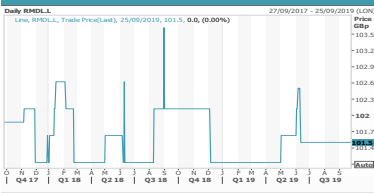


Premium Equity Closed-Ended Investment Funds

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)	99.0
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 Funds
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 Sington	3%
RM (Inv. Mgr.)	1%

Diary

Mid'Oct	September factsheet
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Analyst

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RM SECURED DIRECT LENDING

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Our report, *Defensive qualities in uncertain times*, noted that the key issues for RMDL continuing its track record of capital preservation and dividend streams are what it has done to reduce both the probability of default (POD) and the loss in the event of default (LED). We concluded that i) the initial credit assessment follows best practice, ii) accounts are closely managed on an ongoing basis, allowing early intervention, reducing both POD and LED, iii) security is robust, and iv) RM has the right approach to recoveries. We believe the top four accounts would all have to default to eliminate the annual dividend. The small premium to NAV may reflect the high and defensive dividend yield.

- ▶ **RMDL news flow:** The ordinary share cum income NAV at end-August was 99.0p (31 July 98.69p), a monthly return of 0.31% and (YTD 5.89%). The return was generated by net interest income of 0.79p, offset by negative portfolio valuations of 0.48p (net of currency hedges). The RM ZDP was 105p (July 104.69p).
- ▶ **Peer news flow:** GCP Asset Backed issued its *interim results* report on 10 September; the NAV for end-June was known. On 27 August, SQN announced that its July NAV performance had been 0.49% (one-year return 5.25%). SEQI's (infrastructure debt IC) *placing of 125m* new shares was oversubscribed.
- ▶ **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 is key for any lender, and we have examined 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