuation vote

On 18 September 2023, the Company announced the cessation of combination discussions with GCP Infrastructure Investments Limited following a period of shareholder consultation in respect of the combination proposals and wider strategy for the Company. In response to the feedback received, the Company also announced the introduction of a continuation vote, scheduled for the next Company AGM in May 2024, in which shareholders will have the opportunity to vote on the continuation of the Company in its current form. If such continuation vote fails to pass, the Board expects to put forward proposals to shareholders to amend the investment objective and policy of the Company to pursue a strategy for the orderly realisation of the Company's portfolio and the return of capital to shareholders thereafter.

Capital allocation

In the period up until the Company's AGM in May 2024, the Board intend to use any available cash: (i) to repay the Company's outstanding balance under its revolving credit facilities and reduce the Company's net debt; or (ii) buyback the Company's shares whilst such shares trade at a material discount to the Company's NAV per ordinary share. Ahead of the May 2024 AGM, the Investment Manager, Gravis Capital Management Limited, will continue to work with existing borrowers to determine how best to maximise value for the Company. No new investment activity is planned during this period, save for the potential amendment and extension of facilities to existing borrowers, which the Investment Manager will continue to assess on a case-by-case basis.

During the quarter ending 30 September 2023, the Company did not make any investments with new borrowers. At 30 September 2023, £30.05 million of the Company's revolving credit facility remains drawn, a reduction of £18.00 million over the quarter. The Board currently expects the Company will fully repay its RCF in Q1 2024.

Investment Manager resource update

The Investment Manager has separately announced the appointment of Anthony Curl as Chief Investment Officer, from 3 October 2023. Anthony has also joined the Investment Manager's investment committee. Anthony will be supporting the ongoing provision of services to the Company alongside Philip Kent and the wider team, and we look forward to introducing Anthony to shareholders in due course. Further, the Investment Manager has confirmed that it is in late stages of the recruitment of a Head of Private Credit and hopes to be in a position to announce this appointment shortly.

The Investment Manager has informed the Company that Saira Johnston, the CFO of the Investment Manager and an investment committee member, will be leaving the Investment Manager at the end of the year. Saira's role will be filled by internal appointments within the Investment Manager whom are known to the Company.

Increase in the weighted average discount rate of the portfolio

Mazars, the Company's independent valuation agent advised that the discount rate for three of the Company's property investments, valued at 15.6% relative to the fair value of total investments at 30 September 2023, be increased on average by 4.29% to 12.99% to align to market rates for mezzanine buy-to-let loans. All payments on these loans were in line with the Investment Manager's expectations and the borrower's weighted average loan-to-value limits in the underlying portfolios of 66.25% were satisfied. As a consequence of the discount rates advised by the valuation agent, the weighted average discount rate of the portfolio at 30 September was 10.3%, an increase of 1.1% over the quarter (30 June 2023: 9.3%), excluding the Co-living group investment that now represents 0.3% of the portfolio.

Portfolio update

During the quarter to 30 September 2023, £8.8 million of interest was realised and c.£17.1 million of repayments were received. Three loans, one secured against receivables due from the construction of an anaerobic digestion project, and two secured against a portfolio of natural gas injection stations for vehicles, repaid ahead of contractual maturities. All other payments were in line with the Investment Manager's expectations.

In the period, the Bank of England raised its base rate from 5.00% to 5.25%. The Company has several investments where the interest rate charged is linked to the base rate (a portion of which are linked on an upwards-only basis) and therefore the recent base rate increase will lead to a further increase on the income generated from such investments.

The Company and Investment Manager continue to work to resolve the four problem and three watchlist loans, as detailed below. Percentage exposures reflect the valuation of each investment relative to the fair value of total investments at 30 September 2023.

- In respect of the Co-living group (0.3%), as disclosed in the Company's interim results published on 28 September 2023, the Investment Manager completed the disposal of an asset in the USA at slightly above the value assumed for this asset at 30 June 2023. Further discussions have also progressed in respect of the Old Oak asset, in particular relating to the restructuring of the senior and mezzanine loans and the costs and timelines for the remediation of the cladding issues. These discussions have resulted in a further write-down of c.£2.8 million during the quarter. The Company's remaining exposure to the Co-living group (£1.2 million) is supported by an assumed recovery of 50% of cash that is currently in retention accounts, the release of which is subject to achieving planning and HMRC milestones relating to the Canary Wharf asset sale.

- The Company has continued to work with the borrower to resolve the previously reported non-payment of interest relating to a loan secured against a portfolio of student accommodation assets (5.4%). A revised expectation of timing of repayment on this loan has resulted in a small downward revaluation in the quarter.

- In respect of the loan secured against another student accommodation asset (0.6%) that is past its final maturity date due to a delay in the refinance and sale of the asset, the borrower has continued to service interest due. Notwithstanding this, Mazars have recommended an increase in the discount rate by 175 bps, to reflect the uncertainty around the timing of repayment.

- For the supported living asset (3.1%) previously classified as a problem loan, occupancy has remained steady at c.90%. Progress has been made by My Space to appoint new management (applicable to a sub-set of the portfolio) and the Investment Manager continues to be engaged to understand the strategy, regulatory position and cash position of the registered provider moving forward. The remainder of the portfolio continues to make payments in full and on time.

- There has been no change to the valuation approach taken in respect of the multi-use community facilities (1.4%) and football finance loan (0.3%) during the period. One of the multi-use community facilities resumed payments in the period, a positive milestone for the project that is the result of the pro-active steps taken by the Investment Manager. Guarantee payments in relation to the football finance loan continue to be received, and the Investment Manager continues to progress the resolution of the outstanding issues in line with prior disclosures.

Dividends

On 20 July 2023, the Directors declared a quarterly dividend in respect of the period from 1 April 2023 to 30 June 2023 of 1.58125p per share, which was paid on 25 August 2023. Aggregate dividend payments over the last 12-months represent a 11.8% yield on the Company's closing share price at 17 October 2023.

Webinar and portfolio disclosures

The Investment Manager will be holding a webinar on Thursday 2 November at 11am to provide more detail on this update. For any investor interested in joining, please e-mail daniela.santos@graviscapital.com.

The Company also made available a detailed report on its portfolio of investments as at 30 June 2023 during the period, that is available at: www.graviscapital.com/funds/gcp-asset-backed/literature and will update this periodically.

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Notes to Editors

GCP Asset Backed is a closed ended investment company. Its shares are traded on the Premium Segment of 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 Company seeks to meet its investment objective by making investments in a diversified portfolio of predominantly UK based asset backed loans which are secured against contracted, predictable medium to long term cash flows and/or physical assets.

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