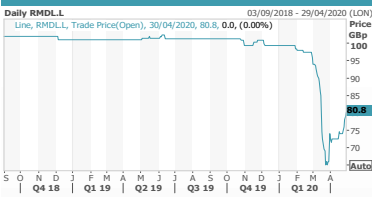


Premium Equity Closed-Ended Investment Funds


Source: Refinitiv

Market data

EPIC/TKR	RMDL/RMDZ
Price (p)	80.0/102.5
12m RMDL (ord.) High (p)	103.0
12m RMDL (ord.) Low (p)	65.0
Shares (ord.) (m)	121.75
Mkt Cap ord. (£m)	90
NAV p/shr (p)	86.64
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
	+44 131 603 7060
	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-May	Apr factsheet
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Analyst

Mark Thomas	020 7194 7622
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RM SECURED DIRECT LENDING

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In the past month, RMDL has announced i) a *500k share buyback*, on 7 April, at 72.5p, ii) *end-March NAV* of 86.64p (end-Feb 98.74p), and iii) *FY ending 31 December 2019* results. The NAV fall of 10.5% in March was driven primarily by market-wide spread widening, reflecting lower investor risk appetite. These moves have been exacerbated by ETF and passive funds selling illiquid credit holdings into a weak market. Management's base-case scenario is that "credit spreads will return to more normal levels over the coming months and the portfolio values will recover." An April video covering the top holdings is available on RMDL's website.

- ▶ **Liquidity:** The company had end-March cash of £3m and an additional undrawn £4.2m under its revolving credit facility. In addition, RMDL has *de-minimis* obligations to fund existing transactions, and does not face any margin calls. This liquidity is important, as it means RMDL is unlikely to be a forced seller of assets.
- ▶ **RMDL can hold assets until markets improve:** LTVs may currently be less robust than normal, as there is no certainty of buyers. However, RMDL is highly unlikely to be a forced seller. It can take time to restructure deals and wait for favourable conditions to sell assets. Its PE-backed borrowers have access to other capital.
- ▶ **Valuation:** RMDL trades at an 8% discount to its marked-to-market NAV (provided by external parties). There is hotel and gym exposure but, given the extent of security cover, the collective experience of the managers, and the ability to hold assets until realisation in more favourable conditions, actual losses can be expected to be modest.
- ▶ **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; this is done by RM Funds, which has a proven track record of doing so consistently well. There will be short-term sentiment volatility in the NAV, which the company believes will reverse in due course.

Financial summary and valuation

Year-end Dec (£000)	2018	2019	2020E
Profit/loss on investments	-807	-1,161	-328
Income	8,199	12,541	14,738
Investment manager's fee	-894	-1,062	-1,487
Other expenses	-1,134	-1,225	-1,350
Finance costs	-1,037	-541	-541
Pre-tax return	4,327	8,552	11,032
Dividend (p)	6.5	7.0	6.5
Dividend yield	6.7%	8.8%	8.1%
Dividend cover (x)	1.0	1.1	1.0
NAV (p)	0.97	0.98	0.99
S/P premium/discount to NAV	-17%	-18%	-19%
Loan book	102,581	131,201	200,000

Source: Hardman & Co Research