24 February 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 nine month period ended 31 December 2022 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 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 31 December 2022, excluding sundry assets/liabilities, was as follows:

	31 December 2022	30 September 2022
High return debt:	42.8%	38.5%
High return equity in property investments:	27.7%	27.5%
Other investments:	4.4%	4.4%
Cash:	25.1%	29.6%

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

Highlights

- NAV per ordinary share 220.1p as at 31 December 2022 (30 September 2022: 219.6p).
- Basic earnings for the nine months ended 31 December 2022 of 2.5p per ordinary share (six months ended 30 September 2022: 0.4p per ordinary share).
- Adjusted earnings for the nine months ended 31 December 2022 of 5.3p per ordinary share (six months ended 30 September 2022: 3.3p per ordinary share).
- Declaration of a quarterly dividend of 1.0p per ordinary share expected to be paid on 6 April 2023.
- Robust financial position: ART continues to adopt a cautious approach to new investment and has conserved cash as a result of the uncertainty that characterised the past year; this has placed the Company on a robust financial footing making it well positioned to take advantage of new investment opportunities.
- Investment targets: the Company is currently focussed on 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.
- H2O Madrid: signing of a lease with anchor retailer Primark for a new 3,000 square metre store as part of a mall reconfiguration.
- Diversified portfolio of secured senior and secured mezzanine loan investments: as at 31 December 2022, the size of ART's drawn secured loan portfolio was £53.8 million, representing 42.8% of the investment portfolio.

- The senior portfolio has an average Loan to Value ('LTV')* of 64.4% based on loan commitments (with mezzanine loans having an LTV range of between 48.8% and 78.6% whilst the highest approved senior loan LTV is 72.9%).
- 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 £14.5 million.

Investment summary

Portfolio overview as at 31 December 2022

Investment name Investment type	Carrying value	Income return p.a.	Investment location	Property type / underlying security	Investment notes	% of portfolio[1]
High return debt (42.8%)						
Secured senior finance						
Senior secured loans (excluding committed but undrawn facilities of £16.1 million)	£38.4m [2]	6.7% [3]	UK	Diversified loan portfolio focussed on real estate investments and developments	Senior secured debt	30.5%
Secured mezzanine finance						
Second charge mezzanine loans	£15.4m [2]	15.1% [3]	UK	Diversified loan portfolio focussed on real estate investments and developments	Secured mezzanine debt and subordinated debt	12.3%
High return equity in property investments (27.7%)						
H2O shopping centre						
Indirect property	£18.9m (€21.4m)	6.1% [4]	Spain	Dominant Madrid shopping centre and separate development site	30% shareholding; moderately geared bank finance facility	15.0%
Long leased industrial facility, Hamburg						
Direct property	£8.9m [5] (€10.1m)	6.2% [4]	Germany	Long leased industrial complex in major European industrial and logistics hub with RPI linked rent	Long term moderately geared bank finance facility	7.1%
Long leased hotel, Wadebridge						
Direct property	£4.0m	5.3% [6]	UK	Long leased hotel to Travelodge, a large UK hotel group with CPI linked rent	No external gearing	3.2%
Long leased hotel, Lowestoft						
Direct property	£3.0m	5.3% [6]	UK	Long leased hotel to Travelodge, a large UK hotel group with RPI linked rent	No external gearing	2.4%
Other investments (4.4%)						
Listed and authorised fund investments	£5.0m	5.9%[4]	UK & Channel Islands	Commercial real estate, infrastructure and debt funds	Short to medium term investment in listed and authorised funds	4.0%
Affordable housing						
Residential Investment	£0.6m	n/a	UK	High-yield residential UK portfolio	100% shareholding; no external gearing	0.4%
Cash and short-term investments (25.1%)						
Cash [7]	£31.6m	0.5% [8]	UK	'On call' and current accounts		25.1%

[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 2022
[5] Property value including sundry assets/liabilities, net of associated debt
[6] Annualised monthly return
[7] Group cash of £32.7m excluding cash held with the Hamburg holding company of £1.1m
[8] Weighted average interest earned on call accounts

Further to the half year annual results announcement on 25 November 2022, 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.

During the quarter there has been elevated volatility in the UK gilt market, with yields spiking in response to UK political events and subsequently normalising with support from Bank of England intervention. UK fiscal discipline remains under increased scrutiny from international financial markets. Combined with higher inflation and supply constraints evident across the UK and in Europe and substantial increases in borrowing costs, the impact of these events on real asset prices is yet to be 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 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 position 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.

Diversified secured lending investment

The Company has 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 2022, ART had committed £69.9 million across twenty loans, of which £53.8 million (excluding a £3.5 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 nine months to 31 December 2022, five loans for £10.5 million (including accrued interest and exit fees) were fully repaid and a further £2.1 million (including accrued interest) was received as part repayments.

Post period end, additional drawdowns of £1.7 million were made on existing loans and part loan repayments were received amounting to £2.2 million (including accrued interest).

As at 31 December 2022, 71.4% of the Company's loan investments were senior loans and 28.6% were mezzanine loans. The senior portfolio has an average LTV of 64.4% based on loan commitments (with mezzanine loans having an LTV range of between 48.8% and 78.6% whilst the highest approved senior loan LTV is 72.9%). 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 2022 is a senior loan of £10.7 million which represents 15.3% of committed loan capital and 8.5% of the Company's NAV.

Two 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 two loans of approximately £2.5 million; the Group have also provided for an ECL on the remainder of the loans' portfolio for an additional £1.0 million: in total, the Group have provided for an ECL of £3.5 million in its consolidated accounts.

Aside from the two cases of receivership, illustrated above, the Company's loan portfolio has proved to be resilient despite the recent extended period of heightened macroeconomic 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 2022 had geographic diversification with a London and Southeast focus. The South of England (including London) accounted for 47%, of which London accounted for 23%, 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 31 December 2022 was 96%. The centre's visitor numbers remain below the pre-covid highs, however a recovery is evident. In the calendar year to 31 December 2022, visitor numbers were approximately 10.9% below those in 2019 (pre-Covid) and 11.2% above 2021.

During the period, a lease with anchor retailer Primark was signed for a new 3,000 square metre store. The new store will involve a reconfiguration of a mall area which is under commercialised with the unit combining a number of existing vacant units and along with space currently used as communal mall area. 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 31 December 2022: £5.0 million) across three investments that offered potential to generate attractive risk adjusted returns. Current market volatility and rise in interest rates has 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.

During the period, the Company fully divested £5.3 million from a further investment, delivering an 8.1% capital return over the holding period.

Investment in UK treasury bills and treasury bonds

Post period end, the Company invested £7.1 million in UK treasury bills with maturity 7 August 2023 and £7.0 million in UK treasury bonds earning a 2.25% annual coupon with maturity 7 September 2023.

Net asset value ('NAV')

As at 31 December 2022, the unaudited NAV per ordinary share of the Company was 220.1p (30 September 2022: NAV of 219.6p).

The increase in NAV in the quarter is due to positive adjusted earnings less dividends.

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 6 April 2023 (ex-dividend date 9 March 2023 and record date 10 March 2023).

The dividends paid and declared for the 12 months to 31 December 2022 total 4.0 pence per share, representing a dividend yield of 2.7% 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 2022. 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 22 March 2023 to benefit from the scrip dividend alternative for the next dividend.

Share buybacks

No shares were bought back by the Company during the quarter.

As at the date of this announcement, the ordinary share capital of the Company is 65,418,630 (including 7,717,581 ordinary shares held in treasury) and the total voting rights in the Company is 57,701,049.

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:€1.129 as appropriate.

Strategy and outlook

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.

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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