EDISON

Triple Point Social Housing REIT

Initiation of coverage

Social impact returning secure income

Real estate

Triple Point Social Housing REIT (SOHO) has grown its portfolio strongly since IPO, bringing a much-needed new supply of supported housing to market and building its base of secure income. We expect acquisitions, rent indexation and the completion of forward-funded developments to drive further strong earnings growth in FY20 and FY21 and, with rent collection unaffected by the COVID-19 pandemic, further growth in DPS.

Year end	Net rental income (£m)	EPRA earnings* (£m)	EPRA EPS* (p)	EPRA NAV per share (p)	DPS (p)	P/NAV (x)	Yield (%)
12/18	11.5	5.4	2.27	103.6	5.00	1.03	4.7
12/19	21.1	11.9	3.39	105.4	5.10	1.01	4.8
12/20e	28.0	16.1	4.45	105.9	5.18	1.01	4.9
12/21e	35.8	22.8	5.67	108.5	5.28	0.98	5.0

Note: *EPRA earnings and EPS exclude property revaluation movements. There is no difference between basic and fully diluted EPS and NAV.

Growing portfolio, performing as expected

SOHO has built a diversified portfolio of supported housing assets (Q320 value of c £536m and rent roll of £29.3m), putting a strong emphasis on asset quality. It seeks well-adapted or purpose-built assets, supported by its ability to forward fund low-risk, pre-let developments, that can produce superior long-term tenant outcomes and sustain long-term income growth. The £55m (gross) proceeds from October's equity issue and increased debt funding provide the capital resources for continued strong asset and income growth. Including recently announced transactions, we assume c £122m of new investment commitments in H220/H121 funded by existing capital resources. With the sector providing an essential public service and demonstrating resilience to COVID-19, to date there has been no impact on rent collection or quarterly DPS payments, with the company targeting an aggregate DPS of 5.18p for the year (+1.7% vs FY19).

Positive outcomes driving demand

The chronic shortage of specialised supported housing (SSH) is forecast to increase. Compared with the alternatives of residential care or hospitals, it improves lives in a cost-effective manner and at both the national and local level it is government policy to offer SSH to more people. For these individuals, rents are funded by central government, paid via the commissioning local authorities, directly to the 'Approved Providers', or 'APs', that lease the properties from SOHO and manage them. Private capital is crucial in meeting the current and future needs, while the continued response of APs to regulatory scrutiny, improving governance, operational performance, and financial strength should be a positive factor for sustaining the security of contracted rents and long-term growth of the sector.

Valuation: Robust, attractive, growing income

The FY20e DPS of 5.18p represents a yield of c 5%, with good prospects for indexed growth. Combined with robust rent collection, this is in our view attractive in a continuing low interest rate environment. The shares trade at around NAV, a little above the average since IPO (c 0.95x) but below the peak (1.07x).

29 January 2021

Price	**106.5p**
Market cap	**£429m**

Net debt (£m) at 30 June 2020	142.0
Gross gearing at 30 June 2020 (gross debt/gross assets)	33.1%
Shares in issue	402.8m
Free float	99.3%
Code	SOHO
Primary exchange	LSE
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(0.9)	1.0	7.9
Rel (local)	(1.1)	(13.9)	21.1
52-week high/low		113.5p	68.0p

Business description

Triple Point Social Housing REIT (SOHO) invests in primarily newly built and newly renovated social housing assets in the UK, with a particular focus on supported housing. The company aims to provide a stable, long-term inflation-linked income with the potential for capital growth.

Next events

FY20 results	Exp. Early March 2021

Analyst

Martyn King +44 (0)20 3077 5745

financials@edisongroup.com

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Triple Point Social Housing REIT is a research client of Edison Investment Research Limited

Investment summary

Positive outcomes drive long-term returns

SOHO invests in a diversified portfolio of social housing assets with a focus on specialised social housing (SSH) assets, fully let on long inflation-adjusted leases (typically 20–30 years) and providing strong visibility of contractual income relatively uncorrelated to the general economy or the residential or commercial property cycles. Its investment objective is to provide an attractive level of income, together with the potential for capital growth. The company also delivers a strong positive social return, providing much needed private investment in homes, leased to 'Approved Providers', or 'APs' (for a definition see page 3) so that they may provide and manage additional, care-based quality accommodation to some of the most vulnerable in society. The chronic shortage of SSH homes, increasing demand and the wide acceptance that SSH represents value for money while improving lives are all positive indicators for further growth.

Financials: Growth embedded in the current portfolio

We forecast strong rental income growth (+43% in H120 compared with H119) to continue, driven by acquisitions, completion of pre-let forward funded developments and rent indexation. In addition to the c £50m (before costs) of announced acquisitions in H220 we assume a further c £72m (before costs) of acquisitions by end-H121 funded by the remaining proceeds from October's £55m (gross) equity raise and recently increased debt facilities, lifting gross gearing towards c 35% (40% medium-term target). Full DPS cover has already been achieved on a run-rate basis and we expect an increased FY21 DPS to be fully covered on a reported basis. In line with experience to date, our forecasts assume no COVID-19 impact on rent collection, nor do we assume further capital raising beyond deployment of existing resources. The latter may be expected as SOHO seeks to address the chronic shortage of SSH housing with further accretive growth.

Valuation: Robust, attractive, growing income

The FY20e dividend yield of 4.9% is in our view attractive in the context of continuing full collection of rents and a continuing low interest rate environment. Including capital growth, net asset value (NAV) total return since IPO (to end-H120) has been a compound annual average of 6.5% (or 8.5% excluding the acquisition costs incurred in building the portfolio). The shares trade at around NAV, slightly above the average since IPO but below the peak of 1.07x. Continuing improvements in corporate governance and financial strength among APs and robust rent collection during the COVID-19 pandemic should support the valuation while the yield remains well ahead of the primary healthcare property investors that benefit from similar but stronger government backing for rents.

Sensitivities

SOHO's assets are fully let on long, inflation-linked leases to APs. Central government fully funds the rents of those individuals living in homes that meet the criteria for SSH, paid via local authorities directly to the APs that lease the properties from SOHO and manage them. SSH is an essential service, little correlated with the economy, and the asset class is little correlated with the broader residential and commercial property sectors. On page 17 we identify the key sensitivities to the company outlook as:

- The ability of APs to meet their long-term, indexed lease obligations to SOHO. In response to regulatory scrutiny the sector is generally showing increased financial strength and improved operational management and governance.
- Changes in the funding structure. With cross-party support for SSH, widely recognised as offering value for money and positive outcomes, we can foresee no immediate threat.

Inflation linked income and social good

Triple Point Social Housing REIT (SOHO) invests in a diversified portfolio of social housing assets in the UK, with a particular focus on supported housing, providing good quality homes for vulnerable individuals: often young adults, who may have mental health issues, learning difficulties or physical disabilities. The company aims to deliver an attractive and predictable long-term inflation-linked income return to shareholders with the potential for capital growth. It also seeks to deliver a positive social return, providing much needed private investment capital to support the delivery of additional, care-based, quality accommodation to some of the most vulnerable in society, improving tenant-life outcomes in a cost-effective manner.

All of the properties are let to APs (typically housing associations but also local authorities or other regulated organisations[1]) on long (typically 20–30 year), fully repairing and insuring, inflation-linked leases. The APs manage and maintain the properties, with the support and care needs of the residents provided by a separate care provider. Because of the vulnerable nature of the residents, their rent as well as property maintenance costs are paid directly to the lessee, by the commissioning local authority, which for homes that meet the criteria for SSH is reimbursed by the central government in the form of housing benefits. From this secure stream of income, the lessee pays SOHO.

The vast majority of SOHO's portfolio comprises homes in the supported housing sector that have been suitably adapted or purpose-built, and in building and diversifying the portfolio the company puts a strong emphasis on 'additionality'; bringing new homes into the sector to meet the chronic shortage of accommodation, a shortage that is widely expected to increase. As well as acquiring operational homes, SOHO is differentiated from some peers by its ability to acquire newly constructed purpose-built assets through forward funding the construction, by developers, of pre-let new developments, at fixed cost. Asset quality is extremely important as properties that have been suitably adapted to meet the specific needs of tenants and satisfy the requirements of the commissioning local authority are more likely to generate positive tenant outcomes, long-term occupancy and positive shareholder returns.

SOHO is externally managed by Triple Point Investment Management LLP, a member of the Triple Point Group, an independent alternative investment management group, founded in 2004. It manages c £1.8bn of private, institutional and public capital through specialist teams in the areas of real estate, debt, infrastructure and venture capital. The Triple Point team has been investing in the sector for more than five years and brings a depth of industry knowledge and sector relationships, important not only in managing the portfolio but also in sourcing investments.

At IPO in August 2017 SOHO raised £200m (gross, before costs), issuing 200m ordinary shares at 100p per share, initially trading on the specialist fund segment of the Main Market of the London Stock Exchange before migrating to the premium segment of the Main Market in March 2018. Since June 2018 the shares have been a constituent of the FTSE EPRA/NAREIT index. An additional c £210m of equity has been raised since IPO via a C share issue in March 2018 and equity issues in October 2018 and October 2020.

Through deployment of equity and debt capital raised, the portfolio has grown strongly, becoming increasingly diversified. As at 30 September 2020 (Q320) it was valued at £536.3m, comprising 433 properties with annualised contracted rents of £29.3m (excluding agreed rents on the forward-funding schemes that remained under development), with a weighted average unexpired lease term

[1] In this report Approved Provider, or AP, is a term that refers to any counterparty to which SOHO is authorised to lease assets. Housing associations and other providers of social housing, regulated by the Regulator of Social Housing, are often referred to as Registered Providers (RPs) and 18 of the 20 lessees, in respect of the SSH properties that account for the vast majority of the portfolio, are RPs. In respect of the two care home assets in the portfolio, the AP lessees are not RPs but are instead regulated by the Care Quality Commission.

(WAULT) of 25.4 years The properties were fully let to 20 different APs that manage them to provide homes for almost 3,000 individuals, with care provided by 96 care providers. An ability to provide forward funding for pre-let new developments not only enables it to secure fit for purpose, modern assets for the portfolio, often with less competition, but also addresses the chronic undersupply of suitable supported housing properties in the UK.

Managed by Triple Point Asset Management

The independent, non-executive board of SOHO is responsible for determining its investment objectives and investment policy and has overall responsibility for the company's activities other than the outsourced alternative investment fund management functions. It consists of five non-executive directors including the non-executive chairman, Chris Phillips. Chris Phillips has extensive experience of real estate and listed companies, including heading the residential real estate consultancy business at Colliers International before becoming the first managing director of the Colliers commercial real estate property fund, Colliers Capital UK, from 1998 to 2005. The other directors are Paul Oliver, CEO of Curlew Asset Management, with more than 40 years' experience of real estate development and investment management in both the UK and Europe; Peter Coward, a chartered accountant and former senior tax partner at PwC, with extensive international commercial and corporate finance experience; Tracey Fletcher, managing director of Caring Homes, a leading provider of care homes for the elderly, with considerable expertise as an executive and non-executive director in the care and support sectors; and Ian Reeves, partner and co-founder of international business and advisory firm Synaps Partners, and an experienced executive and non-executive director. Detailed biographies can be found on the company's website www.triplepointreit.com. All of the directors submit themselves for re-election on an annual basis.

The investment manager

SOHO is externally managed by Triple Point Investment Management LLP ('the investment manager' or 'Triple Point'), which recently became the Alternative Investment Fund Manager to SOHO, having previously operated since IPO as the delegated investment manager. The investment manager is a member of the Triple Point Group, which manages c £1.8bn of private, institutional and public capital through specialist teams in the areas of real estate, debt, infrastructure and venture capital, and has been investing in the social housing sector for more than five years. The Triple Point social housing team, comprising 24 property, legal and finance professionals, brings a depth of industry knowledge and sector relationships to the management of the company.

On behalf of SOHO, Triple Point implements the investment strategy, subject to board oversight, and provides a range of property management functions (including rent collection and property inspections), and other services including risk management, compliance and valuation oversight.

The investment manager's industry knowledge, experience and contacts are important not only in managing the portfolio but also in sourcing investments. The team is also actively engaged with the regulator and its housing association partners, helping the latter to develop and mature, in support of both the company's financial and social impact goals.

The investment manager utilises its industry knowledge and the data it gathers in managing the portfolio to advocate for the sector and the vital role of private capital in supporting its future growth, and to clearly articulate the non-financial, public good aspect of SSH investment.

Reducing fee schedule and alignment of interest

The fees payable to the investment manager in respect of its portfolio management functions are calculated quarterly in arrears and are based on a sliding scale percentage of net asset value adjusted for uncommitted cash balances net of borrowings. The marginal management fee reduces at higher levels of NAV providing an enhanced benefit to shareholders from growth in the portfolio. There are no performance-related, acquisition, exit or property management fees.

Exhibit 1: Management fee schedule

Basic NAV, excluding net cash balances	Annual management fee
Up to and including £250m	1.0%
Above £250m and up to and including £500m	0.9%
Above £500m and up to and including £1bn	0.8%
Above £1bn	0.7%

Source: Triple Point Social Housing REIT

25% of the annual fee due to the investment manager (net of any tax liability) is paid in shares rather than cash, implemented on a half-yearly basis. When the shares are trading at a premium to NAV, new shares are issued, based on the last published basic NAV. When trading at a discount to NAV, existing shares are repurchased in the market, equivalent in value to 25% of the management fee. In March 2020, 325,853 management shares were purchased in the market at an average price of c 74.4p, and Triple Point also subscribed to the October 2020 equity issue, acquiring an additional 224,149 shares. Its current holding is c 2.10m shares (just over 0.5% of the total), helping to align the interests of the investment manager, company and shareholders.

Strong demand for all forms of social housing

For those unfamiliar with the social housing sector we provide a detailed overview in Appendix 1. Importantly, with a chronic shortage of affordable housing across the UK, all forms of social housing remain in high demand. SOHO continues to put a particular focus on supported housing, and more accurately, a type of supported housing known as specialised supported housing (SSH). Within the broad social housing sector, supported housing provides housing, support and care as an integrated package, allowing those in need to live as independently and inclusively as possible within their community. Estimates vary slightly, but at any one time around 700,000 people across the UK rely on supported housing, which means that around 14% of all UK social housing is represented by supported housing. The majority of those living in supported housing are the elderly, whereas SSH provides for those with special care needs, accounting for around a quarter of the total. SSH properties are specifically designed or adapted for those with typically long-term or lifelong needs relating to mental, physical or learning disabilities, autism, domestic abuse, substance abuse or homelessness. Compared with the alternatives of a care home or long-stay hospital, SSH provides a similar level of support, with an enhanced quality of life, at lower cost. For those individuals living in homes that meet the criteria for SSH, rents are funded by central government as housing benefit, and so while it is distributed via the local authorities that commission the services it is not reliant on the level of local authority funding. An important distinction of SSH is that the level of rent is set on a bespoke basis according to individual needs and is therefore exempted from the social rent rules that normally apply a cap to housing benefit awards.

Specialised supported housing has specific drivers

SOHO's focus on SSH reflects several positive drivers specific to this sub-sector of the social housing space, covered in detail in the appendix. In particular we note that:

- At both the national and local level it is government policy to offer SSH to more people. In part, this reflects the value for money that it provides compared with the alternatives of residential care or long-stay hospitals, a consideration that is not simply cost related, but also recognises the enhancement to quality of life that SSH can provide. A Mencap-commissioned report published in 2018 (*Funding supported housing for all*) estimated the average rent cost of SSH housing (including the service charges) at £232 per week per person within an overall average weekly cost of SSH (including the cost of the care package at an average £1,337 per week) at £1,569 per person. This compared with its estimate of the average cost of registered care (residential care) at £1,760 per week or £3,500 per week for in-patient hospital care.

- The superior life outcomes for the individual recipients are well documented and relate to the safe, secure, comfortable environment that well adapted/designed homes can provide, increased levels of independence and freedom, and the ability to better interact with the broader society.
- There is a need for more SSH places now – and that need is expected to increase steadily. Mencap has estimated that more than 2,000 people with autism or a learning disability remain in long-stay hospitals. The NHS is committed to halving this number, but progress has been slow due to the shortage of alternative provision relative to the demand. Mencap estimates that c 50% of people with a learning disability live with a parent or some other home carer over the age of 65. As this group of carers ages and becomes less able to perform this role, the demand for alternative housing increases. At the same time, as advances in medical care, and in particular post-natal baby care, have improved infant survival rates, the size of the population living with life-long medical and care needs is increasing, and these people are themselves living longer.
- The Mencap-commissioned research referred to above estimated the total number of SSH units at 22,000–30,000, with an expectation that the demand will increase to 25,500–33,500 units by 2021/22 and 29,000–37,000 units by 2027/28. In a December 2015 research paper (*Supported housing: Understanding need and supply*), the National Housing Federation estimated a then shortfall of c 16,000 homes, with an expectation that this would increase to c 29,000 by 2019/20 and to c 47,000 by 2024/25.

The role of private capital

Over the last few years private capital has played an increasingly important role in supporting the development of the social housing sector, filling the gap created by the limited availability of capital grant funding. This is particularly true for the SSH sector, which, as a result of its greater complexity and granularity, as well as the continuing strong demand for general needs social housing, has not generally been the focus of the longer-established housing associations. There is no sign of this changing such that private capital providers such as SOHO (and its quoted peer, Civitas Social Housing) have an important role to play in meeting the funding requirements to deliver more supported housing.

Growing pains

The social housing sector has traditionally had a low financial risk profile, in part due to the ongoing monitoring presence of the regulator (the Regulator of Social Housing, RSH) and the fact that much of the rent is funded by central government through housing benefit and latterly universal credit. As a part of its responsibilities the RSH seeks to identify potential issues in the sector and adopts an active role in resolving these. Historically, in a small number of cases where an RP has faced financial or other challenges, the regulator has stepped in to facilitate a solution, preventing any general loss of confidence across the sector. This may involve a strengthening of corporate governance, assisting with moving properties to a different RP that may be better placed to manage them, or a financial merger. An example of intervention by the regulator occurred in February 2018 when First Priority Housing Association (not a SOHO lessee) experienced financial difficulties. The regulator worked with First Priority to help it assess its financial position, strengthen its board and seek a resolution for the 227 individual properties that it leased and managed, which were successfully reassigned to other RPs.

The specialist providers traditionally had little engagement with the RSH due to their relatively small size within the overall social housing market but, given the strong growth in SSH, driven by local authority demand, and the problems faced by First Priority, this has increased in the past two years. In some cases, the pace of growth of these providers has outstripped the development of their management and governance structures as well as their capital resources, especially where lease-based structures (ie long-term commitments to pay rents at an increasing level indexed to inflation) have been used to provide the capital for growth.

The regulator has shown itself keen to promote high levels of accountability, governance and performance across the sector, irrespective of the size of the provider, and this has resulted in several regulatory notices and judgements being issued in respect of RPs of SSH. For those unfamiliar with the regulatory process and the issues raised, we provide more details in Appendix 3.

In response to regulatory engagement, RPs across the SSH sector have been working to improve their governance, operations, financial strength and risk management procedures, receiving considerable support from SSH landlords such as SOHO. For those deemed non-compliant by the regulator there are clear signs of progress being made, although there is more work to be done. Following a pause in regulatory action during the lockdown, allowing providers to focus on operational issues, regulatory engagement with the lease-based providers has recently recommenced.

Although itself not regulated, SOHO has regular engagement with the RSH and works closely with RPs to ensure that they continue to make improvements and satisfy the regulatory standards being set. As one of the leading private sector investors in the supported housing sector, working with some of the fastest-growing providers, five of its RP lessees (Inclusion Housing, Bespoke Supportive Tenancies, Westmoreland Supported Housing, Encircle Housing, and most recently, My Space) have been the subject of regulatory judgements or notice. With support from SOHO, the organisations affected by regulatory judgements and notices have shown tangible signs of improvement over the past year and it is important to note that there has been no impact on rent collection or negative impact on the external valuations of the properties owned by SOHO.

In more general terms, to assist the RPs in demonstrating to the regulator their longer-term viability, SOHO has introduced a ‘change of law’ clause into leases, which allows SOHO’s lessees to negotiate changes in lease terms in the event of a material change in government housing benefit policy. Although we currently see no prospect of this happening, the clause provides flexibility to the long-term financial plans of the providers that are required by the regulator. A further evolution of lease terms provides tenants with a lease extension option, allowing a 20-year extension on leases. This helps RPs to satisfy the requirement of the regulator to ensure that social housing assets are protected for that use.

Continuing strong, targeted portfolio growth

At 30 September 2020 (Q320) the SOHO portfolio was valued at £536.3m, comprising 433 properties with annualised contracted rents of £29.3m (excluding agreed rents on the forward funding schemes that remained under development). The properties were fully let to 20 different APs that manage them to provide homes for more almost 3,000 tenants with care provided by 96 care providers. The weighted average unexpired lease term (WAULT) was a long 25.4 years with all the properties let on fully repairing and insuring leases (FRI leases, under which the lessee is responsible for the cost of property maintenance and insurance and property taxes) with upwards-only annual inflation-linked rent increases. Rents under the leases are indexed against either CPI (94.6% at H120) or RPI (5.4%).

For those less familiar with the SSH market we provide an overview of the key contract terms and stakeholder relationships in Appendix 2.

Exhibit 2: Portfolio summary

£m unless stated otherwise	Q320	H120	FY19	FY18
	30-Sep-20	30-Jun-20	31-Dec-19	31-Dec-18
Capital deployed (inc. acquisition costs)		476.1	438.9	302.6
Portfolio value	536.3	510.3	471.6	323.5
Portfolio value uplift on capital deployed		7.2%	7.5%	6.9%
Annualised rental income	29.3	28.0	25.4	17.4
Annualised rental income including forward funding developments in progress and exchanges)		29.6	27.8	18.6
Valuation net initial yield*		5.30%	5.27%	5.25%
WAULT (years)		25.4	25.7	27.2
Number of properties	433	404	388	272
Number of units	2,990	2,872	2,728	1,893
Number of tenancies*	332	316	300	189
Number of approved providers*	20	18	16	16
Number of local authorities*		153	149	109
Number of care providers	96	93	88	62

Source: SOHO data. Note: *Calculated excluding forward-funded developments in progress.

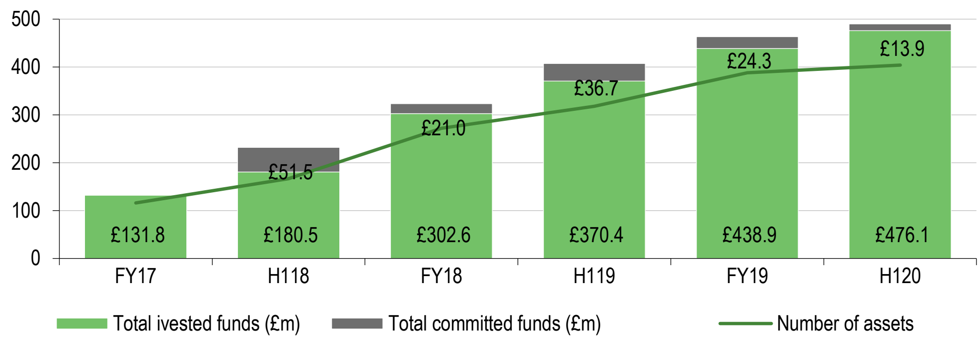
Strong growth since IPO

Since IPO, SOHO has set out to build a diversified portfolio that contains assets leased to a variety of providers, in a range of different counties and serviced by a number of care providers. While delivering strong growth the investment manager has remained selective and has turned down potential transactions, worth in excess of £600m, that failed to meet its strict investment criteria, most commonly in respect of the quality of the assets or because the investment manager considers that the rents have been set at too high a level to provide value for money and be sustainable over the long-term.

The initial seed portfolio, acquired from Triple Point immediately after IPO for £17.9m, comprised five new-build supported housing properties, let to Inclusion Housing on long leases, at a net initial yield of 6%. As well as providing immediate income to SOHO, the assets fully met its investment criteria and were acquired at a discount to the £18.5m external valuation.

By 31 December 2017 (end-FY17) the company had successfully invested £131.8m (including acquisition costs) in 116 assets, providing more than 800 individual units, and let to 11 different providers. By the end of FY19 capital deployment had further increased to £463.2m comprising funds invested of £438.9m and outstanding commitments of £24.3m (£6.6m in respect of properties where contracts had been exchanged and £17.6m committed to the completion of forward-funded assets under development).

Exhibit 3: Portfolio growth since IPO (to end-H120)



Source: Triple Point Social Housing REIT. Data to end-H120. Note: Commitments includes properties where contracts have been exchanged as well as outstanding forward-funded development commitments.

Although COVID-19 has had no material impact on operational performance or property valuations, it has caused some delays in capital deployment. Despite this, during H120 SOHO acquired 16 supported housing properties, comprising 144 units, for a total investment of £29.9m (including acquisition costs).

After the H120 closing but before the October capital increase, a further 30 supported housing properties, comprising 122 units, were acquired for an aggregate consideration of c £19.8m excluding costs. In early November, shortly after the capital increase, SOHO announced the acquisition of a portfolio of five properties (comprising 74 individual units) plus an additional six properties (comprising an aggregate 59 units) for c £28.9m excluding costs. We discuss the company's pipeline of acquisition opportunities in detail below.

Forward funding provides access to high-quality newly built homes

While SOHO undertakes no direct development or investment in speculative development, it has the ability and willingness to forward fund new development properties, a key differentiator from competitors, and providing a clear path to bringing much needed, pre-let, high-quality new-build housing stock to the market. For developers it provides a single funding source for both the development of the property and its acquisition at completion. Under forward funding contracts SOHO agrees to fund the development of pre-let assets under fixed price contracts, acquiring them at completion. During the development phase it benefits from a non-cash 'coupon' or credit, in respect of the funding extended, that is not recognised income but is deducted from the cost of acquisition at completion. Although the projects do not generate income during the construction phase the group expects to benefit from valuation uplifts at completion.

We believe that forward funding provides access to attractive assets with minimal incremental risk. SOHO will only fund pre-let developments, working with selected developers, while the investment manager has a long track record of successfully forward funding a range of property and infrastructure assets. The primary risk is in respect of timing overruns, but even here SOHO would continue to benefit from the coupon which also incentivises the developer to complete the project on time. Contracts typically also include liquidated damages clauses under which SOHO is entitled to compensation for extended delays. Moreover, although a significant factor in sourcing assets, balancing the attractions of forward funding with immediate income requirements limits its use with the investment policy restricting forward funding commitments to 20% of the group's net asset value upon the point of entering into the transaction.

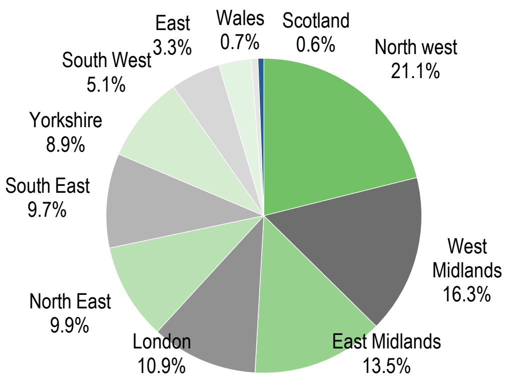
As at the end of H120 the company had cumulatively committed a maximum £56.2m (around 12% of all capital committed to that point) to 22 development projects, of which 15 had completed and the remaining seven, with a remaining maximum capital commitment of £9.3m, were under construction. COVID-19 created some construction delays but all of the projects that remained under development were forecast to complete within the allowable time periods; all but one before the end of 2020.

Diversified by geography and lessee

SOHO works with a significant proportion of the local authorities in the UK representing a broad geographic spread of assets. The portfolio is concentrated in and around urban conurbations where support requirements are greatest. Geographically this results in a greater exposure to northern regions than indicated by measures of wealth and income and brings SOHO's investment into step with the government's agenda to bring greater geographic balance to private investment across the UK. At a local level, the properties are situated in and around town centres, better enabling residents to integrate into local communities.

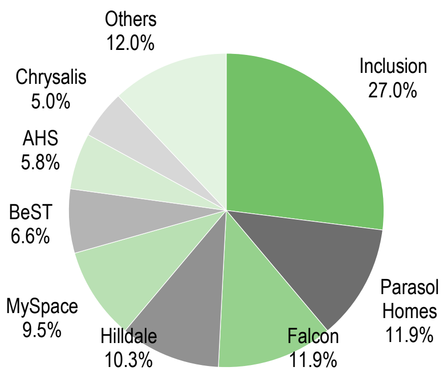
Two new lessees were added to the portfolio during H120 and two more have been added since, bringing the total to 20. The last detailed breakdown available is at H120 when the largest lessee was Inclusion Housing (27.0% by value) with the largest eight lessees accounting for c 88% of the portfolio value. SOHO works with its partners (local authorities, care providers, APs) to optimise the portfolio, including taking into account location, and operational capacity. From time to time this results in properties transferring from one AP to another and recently 12 of the 15 leases with Westmoreland transferred to another provider, supporting Westmoreland's significant portfolio restructuring as it seeks to satisfy the requirements of the RSH. The leases on two of the remaining properties (accounting for less than 0.5% of the SOHO portfolio value) are also expected to transfer and a smaller property will be sold.

Exhibit 4: Geographical spread of funds invested



Source: SOHO, as at 30 June 2020. Measured by funds invested before acquisition costs.

Exhibit 5: IFRS valuation by lessee

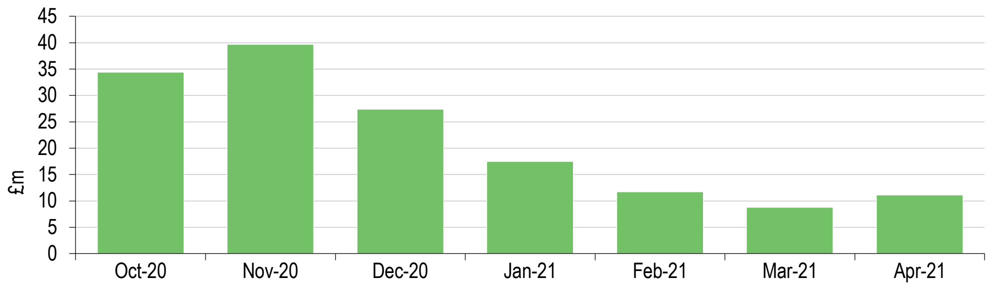


Source: SOHO, as at 30 June 2020. Others: Care Housing Association, Westmoreland, Sunnyvale, Wings Care, IKE, Lifeways, Encircle Housing, Blue Square, Keys, Partners Foundation.

Strong acquisition pipeline for future growth

With the October equity issue SOHO provided details of the significant pipeline of potential investments to which it has access, predominantly sourced off-market through its existing relationships with developers, APs, care providers and local authorities. The pipeline amounts to c £150m of completed assets and is focused on supported housing. Being sourced through trusted relationships, SOHO believes that it has a high level of deliverability, although we would not expect the whole pipeline to meet the company's strict due diligence procedures or be available completely in line with the indicative schedule provided (Exhibit 6). In our forecasts we have allowed for a c two-thirds completion of the pipeline.

Exhibit 6: Indicative acquisition pipeline of c £150m



Source: Triple Point Social Housing REIT. FY20 results presentation

Financial performance and forecasts

In this section we first provide a brief overview of recent trading before outlining our forward-looking financial forecasts in detail. Results for the six months ended 30 June 2020 (H120) were published at the end of September 2020 and deployment of the proceeds of the £55m (gross) equity raise in October will have a material impact on future growth and development. The Q320 update published on 5 November confirms continuing full rent collection in the period, as expected, and a continuing increase in portfolio value.

Continuing strong income growth in H120

The H120 results showed very strong growth, reflecting the increasing asset and income base. The end-H120 contracted rent roll of £28.0m (excluding any contribution from properties on which contracts had been exchanged or from forward-funding developments in progress) was 32% up on H119 and 10% up on end-FY19. Rental income reported in the period increased by 43.0% to £13.4m compared with H119 and by 13.7% compared with H219, reflecting an increasing contribution from acquisitions, forward-funded development completions and inflation indexation of rents. Expenses increased at a significantly slower pace, with management fees (around two-thirds of the total), calculated by reference to net assets, increasing modestly. Net finance expense followed the increase in borrowings to fund investment. Recurring EPRA earnings were 38.6% ahead of H119 at £7.4m and 13.6% ahead of H219, with EPRA EPS showing a similar increase. SOHO also provides an adjusted EPRA earnings measure, designed to provide a clearer picture of recurring cash earnings, which excludes a small amount of capitalised interest in respect of forward-funded developments and amortisation of loan arrangement fees. Adjusted EPRA earnings increased at a faster pace than EPRA earnings, up 45.0% compared with H119 to £7.9m and up 15.0% compared with H219, with H120 adjusted EPRA EPS at 2.25p. Two quarterly DPS payments of 1.295p were declared and, including a similar Q320 quarterly DPS declared, the company is well on track to meet its 5.18p target for the year (+1.7%). Dividend cover (by adjusted earnings) increased to 87% and ahead of the October 2020 capital increase had risen above 100% on a run rate basis.

In addition to EPRA earnings, IFRS earnings included £1.5m of net property revaluation gains (£3.1m gross less £1.6m of acquisition costs), lower than reported in recent periods and in part due to a reduction in the CPI and RPI assumptions used by the external valuers. H120 NAV per share (both IFRS and EPRA) was broadly flat on end-FY19 at 105.34p and, adjusting for dividends paid, the H120 NAV total return was 2.4% (or an annualised 4.9%). Unaudited Q320 NAV per share has since been reported at 106.12p.

Exhibit 7: Summary of financial results for the six months ended 30 June 2020 (H120)

£m unless stated otherwise	H120	H119	H219	H120/H119	H120/H219
Rental income	13.4	9.3	11.8	43.0%	13.7%
Total expenses	(3.1)	(2.9)	(3.1)	7.0%	0.7%
Operating profit before revaluation of properties	**10.3**	**6.4**	**8.7**	**59.3%**	**18.3%**
Change in fair value of investment properties	1.5	4.6	7.3		
Operating profit	**11.8**	**11.0**	**15.9**	**6.9%**	**-26.2%**
Net finance expense	(2.8)	(1.1)	(2.1)	157.8%	30.7%
PBT & net profit	**9.0**	**9.9**	**13.8**	**-9.6%**	**-35.0%**
Adjusted for:					
Change in fair value of investment properties	(1.5)	(4.6)	(7.3)		
EPRA earnings	**7.4**	**5.4**	**6.5**	**38.6%**	**13.6%**
Interest capitalised on forward funded developments	(0.1)		(0.1)		
Amortisation of loan arrangement fees	0.5	0.1	0.4		
SOHO adjusted EPRA earnings	**7.9**	**5.4**	**6.9**	**45.0%**	**15.0%**
Basic & diluted IFRS EPS (p)	2.55	2.82	3.93		
Basic & diluted EPRA EPS (p)	**2.12**	**1.53**	**1.86**	**38.7%**	**13.6%**
SOHO adjusted EPRA EPS (p)	**2.25**	**1.51**	**1.99**	**49.0%**	**12.8%**
DPS declared (p)	**2.59**	**2.54**	**2.56**	**2.0%**	**1.4%**
Dividend cover (adjusted earnings)	0.87	0.59	0.78		
IFRS portfolio value	511.1	396.6	472.3	28.9%	8.2%
Gross borrowings	(185.1)	(99.8)	(169.1)		
Cash	43.5	74.8	67.7		
Net assets	369.6	365.1	369.7	1.3%	0.0%
IFRS & EPRA NAV per share (p)	**105.3**	**104.0**	**105.4**	**1.3%**	**0.0%**
Gross gearing (gross debt/gross assets)	33.1%	21.1%	31.1%		
Net LTV (net debt/portfolio valuation)	27.8%	8.2%	22.1%		

Source: SOHO data

Forecasting further strong growth

We forecast further strong growth in rental income, underlying earnings and underlying EPS driven by a growing contribution from past and anticipated asset investment, as well as inflation indexation of rents. We forecast further DPS growth, tracking indexation, and increasing DPS cover (full cover on a run rate basis now achieved and on a reported basis in FY21). Our key forecasting assumptions include:

- Our rental income forecasts include:
  - A full contribution from the acquisitions completed in H120.
  - Completion of the assets where contracts had been exchanged at end-H120 (£4.6m before costs).
  - The announced H220 acquisition of 30 supported housing properties for £19.8m (before costs), prior to the October 2020 capital raise.
  - The announced H220 £29.8m (before costs) acquisition of a five-property portfolio and a further six properties, post the October 2020 capital raise.
  - Assumed further acquisitions amounting to £72m (before costs) during H121. This amount is based on fully deploying currently available debt and cash resources and together with the acquisitions already announced since the equity raise represents a conversion of slightly more than two-thirds of the October acquisition pipeline (Exhibit 6)
- For each of the H120 and H121 acquisitions we have assumed a net initial yield of 5.8%, broadly consistent with historical performance, with blended acquisition costs of 4%, consistent with historical experience and a mix of individual property acquisitions and corporate acquisitions with lower transaction costs.
- We have also allowed for completion of the seven forward-funding projects currently under development, mostly by end FY20 and fully by end-H121.
- Rent indexation of 1% in FY20 and 1.5% pa thereafter.

- Our forecast annualised contracted rental income increases from £28.0m at end-H120 to £32.3m at end-FY20 and £37.4m at end-FY21.
- Investment manager fees increase in line with adjusted NAV as per the management fee schedule. General and administrative expenses are forecast to grow with inflation. Our forecasts indicate a continued decline in the EPRA cost ratio, from 28.4% in FY19 to slightly below c 20% in FY20 and c 19% in FY21.
- Finance charges increase with the additional debt drawn to fund portfolio growth, although marginal funding from the lower-cost variable rate revolving credit facility (see Funding strategy below) is a benefit.
- For completed standing assets we have assumed that property valuations increase slightly above rent indexation, consistent with an unchanged portfolio yield and modest uplift on acquisition and reflecting the investment manager's historical ability to source attractive acquisitions off-market. We have also assumed an uplift in value for the forward-funding assets on completion. In FY20 and FY21, the gross revaluation gains are partly offset by assumed acquisition costs.

Exhibit 8: Revaluation assumptions

£m unless stated otherwise	FY20e	FY21e	FY22e
Gross revaluation of standing assets	9.1	11.5	13.3
Acquisition costs written off	(3.8)	(2.9)	0.0
Uplift on development completion	0.9	0.2	0.0
Net revaluation reported in income statement	**6.2**	**8.8**	**13.3**
Net revaluation per share (p)	**1.5**	**2.2**	**3.3**
Gross revaluation on standing assets as % opening value	2.0%	2.0%	2.0%
Acquisition costs (%)	4.6%	4.0%	N/A
Uplift on development completions (%)	3.0%	2.9%	N/A

Source: Edison Investment Research

- The external property valuation is based on an asset-level discounted cash flow methodology cross-referenced to observed market transaction values. The key sensitivities are the discount rate and the expected inflation indexation, primarily CPI. The average discount rate applied to the portfolio at end-H120 was 6.61% and in its interim report SOHO has provided the following sensitivity analysis:

Exhibit 9: Key sensitivities to H120 property valuation

	Discount rate assumption		CPI assumption	
	-0.50%	+0.50%	+0.25%	-0.25%
Change to IFRS property valuation (£m)	31.1	(28.4)	16.0	(15.3)
Change to IFRS property valuation (%)	6.1%	-5.5%	3.1%	-3.0%
Change to IFRS property valuation per share (p)	8.9	(8.1)	4.6	(4.4)

Source: SOHO FY20 interim report

Forecast summary

Our forecasts are shown in detail in Exhibit 16 at the back of this report and are summarised in Exhibit 10 below. Following growth in net rental income, we forecast both EPRA earnings and adjusted earnings and EPS to increase strongly in FY20 and FY21 driven by acquisitions. We forecast further, more modest growth in FY22 based on a full year contribution from H121 acquisitions and continuing rent indexation. Although not forecast, we would expect SOHO to seek continuing acquisition opportunities and additional capital funding beyond that forecast. We forecast reported dividend cover of 0.91x in FY20, increasing to 1.12x in FY21 as capital is deployed and developments complete. The 1.18x we forecast for FY22, based on adjusted earnings, suggests there may be scope for faster dividend growth than we have assumed.

Exhibit 10: Summary of key forecast data

Year end	Net rental income (£m)	EPRA earnings (£m)*	EPRA EPS (p)	Adjusted EPS (p)*	EPRA NAV/share* (p)	DPS (p)	Adjusted EPS/DPS (x)	Gearing (company basis)
12/19	21.1	11.9	3.4	3.5	105.4	5.1	0.69	31.1%
12/20e	28.0	16.1	4.4	4.7	105.9	5.2	0.91	31.3%
12/21e	35.8	22.8	5.7	5.9	108.5	5.3	1.12	33.7%
12/22e	37.8	24.5	6.1	6.4	112.5	5.4	1.18	32.9%
% change y-o-y								
12/20e	32.4%	35.2%	31.2%	34.9%	0.5%	1.7%		
12/21e	28.0%	41.9%	27.5%	25.7%	2.4%	2.0%		
12/22e	5.6%	7.3%	7.3%	6.9%	3.7%	2.0%		

Source: Edison Investment Research. Note: *EPRA earnings excludes the net revaluation movement on investment properties. **In addition to EPRA adjustments, adjusted earnings exclude amortisation of loan arrangement costs. ***Gross borrowing divided by gross assets.

Funding strategy

To fund portfolio growth since IPO, SOHO has steadily increased its capital resources, both equity and debt capital, sufficient to take advantage of opportunities in the market while avoiding excessive gearing and mitigating any drag on returns. The company targets medium-term gearing of 25–40% (defined as aggregate borrowings as a percentage of gross assets) with a maximum of 50%.

At IPO in August 2017, SOHO raised £200m (gross, before costs), issuing 200m ordinary shares at 100p per share. In March 2018, the company followed this with the issue of 47.5m C shares at 100p. These were convertible preference shares with a fixed dividend entitlement of 3% pa up to the point of conversion. Following investment of the proceeds, conversion into ordinary shares took place in August 2018 based on the respective NAVs of the two share classes. The conversion ratio of c 0.98 new ordinary shares for each C share resulted in the issue of 46.4m new ordinary shares. In October 2018, 105m ordinary shares were issued at 103p per share, raising an additional £108.2m (gross) and, following full deployment of the equity and associated debt capital, SOHO recently issued 51.9m new shares at 106p to raise £55.0m gross.

Exhibit 11: Summary of equity issuance

Issue	Date	Number of ordinary shares (m)	Gross equity per share (p)	Gross equity £m)
Issued at IPO	Aug-17	200.0	100	200.0
Conversion of C shares	Aug-18	46.4	100.7	46.7
Issued through public offer	Oct-18	105.0	103	108.2
Issued through placing & public offer	Oct-20	51.9	106	55.0
Total		**403.2**		**409.8**

Source: Triple Point Social Housing REIT

In addition to approving the October 2020 equity issue shareholders also approved a placing programme under which a maximum 150m shares may be issued as and when required, up until 29 September 2021. The shares may be issued on a non-pre-emptive basis at a premium to the prevailing NAV per share. The placing programme should allow the company to tailor future equity issuance to its acquisition pipeline, providing flexibility and minimising any drag on returns.

SOHO has two debt facilities with an aggregate value of £228.5m, increased by £30m since end-H120 and comprising £68.5m of long-term, fixed-rate private placement loan notes and £160m (£130m at end-H120) of shorter-term, more flexible variable-rate revolving credit facilities (RCF) jointly provided by Lloyds and NatWest.

The December increase in the RCF was flagged by the company with the interim results and came after the existing facility was fully utilised in October 2020. The term of the facility was at the same time increased by a further year to December 2024 with no change to the cost of the facility.

Exhibit 12: Summary of debt portfolio as at end-H120

Lender	MetLife (Tranche A)	MetLife (Tranche B)	Lloyds & NatWest (prior to December 2020 facility increase)
Facility type	Loan notes	Loan notes	RCF
Facility size	£41.5m	£27.0m	£130.0m
Drawn	£41.5m	£27.0m	£116.6m
Term	10 years	15 years	Four years with two-year extension option
Maturity	Jul-28	Jul-33	Dec-22
Cost	Fixed: 2.924%	Fixed: 3.215%	Floating: Libor+1.85%

Source: Triple Point Social Housing REIT

As at 30 September 2020, gross borrowing was £198.5m (end-H120 £185.1m), representing gross gearing of 32.9% (H120: 33.1%). In this report, references to loan to value are measured as net debt divided by investment properties at valuation (27.8% at end-H120).

At end-H120, the debt facilities had a weighted average term to maturity of 5.1 years, and we estimate that including the RCF extension this is now just under five years. We estimate the weighted average interest cost of the enlarged debt facilities, if fully drawn, at c 2.25%. Undrawn balances under the RCF incur a commitment fee at 40% of the interest margin.

The MetLife loan notes are secured against a portfolio of property assets with an end-H120 value of c £183m. At end-H120, funds drawn on the RCF (£116.6m) were secured against a portfolio of property assets with a value of c £292m. All financing arrangements are on a non-recourse basis to the group.

Our forecasts assume that the enlarged debt facilities are fully drawn by the end of H121.

Valuation

Based on targeted quarterly DPS payments amounting to 5.18p for the current year, SOHO offers a yield of 4.9% and with dividends continuing to be paid in full, with no COVID-19 impact to date, we believe the yield to be attractive in the context of a continuing low interest rate environment.

We calculate an EPRA NAV total return since the 8 August 2017 IPO to 30 June 2020 (end-H120) of 20.1%, or an average annualised 6.5% pa. Income returns represented 63% of the total although the contribution is increasing as dividend cover builds. Excluding the c £20m of acquisition costs incurred to build the portfolio since IPO, we estimate an aggregate return of 26.6% or an annual average of 8.5%.

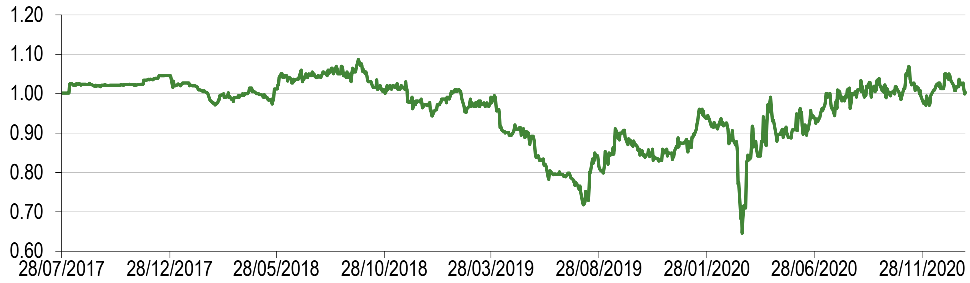
Exhibit 13: EPRA NAV total return

	FY17	FY18	FY19	H120	Cumulative
Opening NAV per share (p)	98.0	100.8	103.6	105.4	98.0
Closing NAV per share (p)	100.8	103.6	105.4	105.3	105.3
DPS paid (p)	0.0	4.8	5.1	2.6	12.4
Annualised NAV total return	7.3%*	7.5%	6.5%	4.9%*	20.1%
Compound annual average return					6.5%

Source: SOHO, Edison Investment Research. Note: *FY17 is annualised data for period 8 August 2017 to 31 December 2017 and H120 is also annualised.

The shares are trading at around the end-Q320 NAV per share of c 106p which compares with an average c 4% discount since IPO and a peak of c 7%. The average is reduced by two distinct periods of temporary weakness, the first of which occurred from late 2018 to mid-2019 reflecting initial investor caution in response to regulatory intervention aimed at lifting standards among housing association participants. As the issues became better understood the share price rose, only to fall back again in response to COVID-19 fears at the beginning of the lockdown. An appreciation of the critical role that the sector performs, the factors that mitigate the operational risks of COVID-19, and the robustness of rent payments, have resulted in the shares recovering.

Exhibit 14: Price/NAV history since IPO



Source: Refinitiv price data to 29 January 202, SOHO NAV data

In Exhibit 15 we show a share price performance and valuation comparison with a group of companies that we would consider to be the closest peers to SOHO, including close peer Civitas; Residential Secure Income, which invests in affordable shared ownership, retirement and local authority housing (but not specialised supported housing); primary healthcare investors PHP and Assura; and care home investors Target Healthcare and Impact Healthcare. The peers are all focused on stable, growing income returns, with the potential for capital appreciation, from investment in properties let on long leases to tenants whose income is provided, to differing degrees, by government funding. However, the peer group remains quite differentiated in respect of lease terms, which will naturally influence valuation levels. UK primary healthcare leases benefit from the security of being directly or indirectly backed by government, although most rents are subject to open market rent reviews rather than being indexed to inflation. For the care home investors, the lease counterparties are the care home operators, and rents are generally linked to RPI.

Exhibit 15: Peer comparison

	Price (p)	Market cap. (£m)	P/NAV* (x)	Yield** (%)	Share price performance			
					1 month	3 months	YTD	12 months
Assura	74	1969	1.31	3.8	-5%	-2%	-4%	-6%
Civitas Social Housing	107	668	1.00	5.0	3%	3%	2%	10%
Impact Healthcare	111	354	1.02	5.6	1%	14%	2%	2%
Primary Health Properties	149	1972	1.36	4.0	-4%	4%	-3%	-7%
Residential Secure Income	87	149	0.01	5.7	-2%	-3%	-3%	-13%
Target Healthcare	115	525	1.06	5.8	0%	7%	1%	-3%
Average			**0.96**	**5.0**	**-1%**	**4%**	**-1%**	**-3%**
Triple Point Social Housing	**107**	**429**	**1.00**	**4.9**	**-2%**	**2%**	**-4%**	**7%**
UK property index	1,579				-3%	14%	-1%	-18%
FTSE All-Share Index	3,700				-1%	17%	1%	-11%

Source: Company data. Refinitiv. Note: Prices at 29 January 2021. *Based on last published EPRA NAV. **Based on 12-month trailing DPS declared

Robust rent collection and tenant performance during the COVID-19 pandemic should continue to support the valuation, while the yield remains well ahead of that for the primary healthcare property investors that benefit from similar but stronger government backing for rents. Although the rents for properties that meet the SSH criteria are fully funded by central government, they are not paid directly to landlords but to the RP lessees via local authorities. However, while the Regulator of Social Housing continues to have concerns about certain aspects of the SSH funding model, and certain housing associations operating in the space, we note that:

- There are clear signs of progress being made in terms of RP financial strength, governance and operational performance.
- Given the essential and long-term nature of SSH and the growing demand for homes, it is the quality and location of the assets, their suitable adaption to the long-term needs of the tenants,

and rents being at an appropriate level that provides the effective security to income. Despite some additional operational strains on the sector during the pandemic to date, rent collection has remained robust and the government has shown a willingness to provide additional financial support to cover additional costs such as those relating to care staffing and personal protective equipment (PPE).

Sensitivities

SOHO's assets are fully let on long, inflation-linked leases. Central government fully funds the rents of those individuals living in homes that meet the criteria for SSH, paid via local authorities directly to the APs that lease the properties from SOHO and manage them. The sector provides an essential service to some of the most vulnerable members of society, receives widespread political support for the improved tenant outcomes and value for money that it provides, and benefits from a strict regulatory regime that contributes towards long-term stability. The sector has demonstrated operational resilience throughout the COVID-19 pandemic to date. As a result of these factors, the sector has a low correlation with the general economy or the wider residential or commercial property sectors.

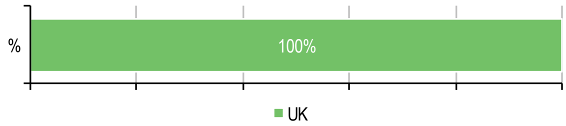
We see the key sensitivities as:

- The failure of one or more housing associations to meet its long-term lease obligations would have the potential to negatively affect income and property valuations. Historically within the social housing sector, where operators have faced financial difficulties these have been managed via amalgamations, asset transfers and lease reassignments. The extent of any impact of a tenant failure would thus depend on near-term credit exposure and whether the leases can be reassigned to another housing association in a timely manner on satisfactory terms. In this respect, the security of income is substantially based on the quality and location of the properties, their suitable adaption to the long-term needs of the tenants, and the level of rents being set at a suitable level in relation to care needs and the wider SSH market.
- Significant changes in the way the sector is funded have the potential to materially affect investors such as SOHO. We would not anticipate any move towards 'nationalising' the provision of SSH given the capital commitment this would require and expect private investment capital to continue to play a significant role. This need for private investment capital also mitigates the risk of any form of 'rent caps' that would significantly impair the ability of the housing associations to meet their long-term lease obligations to investors such as SOHO. Neither do we expect a removal of the rent cap exemption that applies to SSH given the widespread recognition that the current system offers value for money, providing care at a lower cost than the alternatives while generating clearly enhanced outcomes for those in need.
- Asset growth and acquisition yields. Our forecasts assume material further asset growth and failure to achieve this, or acquisition made at materially lower yields than we have assumed (net initial yield 5.8%), would have a limited negative impact on our forecast income growth and dividend cover. Beyond the forecast deployment of existing capital resources, SOHO's ability to further address the acute shortage of SSH housing, grow its portfolio with accretive acquisitions, and generate economies of scale, will be dependent on access to additional equity and debt capital.
- Market-wide valuation yields have tightened from c 7% in 2015 (the net initial yield on SOHO's portfolio was 5.3% at end-FY20). As a relatively recent alternative property asset class, although uncorrelated with the broader sector, it is not entirely clear how yields would develop in a cyclical property sector downturn. Any increase in yields would negatively affect NAV and LTV, although recurring income from existing assets would be unaffected and cash yields on acquisitions would improve.

Exhibit 16: Financial summary

Period ending 31 December (£'000s)	2017	2018	2019	2020e	2021e	2022e
INCOME STATEMENT						
Rental income	1,027	11,490	21,112	27,955	35,790	37,790
Directors' remuneration	(147)	(265)	(307)	(310)	(316)	(323)
Investment management fees	(472)	(2,309)	(3,869)	(4,083)	(4,539)	(4,682)
General & administrative expenses	(446)	(1,909)	(1,809)	(1,879)	(1,917)	(1,955)
Total expenses	(1,065)	(4,483)	(5,985)	(6,272)	(6,772)	(6,959)
Ongoing charge ratio (OCR)	1.34%	1.58%	1.63%	1.63%	1.57%	1.56%
Operating profit/(loss) before revaluation of properties	(38)	7,007	15,127	21,683	29,018	30,830
Change in fair value of investment properties	5,639	14,497	11,809	6,187	8,769	13,275
Operating profit/(loss)	5,601	21,504	26,936	27,870	37,786	44,105
Net finance income/(expense)	71	(1,607)	(3,219)	(5,584)	(6,169)	(6,319)
PBT	5,672	19,897	23,717	22,286	31,618	37,786
Tax	0	0	0	0	0	0
Net profit	5,672	19,897	23,717	22,286	31,618	37,786
Adjusted for:						
Change in fair value of investment properties	(5,639)	(14,497)	(11,809)	(6,187)	(8,769)	(13,275)
EPRA earnings	33	5,400	11,908	16,099	22,849	24,512
Interest capitalised on forward funded developments	0	0	(60)	(81)	0	0
Amortisation of loan arrangement fees	0	47	457	1,084	1,084	1,084
Adjusted earnings	33	5,447	12,305	17,102	23,933	25,596
Basic & diluted average number of shares (m)	143.8	237.6	351.1	360.9	402.8	402.8
Basic & diluted IFRS EPS (p)	3.94	8.37	6.75	6.16	7.85	9.38
Basic & diluted EPRA EPS (p)	0.02	2.27	3.39	4.45	5.67	6.09
Basic & diluted adjusted EPS (p)	0.02	2.29	3.50	4.73	5.94	6.35
DPS declared (p)	1.00	5.00	5.10	5.18	5.28	5.39
Adj. EPS/DPS	0.02	0.46	0.69	0.91	1.12	1.18
BALANCE SHEET						
Investment properties	138,512	324,069	472,349	580,338	665,107	678,381
Other receivables	0	0	0	0	0	0
Total non-current assets	138,512	324,069	472,349	580,338	665,107	678,381
Cash & equivalents	58,185	114,624	67,711	48,439	6,772	10,859
Other current assets	12,002	3,392	4,287	4,667	5,995	6,073
Total current assets	70,187	118,016	71,998	53,105	12,767	16,933
Trade & other payables	(5,876)	(8,998)	(8,145)	(10,208)	(13,115)	(13,286)
Other current liabilities	0	0	0	0	0	0
Total current liabilities	(5,876)	(8,998)	(8,145)	(10,208)	(13,115)	(13,286)
Bank loan & borrowings	0	(67,361)	(164,955)	(195,158)	(226,242)	(227,326)
Other non-current liabilities	(1,151)	(1,565)	(1,514)	(1,509)	(1,509)	(1,509)
Total non-current liabilities	(1,151)	(68,926)	(166,469)	(196,667)	(227,751)	(228,835)
IFRS net assets	201,672	364,161	369,733	426,568	437,008	453,193
EPRA net assets	201,672	364,161	369,733	426,568	437,008	453,193
Period-end basic & diluted number of shares (m)	200.0	351.4	350.9	402.8	402.8	402.8
Basic & diluted IFRS NAV per share (p)	100.8	103.6	105.4	105.9	108.5	112.5
Basic & diluted EPRA NAV per share (p)	100.8	103.6	105.4	105.9	108.5	112.5
CASH FLOW						
Net cash flow from operating activity	795	5,406	16,304	25,126	30,595	30,923
Cash flow from investing activity	(142,035)	(160,580)	(135,472)	(100,970)	(75,990)	10
Net proceeds from equity issuance	196,000	106,000	0	53,405	0	0
Net proceeds from C share issuance	0	46,550	0	0	0	0
Loan interest paid	(2)	(1,563)	(2,898)	(4,565)	(5,095)	(5,245)
Bank borrowings drawn/(repaid)	0	58,040	111,052	29,408	30,000	0
Share repurchase	0	0	(378)	0	0	0
Dividends paid	0	(10,079)	(17,767)	(18,813)	(21,177)	(21,601)
Other cash flow from financing activity	0	(1,186)	(3,455)	(254)	(0)	(0)
Cash flow from financing activity	195,998	197,762	86,554	59,181	3,728	(26,845)
Change in cash	54,758	42,588	(32,614)	(16,663)	(41,667)	4,087
Opening cash	0	54,758	97,346	64,732	48,069	6,402
Closing cash (excluding restricted cash)	54,758	97,346	64,732	48,069	6,402	10,489
Restricted cash	3,427	17,278	2,979	370	370	370
Cash as per balance sheet	58,185	114,624	67,711	48,439	6,772	10,859
Debt as per balance sheet	0	(67,361)	(164,955)	(195,158)	(226,242)	(227,326)
Unamortised loan arrangement costs	0	(1,139)	(4,137)	(3,342)	(2,258)	(1,174)
Total debt	0	(68,500)	(169,092)	(198,500)	(228,500)	(228,500)
Net (debt)/cash excluding restricted cash	54,758	28,846	(104,360)	(150,431)	(222,098)	(218,011)
Net LTV (net debt/investment property)	N/A	NA	22.1%	25.9%	33.4%	32.1%
Company gearing (gross debt/gross asset value)	0.0%	15.5%	31.1%	31.3%	33.7%	32.9%

Source: SOHO historical data, Edison Investment Research forecasts.

Contact details	Revenue by geography
Triple Point Social Housing REIT 1 King William Street London EC4N 7AF UK 020 7201 8989 contact@triplepoint.co.uk www.triplepoint.com	

Leadership team

Non-executive chairman: Chris Phillips	Managing partner & asset originator, Triple Point: James Cranmer
Chris Phillips has more than 35 years of real estate and listed company experience. He headed the residential real estate consultancy business at Colliers International before becoming the first managing director of the Colliers commercial real estate property fund, Colliers Capital UK, from 1998 to 2005. His other current roles include non-executive chairman of Places for People, the UK's leading social landlord, and chairman of Londonnewcastle, a leading residential-led, mixed-use developer in London. He was previously a member of the Octopus Healthcare Advisory Board which invests in, develops, and creates partnerships to deliver innovative healthcare buildings in the UK.	James Cranmer joined Triple Point, the company's delegated investment manager, in 2006 as co-managing partner, to establish its flagship leasing business, Triple Point Lease Partners, now one of the UK's most active providers of operating lease finance into local authorities and NHS hospital trusts. He has more than 20 years' experience in structured, asset and vendor finance, and has been responsible for over £1bn of funding to local authorities and NHS hospital trusts, FTSE 100 and medium-sized companies.
Managing partner and fund manager, Triple Point: Ben Beaton	**Principal and head of investment, Triple Point: Max Shenkman**
Ben Beaton joined Triple Point, the company's delegated investment manager, in 2007 to lead the sourcing and execution of a broad spectrum of investments including renewable energy, long leased infrastructure and property bridge lending. He has established himself as an industry leader in matching capital with investment opportunities, building innovative products for investors and offering attractive and flexible funding solutions to a range of businesses in both the public and private sectors.	Max Shenkman joined Triple Point, the company's delegated investment manager, in 2011 and has led investments across its product range, arranging both debt and equity funding for a number of property backed transactions in the social housing, infrastructure, and agricultural sectors. He has also been responsible for the provision of more than £100m of receivables financing to SMEs. Prior to joining Triple Point he was an associate in the debt capital markets team at Lazard where he advised private equity clients.

Principal shareholders (Source: Triple Point September 2020 Prospectus)*	(%)
CCLA Investment Management	12.00
BlackRock Inc	12.97
East Riding & Yorkshire Council	9.37
Investec Wealth & Investment Management	8.33
Nottingham County Council Pension Fund	5.53
Tilney Investment Management Services	4.75
Standard Life Aberdeen	4.58
West Yorkshire Pension Fund	3.95
South Yorkshire Pensions Authority	3.41

Note: *Latest published data, pre-dates completion of October 2020 equity raise.

Appendix 1: The social housing sector

Social housing

Social housing[2] is low-cost rented housing, and in some cases low-cost home ownership, for those who lack the financial resources to access the private market. The social housing sector is large, but a chronic shortage of affordable housing means that it remains in high demand. The current stock of social homes for rent in England is more than 4.0m units (source: Full Fact), and while this is down from around 5.0m units in the early 1980s, it still represents almost one in every five homes. Of the total, c 2.8m are provided by housing associations and the balance by local authorities, a share that has declined steadily. The housing charity Shelter estimates that well over a million families are stuck on local authority waiting lists in England alone, the majority for more than a year, and more than a quarter for more than five years. Social housing may be provided at 'affordable rents', typically around 80% of the open market level, or 'social rents', typically 50% or less of open market levels and aimed at those with the greatest need. In recent years, the overall supply of newly built social housing has been in the range of 40,000–60,000 homes per year, with the majority provided at the higher-end affordable rents. Homes built for social rent have recently fallen to very low levels (c 5,000 homes in 2017/18), despite representing the larger share of the rented stock.

The majority of social housing is termed 'general needs' and may be occupied by anyone who meets the allocation criteria of the local authority or housing association provider.

Supported and specialised supported housing

In the broad social housing sector, supported housing provides housing, support and care as an integrated package, on either a long- or short-term basis, to meet a range of needs. This may be provided across a number of different housing types, including group homes, hostels, refuges, supported living complexes and sheltered housing. The aim is to allow those in need of supported housing to live as independently and inclusively as possible within their community. Estimates vary slightly, but at any one time around 700,000 people across the UK rely on supported housing[3] The majority of those in supported housing are the elderly, but for those with certain special care needs, this may be provided within a specific type of social housing, known as specialised supported housing (SSH). SSH is specifically designed or adapted for people who require specialised services to enable them to live as independently as possible, as an alternative to a care home but with a similar level of support. Those living in SSH represent around a quarter of the c 700,000 living in supported housing, typically including those whose needs are long term or lifelong, and relating to mental, physical and learning disabilities, autism, domestic abuse, substance abuse and homelessness.

SSH accommodation is exempt

Funding for the rents of those living in homes that meet the criteria for SSH comes from central government and is distributed via the local authorities that commission the services. SSH provision is therefore not reliant on the level of local authority funding. An important distinction of SSH is that the level of rent is set on a bespoke basis according to individual needs and is exempted from the social rent rules that normally apply to housing benefit awards. This exemption was created by

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[2] Housing is a devolved issue and the UK government only has responsibility for England. In this section, we have relied on data from a range of sources which, while differing in some respects, provides a consistent overall picture of sector trends.

[3] The Dept. for Communities 'Supported Accommodation Review' in November 2016 estimated 651,500 social housing units with support needs. The House of Commons, First Joint Report of the Communities & Local Government and Work and Pensions Committees, 'Future of Supported Housing' in May 2017 estimated 716,000 people live (with appropriate support) in supported housing.

legislation in 1996 and so SSH has been around for more than 20 years. In order to fall within the exempt rent legislation, SSH homes must fulfil a number of criteria including the following:

- designed or structurally altered for residents who require specified services or support to live independently in the community;
- provided on a not-for-profit basis, by an HA, local authority, registered charity or voluntary organisation;
- offering a high level of support which is equivalent to the services or support provided in a care home, for residents whose only alternative would be a care home or hospital. This requirement also extends to the housing association or other property provider, which is expected to provide levels of support or supervision above that provided in general housing services; and
- delivered without public subsidy.

SSH provides value for money and improved outcomes

The cost of supported housing is higher than for general needs social housing, but there is broad agreement that it generates substantial cost savings in other parts of the public sector, while at the same time provides a real improvement in the quality of life of recipients. Research, including the government's own data, shows that at a time of increasing demand for SSH, it is a cost-effective way of providing homes for people compared with the likely alternatives of residential care or long-stay hospitals.

There are many factors that contribute to the additional costs that are related to the highly specialised nature of the accommodation compared with general needs. These may include the need for 24-hour staffing, the installation and monitoring of CCTV, the need for and monitoring of enhanced fire and safety equipment, bespoke adaptions and/or construction design, higher levels of wear and tear, and the long lead time often needed to securely place tenants.

Government data (from *Future of supported housing*, May 2017) estimates that for working age people (ie excluding the elderly), the average rent cost in supported housing was £214 per week, ranging from an average £133 per week for people with a physical disability to an average £277 per week for women's refuges, with average weekly rent costs for people with learning disabilities and autism sitting somewhere in between. The Minister for Local Government at the time estimated the net savings generated by supported housing at an annual £3.5bn.

Mencap commissioned research (*Funding supported housing for all*, April 2018), which estimated the average rent cost of SSH housing (including the service charges) at £232 per week within an overall average weekly cost of SSH (including the cost of the care package at an average £1,337 per week) at £1,569. This compared with its estimate of the average cost of registered care (residential care) at £1,760 per week or £3,500 per week for in-patient hospital care. Its findings are consistent with National Housing Federation data, which estimated the annual saving resulting from SSH for people with learning difficulties and mental disabilities at £15,500 or c £300 per week.

The ability of providers to charge higher rents than are available for general needs social housing continues to be an important factor in making SSH schemes viable and increasing provision. It has also enhanced the flexibility of providers to develop innovative ways of meeting the needs of those with a broader range of bespoke requirements for other forms of supportive housing and care needs. The government has considered the existing framework of funding, seeking to ensure that this is sustainable, ensures quality, provides value for money, and encourages the supply of supported housing. In August 2018, a consultation process on possible alternative funding options concluded with the recognition that supported social housing is a vital service for some of the most vulnerable people in our communities and that housing benefit should remain in place for all supported housing.

SSH expected to grow further

It is widely expected that the demand for SSH will continue to increase, driven by greater penetration of the existing population in need, and the further growth of that population.

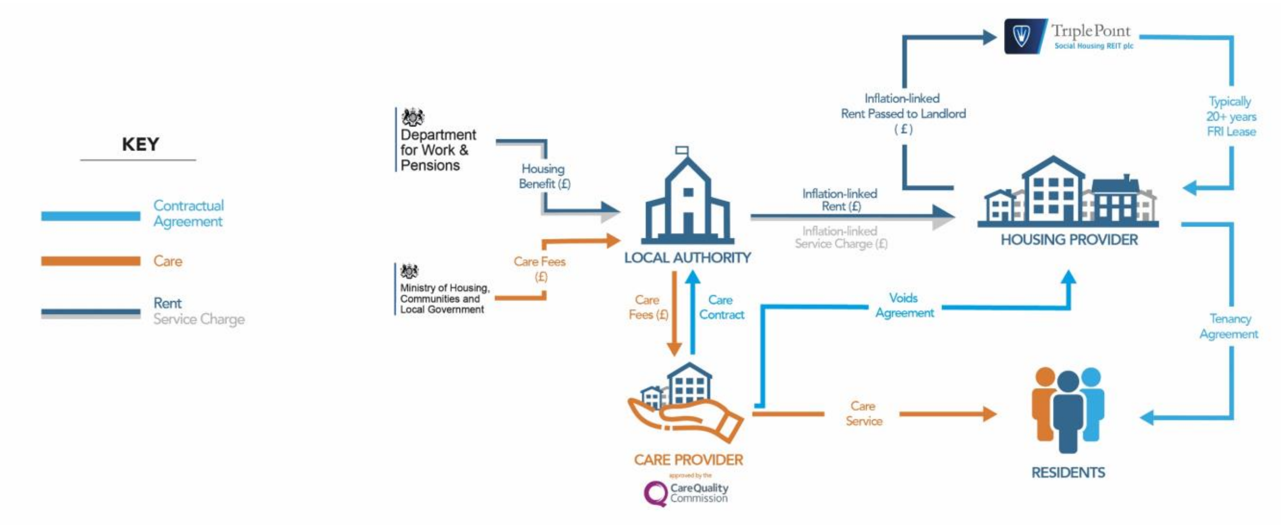
At both the national and local level it is government policy to offer SSH to more people. In part, this reflects the value for money that it provides compared with the alternatives of residential care or long-stay hospitals, a consideration that is not simply cost related, but also recognises the enhancement to quality of life that SSH can provide. Mencap estimates that more than 2,000 people with autism or a learning disability are still living in long-stay hospitals, and although the NHS is committed to halving this number progress has been slow. Despite a steady flow into community based SSH, the hospitals quickly refill due to the shortage of alternative provision relative to the demand. Mencap estimates that c 50% of people with a learning disability live with a parent or some other home carer over the age of 65. As this group of carers ages and becomes less able to perform this role, the demand for alternative housing increases. At the same time, as advances in medical care, and in particular post-natal baby care, have improved infant survival rates, the size of the population living with life-long medical and care needs is increasing, and these people are themselves living longer.

Although not directly comparable, the expectation of increasing demand for SSH is clear from available research. The Mencap-commissioned research estimated the total number of SSH units at 22,000–30,000, with an expectation that the demand will increase to 25,500–33,500 units by 2021/22 and 29,000–37,000 units by 2027/28. In a December 2015 research paper (*Supported housing: Understanding need and supply*), the National Housing Federation estimated a then shortfall of c 16,000 homes, with an expectation that this would increase to c 29,000 by 2019/20 and to c 47,000 by 2024/25.

Appendix 2: The contractual arrangement

Although rent funding for those living in SSH comes from central government the services are commissioned at a local level. The commissioning local authorities enters into a care contract with the chosen care provider, which includes a personal care agreement for each tenant. In turn, the care provider enters into a service level agreement with the AP (in the case of SSH a registered provider) which manages the property. In terms of the funding disbursed by the local authority, the care costs are paid directly to the care provider, and reflecting the vulnerable nature of residents, rent and property service charge payment are made by the local authority directly to the approved provider. Typically, there are arrangements in place whereby the care provider will cover the cost to the AP of voids (empty units or beds). Despite the intention that all properties will become fully occupied, by long-term residents, to meet the shortage of supply and growing demand for homes, voids will inevitably occur for a number of reasons, particularly for new schemes. It may take up to a year to fill a newly opening home for clinical reasons, transfers from long-stay hospitals are complex and subject to delays, setting up individual care packages can take time, and introducing a compatible new tenant into a vacancy in an existing home needs to be handled with care. The level of voids can vary quite markedly depending on the clinical need and tends to be longest for people with learning disabilities. The AP may not be able to recover the cost of voids if it arises through poor management (eg if the property is unavailable because a valid gas safety certificate is unavailable).

Exhibit 17: Contractual framework



Source: SOHO

Although the contractual structure shown in Exhibit 17 is somewhat complex, the separation between the AP, care provider, and long-term property owner is favoured by local authorities. In a situation where the care provider is also the property owner, it is much more difficult for the local authority to replace them should it choose to.

Property investors such as SOHO are typically not contracted directly with either the local authority or the care provider. Instead, they lease the properties to, and receive the rent from, the AP, usually on long leases (c 25 years at inception). In many cases, lease agreement between the AP and the property owner have been of longer duration than the service level agreements between the AP and the care provider although there is a recent trend towards longer service level agreements, in many cases 'back to back' with the property lease. Where a duration mis-match exists we believe there is little risk of APs 'losing residents' or medium-term income as a result of care contract maturities, and that in most cases care contracts will continue to roll over. Even if this is not the case, given the effort and cost of settling a resident into their long-term SSH home initially, often a home for life, it is highly unlikely that the commissioning local authority will want to see residents move from one home to another.

Appendix 3: The regulatory process

The RSH regulates Registered Providers of social housing (RPs) to promote a viable, efficient and well-governed social housing sector able to deliver homes that meet a range of needs. RSH is an executive non-departmental public body, sponsored by the Ministry of Housing, Communities & Local Government. SOHO's RP tenants are regulated by the RSH and although SOHO is not, it interacts with the RSH on a regular basis.

In summary, the objectives of the RSH are to:

- protect social housing assets;
- ensure providers are financially viable and properly governed;
- maintain the confidence of lenders to invest into the sector;
- encourage and support the supply of social housing (including by encouraging and promoting private investment in social housing);
- ensure that tenants are protected and have opportunities to be involved in the management of their housing; and

- ensure value for money in service delivery.

The RSH sets out the regulatory standards and it is the responsibility of the RPs to ensure that these are met, and for being open and honest with the RSH about how they are meeting objectives. The RSH primarily looks to the RPs to identify any problems and take the necessary action to resolve these. Where this is the case and the RSH concludes that the RP can satisfactorily respond to problems, it will work with the provider to help it deliver the necessary corrective actions. Where an RP is unable or unwilling to respond positively, the RSH may use its regulatory enforcement and general powers. Where the RSH has very serious concerns about the financial strength of an RP, or where tenants are at risk, it has a range of intervention powers to protect the interests of those tenants and maintain the social housing assets in the regulated sector. The regulator may also facilitate discussions between a failing RP and a financially stronger RP which may be able to help, although any decision to offer or receive financial support is a matter for the boards of the respective RPs.

The RSH is risk-based in its regulatory approach, using its sector risk analysis and assessments of RPs with 1,000 or more social housing units to identify those judged to be more complex and which consequently have an increased level of risk exposures. RPs with fewer than 1,000 social housing units are subject to a lower level of regulatory engagement, and although many of the SSH providers fall into this category, the growth of the sector, in response to local authority demand, has increased the number above the 1,000 unit threshold. An RP becomes subject to an in-depth assessment (IDA) by the RSH within three years of crossing the 1,000 unit threshold, resulting in the RSH publishing a formal grading (V1–4 for Financial Viability and G1–4 for Governance, where V1–2 and G1–2 are considered 'compliant' ratings and V3–4 and G3–4 are considered 'non-compliant' ratings), referred to as a regulatory judgement. Although regulatory judgements are not published for RPs with less than 1,000 units, the RSH may publish a regulatory notice if there is evidence that such a provider is in breach of an economic standard, or it finds serious detriment as a result of a breach of a consumer standard. Where the RSH is investigating a matter and it considers that the investigation might result in a provider (currently judged to be compliant) being reassessed as non-compliant in relation to the economic standards, the RSH will add it to its 'gradings under review' list. The purpose of the list is to alert stakeholders to the possibility that the provider may be moving towards non-compliance with a standard, in line with its obligations to be transparent. Once the investigation concludes, it publishes a new or updated regulatory judgement for the provider and removes it from the 'gradings under review' list.

SOHO is one of the leading private sector investors in the supported housing sector, working with some of the fastest-growing RPs, and to date the regulator has issued judgements or notices in respect of five of its registered provider lessees.

In early 2019, following an initial IDA, the RSH published a regulatory judgement on Inclusion Housing CIC, deeming it non-compliant in terms of Financial Viability (V3) and Governance (G3). Inclusion is working with the RSH to address the issues raised. Encircle Housing and Bespoke Supportive Tenancies both received non-compliant ratings in April and May 2019, respectively. However, neither was given a formal rating because each had fewer than 1,000 units under management at the time. Their judgements focused on specific issues relating to risk management and, in August 2019, a further short notice was published about Bespoke Supportive Tenancies concerning shortcomings in its compliance checks at certain properties. In September 2019, the RSH changed Westmoreland Supported Housing's original governance rating from G3 to G4 (with its Financial Viability remaining at V3). This followed a winding up petition submitted – but then withdrawn – by one of Westmoreland's landlords over disputed rent. The RSH deemed this to be a governance issue and appointed three new board members. A regulatory notice issued in October 2020 reconfirmed the G4/V3 ratings. In December 2020, the RSH published a regulatory judgement on My Space, having placed it under review in September 2020. The My Space judgement deems it non-compliant with a V3 rating for viability and G3 rating for governance and the RSH seeks improvements in the areas of business planning and risk management.

With support from SOHO, the organisations affected by regulatory judgements and notices have shown tangible signs of improvement over the past year, and it is important to note that there has been no impact on rent collection or negative impact on the external valuations of the properties owned by SOHO. While increased regulatory oversight has tempered the growth of some RPs, governance and viability standards continue to rise, although there are always further improvements that can be made and legacy issues to work through. The RSH has also acknowledged that business models are changing, an example of which is more RPs choosing to lease assets exclusively rather than own them. The April 2019 addendum to the RSH's 2018 Sector Risk Profile focused on the risks of providers of SSH which predominantly lease, rather than own, properties. At the same time, the RSH acknowledged the importance of private investment into this sector. For all RPs the regulation of three economic standards will continue to be assessed: governance and financial viability, value for money standard and compliance with the rent standard.

The government white paper, The Charter for Social Housing Residents, was published in November 2020 and focuses on tenant protection, building safety and quality, and the strengthening of regulatory powers in this area.

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia