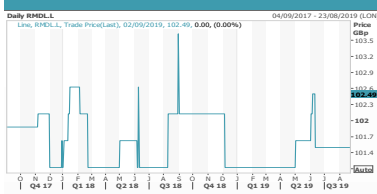


Premium Equity Closed-Ended Investment Funds


Source: Refinitiv

Market data

EPIC/TKR	RMDL/RMDZ
Price (p)	101.5/106
12m High (p)	104.0
12m Low (p)	100.2
Shares (m)	112.20
Mkt Cap (£m)	114
NAV p/shr. (p)	98.0
Free Float	100%
Market	LSE Equity Inv. Instrmt.

Description

RM Secured Direct Lending (RMDL) aims to generate attractive and regular dividends through investment in debt instruments that are backed by real assets, led by exceptional management teams, and that usually demonstrate high cashflow visibility.

Company information

Chairman	Norman Crighton
NED	Guy Heald
NED	Marlene Wood
Inv. Mgr.	RM
CIO	James Robson
Co. Manager	Pietro Nicholls
AIFM	IFM

(RM) +44 131 6037060

rmdl.co.uk
Key shareholders

CCLA	18%
Quilter	18%
Merian Global	13%
Brooks MacDonald & Hawksmoor	5%
CG AM & Jupiter	4%
Sarasin & Charles Taylor & PAM & Seneca & Blankstone	3%
Sington	
RM (Inv. Mgr.)	1%

Diary

Mid' Sept	August Factsheet
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Analyst

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RM SECURED DIRECT LENDING

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We reviewed RMDL in detail in our initiation report, *Predictable revenue streams generating high yield*, published on 5 June 2019. RMDL published its interim report on *14 August*. The June NAV was known so the Chairman's positive tone and priorities were most interesting. "We remain disciplined in our approach to steadily growing the Company ... objective to improve liquidity ... for Investors, increase the portfolio diversity and ... to reduce the ongoing charges ratio. Overall, we believe that the investment opportunity in secured debt remains significant ... and we are confident of the Investment Manager's ability to generate stable attractive returns for Investors."

- ▶ **1H'19 results:** As a reminder, the NAV total return in June was 0.41% and in 1H'19 4.82% (which is a little ahead of target). The portfolio had 35 investments (one net in month, three gross), with an average yield of 8.61%. The fixed / floating rate split was 60/40, and the average life of the portfolio is 3.46 years.
- ▶ **Peer news flow:** GCP Asset Backed's June *Quarterly Factsheet* noted the 0.9% 3 month performance (12.7% annual). On 27 August, SQN announced that its July NAV performance had been 0.49% (one-year return 5.25%). SEQI (infrastructure debt IC) reported a July dividend adjusted NAV increase of 1.33%.
- ▶ **Valuation:** RMDL trades at a small premium to NAV and to the average of its closest peers. Investors can take comfort from the NAV being robustly reviewed by external agents. RMDL issuing equity above NAV enhances existing shareholders (see *24 July announcement*). RMDL has not seen a major loss.
- ▶ **Risks:** Credit remains key for any lender, and we examine in detail the investment manager's approach. We believe the right approaches to limit both the probability of default and loss, given default, are in place. The book has shown a surprising propensity to turn over. There are modest currency and key personnel risks.
- ▶ **Investment summary:** RMDL offers investors a different asset class, with a substantial yield generated on a sustainable basis from long-term assets with predictable income streams and a strong pipeline. Any lending business needs to correctly assess and manage credit. RMDL has all these characteristics. The market has given it a small premium to NAV, reflecting these traits and a material element of market-driven valuation.

Financial summary and valuation

Year-end Dec (£000)	2018	2019E	2020E
Profit/loss on investments	-807	1,130	-450
Income	8,199	12,292	18,913
Investment manager's fee	-894	-1,276	-1,964
Other expenses	-1,134	-1,150	-1,350
Finance costs	-1,037	-380	-380
Pre-tax return	4,327	10,616	14,768
Dividend (p)	6.5	6.9	6.5
Dividend cover (Hardman & Co basis, x)	1.0	1.1	1.1
NAV (p)	0.97	1.00	1.01
S/P premium to NAV	5%	2%	0%
Loan book	102,581	180,000	245,000
Equity issued in year	40,920	77,801	77,250

Source: Hardman & Co Research