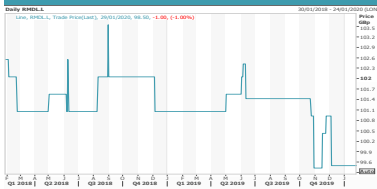


**Premium Equity Closed-Ended Investment Funds**


Source: Refinitiv

**Market data**

EPIC/TKR	<b>RMDL/RMDZ</b>
Price (p)	<b>99.5/105.5</b>
12m RMDL High (p)	104.0
12m RMDL Low (p)	99.5
Shares (m)	122.24
Mkt Cap (£m)	120
NAV p/shr (p)	97.79
Free Float	100%
Market	LSE Equity Inv. Instr.

**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](http://rmdl.co.uk)
**Key shareholders**

CCLA	17%
Quilter	16%
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-Feb	Jan factsheet
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**Analyst**

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# RM SECURED DIRECT LENDING

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In our 6 January note, *An Alternative Alternative*, we considered how RMDL could be viewed as an alternative to social infrastructure investment companies, with that sector becoming an increasingly important part of RMDL's portfolio. We concluded that, compared with such investments, RMDL i) offers a higher dividend yield, ii) carries less downside risk, and iii) has a non-correlated share price. RMDL does not have the same equity upside, but offers investors a different portfolio option. As noted in our initiation report, RMDL delivers its returns through high skill and service levels, assessing, monitoring and collecting credit in line with best practice.

- ▶ **RMDL news flow:** The ordinary share cum income NAV at *end-December* was 97.79p, a monthly dividend-adjusted return of 1.08% (YTD 8.18%). The return came primarily from net interest income (1.03p). The fund manager bought 104k shares, in line with its commitment to invest 50% of its management fee.
- ▶ **Peer news flow:** GCP Asset Backed increased its *revolving credit line* and reported an *end-December NAV* of 102.3p (s/p 108p). SQN delayed its NAV announcement while getting *third party valuations*, and announced a *strategic review*. SEQI announced a possible *equity raise* and *December NAV* of 106.3p (s/p 115.2p).
- ▶ **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. It 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	1,650	-325
Income	8,199	10,117	16,688
Investment manager's fee	-894	-1,038	-1,494
Other expenses	-1,134	-1,150	-1,350
Finance costs	-1,037	-380	-380
Pre-tax return	4,327	9,199	13,138
Dividend (p)	6.5	6.9	6.5
Dividend yield	6.5%	6.9%	6.5%
Dividend cover (x)	1.0	1.2	1.2
NAV	0.97	0.99	1.01
S/P discount to NAV	3%	1%	-1%
Loan book	102,581	134,000	245,000

Source: Hardman &amp; Co Research