REAL ESTATE CREDIT INVESTMENTS

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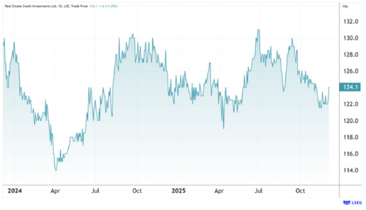
Diversified Financial Services



Source: LSEG, 2025

Market data

EPIC/TKR	**RECI**
Price (p)	**123.5**
12m high (p)	132
12m low (p)	118
Shares (m, exc. Treasury)	222
Mkt cap (£m)	274
NAV p/sh (Oct'25, p)	141.5
Disc. to NAV (%)	-13
Div. yield (FY'24)	9.7%
Country/Ccy of listing	UK/GBP
Market	Premium equity closed-ended inv. funds

Description

Real Estate Credit Investments (RECI) is a closed-ended investment company that originates and invests in real estate debt secured by commercial or residential properties in the United Kingdom and Western Europe.

Company information

Chair	Andreas Tautscher
NEDs	Susie Farnon, Colleen McHugh, Mark Thompson
Inv. Mgr.	Cheyne Capital
Main contact	+44 (0)207 968 7328

www.realestatecreditinvestments.com

Key shareholders (Mar'25)

Close Bros.	10.49%
Hargreaves Lansdown AM	7.85%
Premier Miton (Jun'24)	5.97%
Aberdeen	5.51%
Waverton	5.38%
Canaccord Genuity	5.10%
Tilney Smith Williamson	5.00%

Diary

Mid-Dec	Nov NAV

Analysts

Mark Thomas mt@hardmanandco.com
Mike Foster mf@hardmanandco.com

Investor Day: opportunities aplenty

In previous reports, we have highlighted RECI's downside resilience. Our key takeaway from the November Investor Day was the scale of RECI's current opportunities. The key driver to the strong pipeline is the manager having the expertise and scale to access the least competitive sectors of real estate lending. By doing so, it can earn good returns (typically 8%-10% unleveraged) and only see a modest impact from whole-market dynamics. Regular repayments, both contractual and customers refinancing, mean that there is flexibility to take opportunities as they emerge. We sense an increased appetite for development finance.

- **Access to least competitive subsectors:** Real estate finance is not one market. Competition varies enormously; banks, for example, have little appetite for development finance due to regulatory capital penalties. Cheyne's scale means it accesses deals that are too large for many other finance providers.

- **Capital allocation:** In our view, investors should marry the positive investment-driven opportunities from the large Cheyne-sourced pipeline with the buyback and many years of maintained dividend payout, evidencing RECI's commitment to optimising immediate and direct shareholder returns.

- **Valuation:** RECI traded at premiums to NAV in the five-year, pre-pandemic era. The current discount to NAV is 13%. The dividend has been a consistent 3p per quarter for many years and generates a 9.7% yield. RECI is moving to lower-risk but higher-margin exposures, which should improve dividend cover.

- **Risks:** Any lender is exposed to credit risks. We believe RECI has appropriate policies to reduce default probability and loss in the event of default. Positions are illiquid. Its average total commitment to expected value LTV is 64.4%, and most loans (all of the top 10) are senior secured, providing a downside cushion.

- **Investment summary:** RECI generates an above-average dividend yield from well-managed credit assets; directors and management have demonstrated their confidence in its sustainability through share purchases. Market wide, credit risk is currently above average, but RECI's strong liquidity and debt restructuring expertise should allow it time to manage problem accounts. An extended £10m buyback programme was announced on 30 September 2025.

Financial summary and valuation

Year-end Mar (£m)	2023	2024	2025	2026E	2027E
Interest income	31.9	30.3	29.5	38.9	40.6
Operating income	30.7	31.4	34.2	38.9	43.6
Management fee	(4.3)	(4.2)	(4.1)	(4.0)	(3.9)
Performance fee	-	-	-	-	-
Operating expenses	(6.1)	(6.0)	(6.6)	(6.7)	(6.8)
Total comp. income	20.6	21.9	22.8	23.7	28.3
EPS (p)	9.0	9.6	10.2	10.7	12.1
NAV per share (p)	146.9	144.9	143.6	142.8	142.9
S/P prem./disc. (-) to NAV*	-9.1%	-20.7%	-14.9%	-13.5%	-13.6%
Debt to equity	24%	7%	22%	32%	34%
Dividend (p)	12.0	12.0	12.0	12.0	12.0
Dividend yield	9.7%	9.7%	9.7%	9.7%	9.7%

**2023-25 historical at that date, 2026-27E NAV to current s/p. Source: Hardman & Co Research*

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Accessing the least competitive elements of market

Risk/reward characteristics of each of the subsectors evolve over time and relatively between them

Market headlines about real estate lending can be very misleading. The "market" is not a single unit affected by omnipresent factors but rather a series of submarkets driven by their own dynamics. For example, the shift to online shopping means retail store presences may be weak but logistic centres strong. The office dynamics have changed with more home working making prime office units with facilities that attract workers (like onsite gyms) seeing strong demand, while dated second-tier units are weak. There are macro drivers creating different subsectors geographically.

Banking competition limited by their capital requirements, thus providing a cherry-picking lender with good opportunities

Returns are also driven by competition. Banks not only have to consider the return on lending but the capital they need to deploy to support the lending. As a group, their historical track record on development finance has been poor, resulting in a penalty for all development finance. Similarly, higher loan-to-value exposures attract greater capital requirements. Basel III, if and when fully implemented, could see even higher capital requirements on banks for many types of development finance. Both these factors drive banks into the lowest-loan-to-value, vanilla, mainstream markets. Good propositions have difficulty obtaining finance, not because of the risk of the proposition itself but because of much broader issues. A cherry-picking lender with the right risk assessment, monitoring and problem account management can thus earn good returns.

Why RECI portfolio benefits

RECI benefits from Cheyne's market presence, expertise, and risk controls with a proven track record

RECI benefits from Cheyne's competitive advantages, which we have outlined in multiple previous notes (see Appendix for full list of our notes on RECI). In particular, we highlighted its credit assessment, monitoring and problem account management, which we reviewed most recently in our notes *Meeting any potential macro challenges head on* (20 May 2025) and *What RECI brings to investors* (9 September 2025). In summary, it has i) proven credit management skills, ii) a culture of ownership of risk, iii) been a highly selective lender, iv) been selective in hiring the "best" people, v) a short life of exposures (77% contractually under two years with a weighted average life of 1.3 years) – we believe the actual life is even shorter given customer refinancing, vi) a focus on senior loans, offering good security and control of any, viii) good security and diverse exposures, and ix) a large market presence both in scale and local offices.

Specifically, in terms of accessing the least competitive elements of the market:

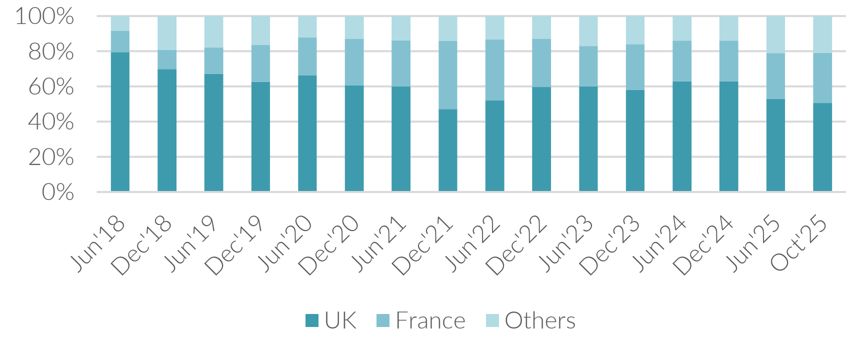
Local presences allow access to least competitive elements of the market

Cheyne's scale and local offices, means it has the resources to not only identify where competition is weak but also the expertise to understand local risk. It means also that Cheyne can be the sole financer of deals that otherwise may require syndicates of other financers (which potentially brings considerable complexity to their offers and most borrowers like simplicity).

Short duration book means new opportunities can be accessed

Having a short duration book also means that capital can be relatively rapidly deployed into whichever submarket is most attractive. RECI has a proven track record of dynamic portfolio evolution with the geographical mix shown in the table below. We note that, at last year's CM Day, there was a low priority given to development, reflecting the risk/reward outlook at that time. The most recent pipeline (see slide 11 of presentation) shows seven out of 13 Cheyne propositions are development (nearly half by value).

Geographical mix of portfolio (%)



Source: Company factsheets, Hardman & Co Research

Since year-end, RECI had receipts of £94m and committed more than £85m

By way of illustration of the potential churn, since the September year-end to the 17 November CM Day, three RECI positions have repaid in full, realising £94m (a later living development in London realised ca.£22.0m gross proceeds with an 8.1% unlevered IRR, a development of later living build-to-sell assets across three locations in the UK realised ca.£12.5m gross proceeds with a 9.3% unlevered IRR and an acquisition and development loan of industrial sites realised ca.£59.9m gross proceeds with an 8.9% unlevered IRR). RECI committed to more than £85m (gross), including most notably £23.1m into a loan for the refinancing of two logistics assets in Italy, £25.9m into a loan for the acquisition of a newly built, operating, hotel in Spain, £17.1m to a senior refinancing loan for an office building in London and £15.8m to a senior refinancing loan for industrial sites in the UK.

No US exposure

We note also that Cheyne is not present in the US where the range of financing options arguably makes the lending market more competitive. Its European focus, with on-the-ground presences in multiple countries allows it to access the less competitive geographical markets.

Gearing

Historical Repos financing no longer undertaken

In the past, RECI used Repos financing to gear its balance sheet with more liquid bonds. While returns were generated, that asset class saw considerable MTM volatility (up and down) and it also introduced liquidity risk in terms of margin financing. The bond book has now been shrunk to a minimal level of NAV and this type of financing is no longer undertaken.

Now gears through loan-on-loan finance, which can improve ungeared returns of 8%-10% to mid-teens

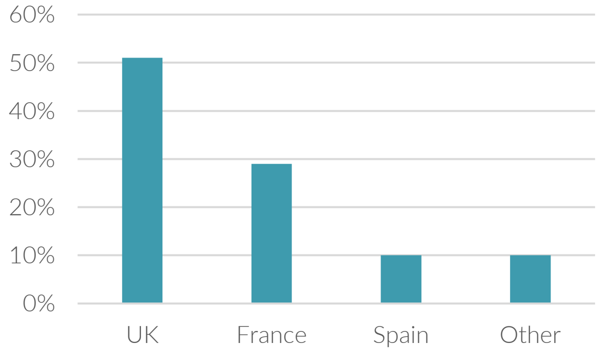
What RECI has introduced is more loan-on-loan financing where it borrows against specific loans it has made. Over time, a borrower establishes a proven track record of payments and the risk on a loan often reduces, meaning that, like for like, the loan-on-loan rate is lower than the original loan. Lenders to RECI/Cheyne, also have the relationship with Cheyne and do not need to do all the expensive ongoing account maintenance/relationship management with the borrower, and their rate reflects this. Terms of the loan-on-loan funding mean that duration risk is significantly matched. We understand the expected return to RECI can be increased from high single digit to mid-teens through gearing up to the current 40% cap.

Current net gearing 25% vs. 40% limit

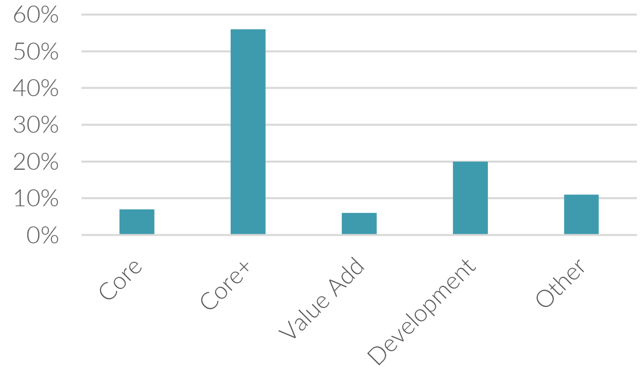
As at October 2025, RECI had on-balance-sheet gearing of £107m (34% NAV). Net of cash gearing is 25% against the 40% cap. RECI's cost of funding is an average cost of 5.7% against the average unleveraged yield on its portfolio of 9.4%. Additionally, there is a modest £13m (4% NAV) asset structured financing.

Portfolio summary (Oct'25)

Geographical mix of assets (%)

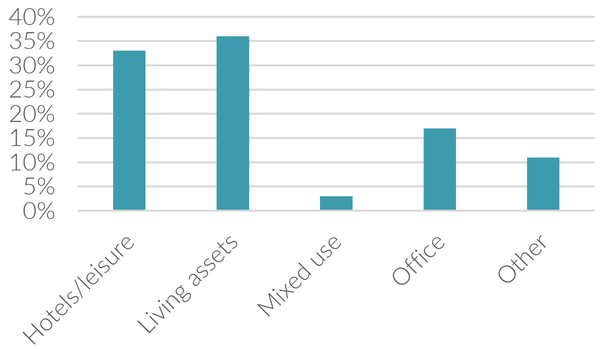


Asset type (%)

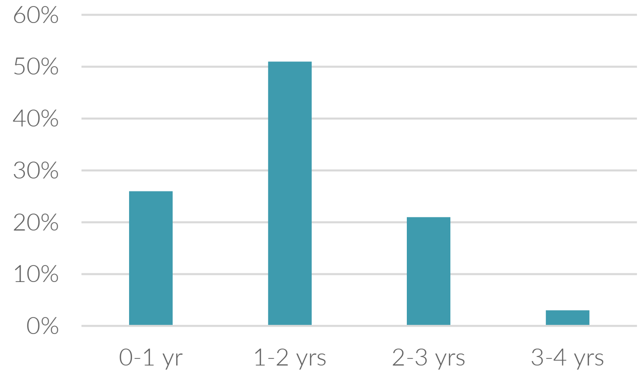


Source: RECI, Hardman & Co Research

Sectoral mix of investments (%)

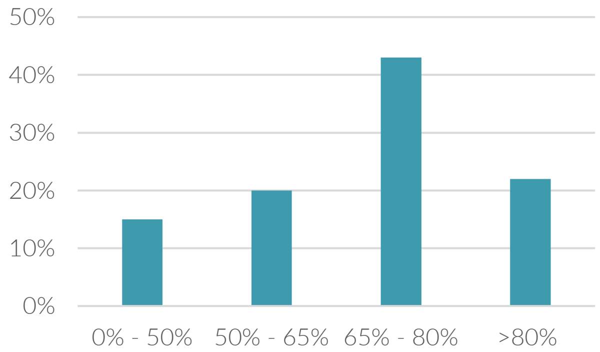


Duration (%)

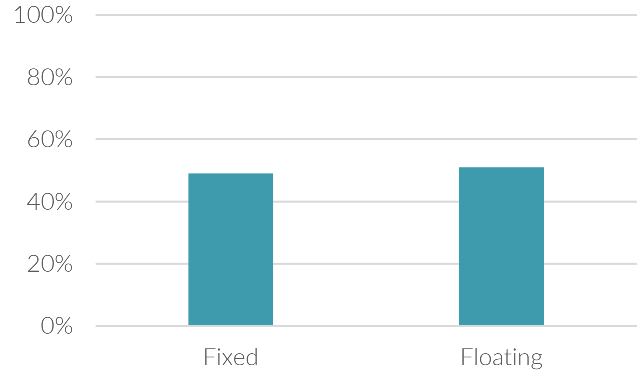


Source: RECI, Hardman & Co Research

Current loan to gross development value (%)



Interest type (%)



Source: RECI, Hardman & Co Research

The presentation included a detailed review of all exposures (slide 6) and two slides (9-10) on the risk weighting of the portfolio.

Valuation

Absolute

Current NAV likely to be on conservative side

In previous reports, we have considered how the NAV is assessed (see pages 23-24 of our initiation report, *7%+ yield from well-secured property debt portfolio*, published on 28 August 2019). The critical issues are how conservative the culture of the organisation is, and the independent checks and controls that are in place to review the process. As we noted in that report, RECI's approach, to both issues, appears to be in line with best practice.

By the nature of being a debt investor, the NAV is recycled via cash from maturing positions. Consequently, there is a marked contrast in how a rising interest rate environment affects REITs and RECI. For the former, the valuation basis is hit. For the latter, the recycling of capital takes returns towards a higher plane.

The short life of RECI's book means that loans are constantly repaying with an illiquid, private asset being recycled into cash. In valuation terms, we believe investors should consider this as marking back to hard cash (rather than marking to market or a model), thus improving their confidence in the NAV calculation.

Yield

12p annual dividend expected

Throughout the COVID-19 crisis, when RECI took large, early MTM hits in 2020, and then steadily released them throughout the rest of the year, it maintained a consistent 3p quarterly dividend. The trust appears very committed to this dividend, and the noise from MTM losses and gains will reduce with a *de minimis* bond portfolio. Despite recent falls in rates, as older loans mature and are reinvested, the new rates still generate higher returns than the maturing ones. The current yield is 9.7%, and a 12p annual dividend is expected, with the recurring interest income forecast broadly covering the dividend at this level.

Relative

Close peer comparisons weak given their wind-down status

Comparisons of RECI with a close peer group are no longer relevant given the wind-down status of LBOW and SWEF; although, for what it's worth, the AIC average discount in the property debt sector is 14%. Looking at the other AIC debt sectors, the direct lending average discount is 13%, the loans and bonds average premium is 2% and the structured finance average discount 2%. The latest reported ratings are available on the AIC website *here*.

Reversion to historical average levels would see discount close significantly

We reviewed the historical discount in detail in our note, *Why the discount has been closing and its outlook*, published on 15 October 2024. The key conclusions from that note were that RECI's discount had halved over the prior six months and that we believed this was due both to actions taken by the trust (with an active buyback programme, changing asset mix, particularly the reduction in bonds, and enhanced disclosure of highest-risk positions) and more favourable markets. Interestingly, not all debt investment companies have benefitted from the more favourable markets.

By historical standards, the current level of RECI's discount is very high, ca.10% above the 10-year average. This is despite the fact that RECI used to have a bond portfolio, which, at times, introduced significant NAV volatility. *Ceteris paribus*, the absence of this volatility, in our view, justifies a lower discount/higher premium. RECI was at an average 2% premium in 2015-19 and traded at a premium again in 2021-22, leaving room for investor concerns to moderate considerably by just reverting to historical average levels.

Financials

We have modestly increased our gearing and investments following the CM Day. There is a small increase in income lines and EPS and the NAV, but the changes are not material.

Profit and loss						
Year-end Mar (£m)	**2022**	**2023**	**2024**	**2025**	**2026E**	**2027E**
Interest income bonds	3.2	5.0	1.5	0.8	0.2	-
Interest income loans	23.7	26.7	28.4	28.1	38.0	39.8
Other interest income	0.0	0.2	0.4	0.7	0.7	0.7
Interest income	**27.0**	**31.9**	**30.3**	**29.5**	**38.9**	**40.6**
Net (losses)/gains on investments	5.4	0.8	0.6	3.6	-	3.0
Net losses on options	-	-	-	-	-	-
Net gains on foreign exchange instruments	0.0	(2.1)	0.4	1.0	-	-
Total net gains on fin. assets at FV through P&L	5.4	(1.3)	1.0	4.7	-	3.0
Operating income	**32.4**	**30.7**	**31.4**	**34.2**	**38.9**	**43.6**
Management fee	(4.4)	(4.3)	(4.2)	(4.1)	(4.0)	(3.9)
Performance fee	-	-	-	-	-	-
Other operating expenses	(1.5)	(1.8)	(1.8)	(2.5)	(2.7)	(2.9)
Operating expenses	(5.8)	(6.1)	(6.0)	(6.6)	(6.7)	(6.8)
Profit before finance costs	**26.5**	**24.5**	**25.4**	**27.6**	**32.2**	**36.8**
Finance costs	(2.0)	(4.0)	(3.5)	(4.8)	(8.5)	(8.5)
Net profit	**24.6**	**20.6**	**21.9**	**22.8**	**23.7**	**28.3**

Note: classification bonds and loans restated in 2021, Source: RECI Report and Accounts, Hardman & Co Research

Balance sheet						
@ 31 Mar (£m)	**2022**	**2023**	**2024**	**2025**	**2026E**	**2027E**
Bonds	98.5	49.2	7.9	6.8	0.0	0.0
Loans	295.9	341.5	305.0	344.9	378.5	418.5
Equity securities	0.0	10.0	16.4	17.8	17.8	20.8
Financial assets at FV through P&L	394.3	400.7	329.4	369.5	396.3	439.3
Cash and cash equivalents	47.4	14.1	18.3	19.3	14.9	39.6
Cash collateral at broker	5.2	2.4	4.5	2.9	2.9	2.9
Derivatives	0.0	1.8	0.0	0.0	0.0	0.0
Other assets	0.0	0.0	0.1	0.1	0.1	0.1
Receivables for investments sold	0.0	0.0	0.0	0.0	0.0	0.0
Total current assets	52.6	18.2	22.9	22.2	17.8	42.6
Total assets	**447.0**	**419.0**	**352.3**	**391.7**	**414.1**	**481.8**
Current liabilities						
Derivatives	1.1	0.0	0.1	0.2	0.2	0.2
Financing	100.4	80.2	23.8	70.9	100.0	120.0
Cash collateral due to broker	0.0	0.0	0.0	0.0	0.0	0.0
Preference shares	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	1.6	1.9	2.0	2.3	2.6	2.9
Total liabilities	103.0	82.0	25.9	73.4	102.8	123.1
Net assets	**343.9**	**337.0**	**326.4**	**318.4**	**311.3**	**358.7**
No. shares (m)	229.3	229.3	225.2	221.7	217.7	250.3
NAV per share (p)	150.0	146.9	144.9	143.6	142.8	142.9

Source: RECI Report and Accounts, Hardman & Co Research

Note: We continue to assume a share issuance at the end of the second year of forecasting. This has been our (rolling) policy for some years and is a statement of intent rather than a firm expectation. We believe the board wants to grow RECI to achieve portfolio diversification and economies of scale but is also aware regarding investors disapproval of issues at below NAV. An immediate issue is unlikely, but we believe it right to flag a future potential one in our estimates.

Appendix: list of Hardman & Co reports

Given the regulatory restrictions on distributing research on this company, the monthly book entry for RECI can be accessed through our website, *Hardman & Co Research*. More detailed research reports are listed below. Each link contains a click-through to our *Directors Talk* audio interviews, summarising each report. Company announcements, including buybacks, can be found on *RECI's* page on the LSE website.

- Our *initiation report* (28 August 2019).
- *Delivering on its promises* (17 December 2019).
- *Getting a balanced view on outlook* (21 May 2020).
- *Improving returns on new opportunities* (14 September 2020).
- *Portfolio repayments fund enhanced return pipeline* (18 January 2021).
- *Experience shows resilience of the model* (6 May 2021).
- *Experience shows resilience of the model (2)* (12 August 2021).
- *Why rising rates should not hurt RECI* (8 November 2021).
- *Vive la difference* (15 February 2022).
- *New faces, same resilience* (20 May 2022).
- *Marks taken in uncertainty, released thereafter* (5 August 2022).
- *Positioned for the current crisis* (17 November 2022).
- *Looking at the current opportunities* (9 February 2023).
- *Double tangible security* (13 June 2023).
- *Why CRE equity worries should not apply to RECI* (30 August 2023).
- *Portfolio management to optimise risk/reward* (16 November 2023).
- *French and German exposures in perspective* (27 February 2024).
- *Capital Markets Day* (25 July 2024).
- *Why the discount has been closing and its outlook* (15 October 2024).
- *The rise of private credit: threats and opportunities* (20 February 2025).
- *Meeting any potential macro challenges head on* (20 May 2025).
- *What RECI brings to investors* (9 September 2025).

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The fact that Hardman & Co is commissioned to write the research is disclosed in the disclaimer, and the research is widely available.

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