13 September 2019

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

TRADING UPDATE AND DIVIDEND ANNOUNCEMENT

ART today publishes its trading update for the period ended 30 June 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 "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 30 June 2019, excluding sundry assets/liabilities, was as follows:

	30 June 2019	**31 Mar 2019**
High return equity in property investments:	26.6%	25.1%
High return debt:	29.1%	26.3%
Other investments:	6.4%	6.3%
Cash:	37.9%	42.3%

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

Highlights

- NAV per ordinary share 205.3p: 30 June 2019 (204.3p: 31 March 2019); the pro forma NAV per ordinary share, taking into account the Tender Offer share buyback in the period, is 212.5p*.
- Basic earnings for the period ended 30 June 2019 of 0.3p per ordinary share (33.1p per ordinary share and 33.5p per A share for the year ended 31 March 2019).
- Adjusted earnings for the period ended 30 June 2019 of 1.3p per ordinary share (3.9p per ordinary and A share for year ended 31 March 2019).
- Declaration of an increased quarterly dividend of 1.0p per ordinary share (0.8p: quarter ended 31 March 2019), expected to be paid on 18 October 2019.
- Active management of shareholder returns: post period end, the Company announced the result of its tender offer, in which 13,065,348 ordinary shares were validly tendered, representing approximately 19.48 per cent of the Company's voting shares. All valid tenders were subsequently satisfied in full.
- 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 30 June 2019, the size of ART's secured loan portfolio was £39.1 million, representing 29.1% of the investment portfolio; post period end, further loans totalling £7.7 million have been funded.
- UK industrial portfolio: asset sales completed during and post period end in line with valuation.
- H2O shopping centre Madrid: record visitor numbers were recorded in the six months to June 2019. Following a successful transfer of additional building rights to the shopping centre, a pre-let commitment has been signed for a new retail park unit which is to be created on the surface parking area.

* This is the 30 June 2019 NAV adjusted for the Tender Offer payment of £22.9 million and the share base adjusted for the cancellation of 13,065,348 shares.

Investment summary

Portfolio overview as at 30 June 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 (29.1%)						
Secured senior finance						
Senior secured loans	£23.9m [2]	10.4% [3]	UK	Diversified loan portfolio focussed on real estate investments and developments	Senior secured debt	17.8%
Secured mezzanine finance						
Second charge mezzanine loans	£15.2m [2]	15.2% [3]	UK	Diversified loan portfolio focussed on real estate investments and developments	Secured mezzanine debt and subordinated debt	11.3%
High return equity in property investments (26.6%)						
H2O shopping centre						
Indirect property	£20.6m (€23.0m)	5.5% [4]	Spain	Dominant Madrid shopping centre and separate development site	30% shareholding; medium term moderately geared bank finance facility	15.3%
Long leased industrial facility, Hamburg						
Direct property	£6.3m* (€7.0m)	6.4% [5]	Germany	Long leased industrial complex in major European industrial and logistics hub	Long term moderately geared bank finance facility	4.7%
Alpha UK Property Fund Asset Company (No 2)						
Indirect property	£7.2m	8.4% [5]	UK	High-yield commercial UK portfolio	33.6% of ordinary shares in the company	5.3%
Cambourne Business Park						
Indirect property	£1.7m	9.4% [4]	UK	High-yield business park located in Cambridge	Medium term moderately geared bank finance facility	1.3%
Other investments (6.4%)						
Unity and Armouries, Birmingham						
PRS development, held for sale	£4.5m	n/a	UK	Central Birmingham residential build-to-rent	Planning consent for 90,000 square feet / 162 units plus	3.3%
Galaxia						
Joint venture in arbitration	£4.0m (INR 350m)	n/a	India	Development site located in NOIDA, Delhi, NCR	Legal process underway to recover investment by enforcing arbitration award	3.0%
Healthcare & Leisure Property Limited						
Indirect property	£0.2m	n/a	UK	Leisure property fund	No external gearing	0.1%
Cash and short-term investments (37.9%)						
Cash	£51.0m	0.8% [6]	UK	Short term deposits, 'on call' and current accounts		37.9%

* Property value net of associated debt including sundry assets/liabilities
[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] Weighted average income return
[4] Yield on equity over 12 months to 30 June 2019
[5] Annualised income return, post tax
[6] weighted average interest earned on current deposits

Further to the annual results announcement on 14 June 2019, the following are key investment updates.

Active management of shareholder returns

ART seeks to actively manage shareholder returns. In July 2019, post period end, the Company announced the result of its tender offer in which 13,065,348 ordinary shares were validly tendered, representing approximately 19.48 per cent of the Company's voting shares. All valid tenders were subsequently satisfied in full.

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 real estate senior and mezzanine 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 team of over one hundred investment, asset management, sales and debt 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 30 June 2019, ART had invested a total amount of £39.1 million across thirty-one loans, of which five were completed during the quarter to 30 June 2019. Over the past year the loan portfolio has almost tripled, with £7.1 million of investment into the secured loan portfolio completing in the quarter ending 30 June 2019, with an additional £7.7 million of loans granted post period end.

During the quarter to 30 June 2019, six loans were repaid for £4.0 million, generating an annualised return of 14.7%, and two loans were partly repaid by £1.3 million. Post period end, loan repayments of £1.5 million were received.

The Company is currently targeting up to £70 million for investment in secured senior and mezzanine loans.

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

Selective asset disposals

UK industrial portfolio

ART owns a 33.6% share in Alpha UK Property Fund Asset Company (No 2) Limited ('Alpha2'). As at 30 June 2019, Alpha2 owned four UK industrial assets.

During the period, one of the assets was sold and is reflected in the 30 June 2019 reporting. Post period end, a further asset was sold for £1.7 million, in line with its 30 June 2019 valuation.

Birmingham residential site

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. A sale of the investment is being pursued.

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. The centre attracted record visitor numbers during the six-month period to 30 June 2019, increasing 5.6% above the same period in 2018.

The H2O investment includes a small vacant site located in the same planning zone as H2O that was acquired during 2017. As previously announced, following a successful planning process which involved an amendment to the local zoning plan, 9,000 square metres of building rights have been transferred to the H2O plot which, subject to obtaining building licences, creates potential for the future expansion of the shopping centre. An active leasing programme has helped secured a pre-let to a leading Spanish pet supplies company for a 1,100 square metre retail park unit which will be constructed by the landlord over the coming year on part of the centre’s surface car park area. This creation of new retail park units was anticipated as part of a recently completed masterplan design for the shopping centre.

Other investments

Galaxia, India

The Galaxia project is a joint venture with Logix Group, to develop a site extending to 11.2 acres with the potential to develop 1.2 million square feet. Galaxia is located in NOIDA, an established, well planned suburb of Delhi that continues to benefit from new infrastructure projects and is one of the principal office micro-markets in India. The Company has a 50.0% shareholding in the SPV which controls the Galaxia site. There are no bank borrowings on the asset.

In February 2011, ART recommenced arbitration proceedings against Logix Group (“Logix”) in order to protect its Galaxia investment, an 11.2 acre development site, in NOIDA, the National Capital Region (NCR), India. In January 2015, the ICC Arbitral Tribunal decreed that Logix and its principals had breached the terms of the shareholders agreement and has awarded the Company:

- Return of the Company’s entire capital invested of INR 450 million (equivalent to £5.1 million using the period end exchange rate as at 30 June 2019) along with interest at 18% per annum from 31 January 2011 to 20 January 2015.
- All costs incurred towards the arbitration.
- A further 15% interest per annum on all sums was awarded to the Company from 20 January 2015 until the actual date of payment by Logix of the award.

Logix challenged the validity of the arbitration award in the Delhi High Court and latterly to the Division Bench of the Delhi High Court. Both courts dismissed the respective appeals and upheld the award declared in favour of the Company. Logix appealed the dismissal before the Supreme Court of India. Following several postponements to scheduled hearings, the next Supreme Court hearing is scheduled for 17th September 2019.

ART continues to actively pursue Logix directors for the recovery of the award. The sum awarded to ART, including the recovered deposits, has now accrued to £15.1 million at the period end exchange rates. The Directors, taking into consideration legal advice received following Logix’s challenge of the Award and following the recovery of INR 100 million (£1.1 million) deposited by Logix at the Supreme Court, consider it appropriate to carry this joint venture in its accounts at INR 350 million (£4.0 million). The amount recognised in the accounts does not include the additional compensation awarded by the courts due to uncertainty over timing and final value of the award.

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 52,124 shares in the market during the period ended 30 June 2019, and a further 10,000 shares on 1 August 2019.

As at the date of this announcement, the ordinary share capital of the Company is 61,165,783 (including 6,971,081 ordinary shares held in treasury) and the total voting rights in the Company is 54,194,702.

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 30 June 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 receive scrip may complete a Scrip Mandate Form (this can be obtained from the registrar: contact Computershare (details below)), which must be returned by 4 October 2019 to benefit from the scrip dividend alternative for the next dividend.

Net asset value (‘NAV’)

As at 30 June 2019, the unaudited NAV per ordinary share of the Company was 205.3p (31 March 2019: 204.3p).

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

The pro forma NAV per ordinary share, taking into account the Tender Offer share buyback in the period, is 212.5p (this is the 30 June 2019 NAV adjusted for the Tender Offer payment of £22.9 million and the share base adjusted for the cancellation of 13,065,348 shares).

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:€1.117 or £1:INR87.587, as appropriate.

Strategy and outlook

ART’s diversified portfolio continues to increase the weighting towards cashflow 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 year the loan portfolio has increased almost threefold, with £7.1 million of investment into the secured loan portfolio completing in the quarter ending 30 June 2019, with an additional £7.7 million of loans granted post period end.

The Company is actively repositioning 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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