13 July 2026

HARDMAN & CO.

Diversified Financial Services

Source: LSEG, 2026

Market data

EPIC/TKR	**RECI**
Price (p)	**117.0**
12m high (p)	132.0
12m low (p)	112.0
Shares (m, exc. Treasury)	221.0
Mkt cap (£m)	258.6
NAV p/sh (May'26, p)	139.3
Disc. to NAV (%)	-16.0
Div. yield (FY'26)	10.3%
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 UK 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'26)

Oaktree CM	9.45%
Hargreaves Lansd. AM	9.10%
Aberdeen	6.77%
Premier Miton (Jun'24)	6.06%
Waverton	5.50%

Diary

Mid-Jul	Jun factsheet

Analysts

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

REAL ESTATE CREDIT INVESTMENTS

FY'26 results: High yield, clear path to dividend cover

The key messages from RECI's FY'26 results to March and update presentation were, firstly, that the dividend of 3p per quarter has continued to be paid (yield 10.3%). While uncovered in FY'26, there are clear paths for the cover to be reestablished in due course. In the meantime, the board appears committed to maintaining the payout at the current level. Secondly, credit remains very good, with 92% of the portfolio performing and clear strategies to managing the defaulting assets. Thirdly, while leverage has increased, it is conservative.

- **Strategy:** RECI's manager, Cheyne, has a large real estate lending team, with multiple on-the-ground offices bringing it close to borrowers. Its whole-market experience means it can identify the optimal risk/reward opportunities at any given time, making it only modestly sensitive to macro trends.

- **Dividend cover:** We see clear paths to reestablishing dividend cover with normalised fair value (losses)/gains – *inter alia,* FY'26 equity participation loan losses should not recur/may reverse. New investments are at higher margins and the book's short duration means higher income can be generated quickly.

- **Valuation:** In the five years, pre-pandemic, on average, RECI traded at a premium to NAV. It is now trading at a substantial discount, which appears anomalous. RECI is paying an annualised 12p dividend, generating a yield of 10.3%, which we expect to be covered by recurring net interest income.

- **Risks:** Any lender is exposed to credit risks. We believe RECI has appropriate policies to reduce the probability of default. Its average LTV is 67.4%, and most loans (inc. all of the top 10) are senior-secured, providing a downside cushion. Some assets are illiquid. In the short term, investor sentiment could be an issue.

- **Investment summary:** RECI generates an above-average dividend yield from well-managed credit assets. RECI's strong liquidity, credit assessment, close relationships with borrowers and restructuring expertise should allow it time to manage problem accounts in more challenging conditions. Borrowers have injected further equity into deals. Three buybacks were seen in *March 2026*.

Financial summary and valuation

Year-end Mar (£m)	2024	2025	2026	2027E	2028E
Interest income	30.3	29.5	33.3	36.0	35.8
Operating income	31.4	34.2	25.4	37.0	38.3
Management fee	(4.2)	(4.1)	(4.0)	(3.8)	(3.8)
Performance fee	-	-	-	-	-
Operating expenses	(6.0)	(6.6)	(4.0)	(5.8)	(5.8)
Total comp. income	21.9	22.8	15.2	24.9	26.0
EPS (p)	9.6	10.2	6.9	11.3	11.8
NAV per share (p)	144.9	143.6	138.4	137.7	137.0
S/P prem./disc. (-) to NAV*	-20.8%	-14.9%	-16.5%	-15.0%	-14.6%
Debt to equity	7%	22%	39%	40%	36%
Dividend (p)	12.0	12.0	12.0	12.0	12.0
Dividend yield	10.3%	10.3%	10.3%	10.3%	10.3%

**2024-26 historical at that date, 2027-28E NAV to current s/p. Source: Hardman & Co Research*

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FY'26 results in summary

- 26 positions at end-March 2026 in real estate loans and bonds, across diverse sectors and geographies, with a weighted average current LTV of 66.8% (at March year-end) providing significant defensive equity headroom. 89.4% of the company's committed capital was in senior-secured assets.
- The average yield was 11.5%, offering an attractive buffer to risk-free rates.
- Net leverage 31.6% (with £24.6m cash) as at 31 March 2026 versus a leverage limit of 40%, consisting of non-recourse and limited recourse, term, structured finance to provide returns optimisation and financial flexibility on senior loans.
- The short weighted average life (1.5 years) of the portfolio mitigates downside risk (effectively the portfolio is marked to cash quickly) while allowing rapid deployment at higher rates.
- Total NAV return for the year was 4.9% (FY'25 7.7%). Over three years, the total NAV return was 18.2% (CAGR 5.7%) and five years 34.5% (CAGR 6.1%).
- NAV at end-March 2026 was 138p (31 March 2025 143p) as the dividend was uncovered by earnings. The management presentations noted how new investments, at higher rates than the maturing book, bring cover into sight. We also note unusually large mark-to-market losses on the equity participation loans and forward forex contracts.
- Dividends maintained at 3p per quarter, current yield 10.3%.
- As at 31 March 2026, cash was £24.6m/8.1% of NAV (cash reserves remain targeted at between 5% to 10% of NAV).
- Loan repayments were strong, with RECI fully exiting four loan investments, realising total proceeds of £105.5m at a weighted average IRR of 8.4% The total £148m repayment in the cashflow includes additional partial repayments.
- Capital was recycled into new investments consisting of eight new loans and one market bond, totalling £134.1m gross new commitments. New investments totalled £167m, up from £127m in FY'25. New investments are in first position secured real estate loans, which helps protect against downside risk during volatile markets and benefits from priority repayment over equity investors.
- Cheyne (the manager) has an immediate pipeline of deals of £0.7bn with a WA entry LTV of 61% and unlevered IRR of ca.9.5%. RECI can selectively access this flow as and when it feels appropriate and has the resources to do so.
- In commenting on the impact of global macro uncertainties, in the Chairmans' statement in the R&A, the Chair commented "*underlying performance remains good, and we are not seeing any significant impacts in "our" markets*." RECI's niche focus means its performance is driven by its chosen investments, not macroeconomic conditions.
- The buyback programme has been extended to 30 September 2026. In addition to RECI potentially buying its own shares, the Directors and employees of Cheyne have purchased 284k shares since the start of FY'25.

Key theme 1: move to covered dividend

Stable 3p per quarter dividend, generating yield of over 10% is a key RECI attraction

A key attraction for investors in RECI is its high yield (currently 10.3%) and the consistency with which it is paid. RECI has paid a dividend of 3p per quarter through a range of economic conditions and the board's commitment to this level appears very strong. In FY'26, it was uncovered with earnings of 6.9p, and so the NAV per share fell after the dividend payment. In our view, one key consideration for investors will be how RECI moves the current uncovered dividend to a covered one. We see multiple steps in this process, including:

Normalised net (losses)/gains on financial assets and liabilities at fair value through profit would see dividend nearly covered

- "Net (losses)/gains on financial assets and liabilities at fair value through profit and loss" in FY'26 reported a loss of £7.2m. This compares with an average gain of £2.6m in the previous four years. Had the previous average been seen, the FY'26 EPS would have been 11.2p. With no overall gain or loss, the EPS would be 10.1p. The table below illustrates the recent history of each the of elements to this profit line, and their volatility over time. FY'26 was the first year in five when the aggregate was a loss, let alone a material one.

Net (losses)/gains on financial assets and liabilities at fair value through profit and loss

£000	FY'22	FY'23	FY24	FY'25	FY'26	Average FY'22-26
On market bond portfolio	369	(8,156)	1,808	1,026	532	(884.2)
On bi-lateral loans and bonds	2,373	10,101	(2,512)	(5,511)	(2,722)	345.8
On equity participation loans	n/d	2,521	(5,276)	3,460	(2,167)	(365.5)
On forward forex contracts	2,609	(3,660)	6,615	4,655	(2,813)	1,481.2
Total	**5,351**	**807**	**635**	**3,630**	**(7,170)**	**650.6**

Source: RECI presentation, Hardman & Co Research

We assume a small aggregate net profit, as has been seen, on average, over past five years, although our forecast mix is slightly different

  - The market bond portfolio has been significantly reduced over recent years (end-March 2026 balance £9.4m, just 2% of the gross portfolio). One benefit of this is that historical levels of volatility should not recur. We believe a fair assumption would be no net gain or loss.

  - On the bi-lateral loans and bonds, relative to the size of the portfolio, the net (losses)/gains are modest and, over time, broadly even out. Again, in our view, a fair assumption would be no net gain or loss in forecast years.

  - As we note in the portfolio section, RECI will often provide a "participating" senior loan in order to benefit from potential upsides on projects. This stake is regularly revalued with changes going through the "net (losses)/gains on investment" line in the profit and loss. They see much more volatility than bonds or loans, given their geared sensitivity to underlying variables (FY'26 loss £2.2m on an opening portfolio of £17.8m). FY'26 was an adverse year with the period-end affected by the Iran war and associated rising long-term interest rates. We understand the major contributors to losses included an extended hold on a student housing asset and writedowns on the defaulted positions, which were partially accounted for as equity holdings.

  - Since disclosure of this line began in FY'23, on average, there has been a small loss, but the objective of holding equity participation is to boost long-term returns. Looking forward, we assume a gain of £1m in FY'27 rising to £2.5m in FY'28. We cannot be precise in timing, but should inflationary expectations fall with a clearer resolution of the Iran conflict, then some recovery of the FY'26 losses would appear reasonable.

- Our base assumption is no forex movements going forward; so, despite the historical gains, we assume zero going forward. The forward contracts are hedges, with compensating entries in the balance sheet value of loans/financing agreements (for example, FY'26 £1.2m gain in financing, per note 12 of the R&A).

Reinvestment of maturing loans at higher rates could add 1.6p to EPS

- The new investments in loans in FY'26 were at an average yield of 1.5% above the loans which were repaid. This has been driven by a combination of the relative benchmark interest rates, mix, reduced competition in uncertain times, and management indicates that the pipeline would suggest this trend should continue, at least in the near future. That RECI has been achieving these higher yields and concomitantly stronger margins than even its own robust former previous investments is a credit to management skill in a global environment pricing bond risk rather generously. Slide 26 of the presentation gives an illustrative *pro forma* calculation of what may happen in the year ahead, based on expected repayments and potential new deals. Should these expectations crystallise, the net loss of income from investments rolling off would be ca.£4.7m while the new income generated on reinvestments would be £8.3m. This overall increase of £3.6m on the previous income generated would raise EPS by 1.6p.

Full-period benefit of higher leverage in FY'26

- RECI had been keeping its net effective leverage well below its maximum cap (see later section) but increased it through FY'26 from 18.2% at the start to 31.6% at end-March 2026. The self-imposed cap is 40%. The higher level of leverage allows a bigger portfolio and net profit generation. Even without further borrowing, the full-period effect of the increase in leverage in FY'26 would see increased EPS, and therefore cover.

As a statement of intent, we have an equity issue built into end-FY'28 forecast, but it does not impact EPS

- Within our forecast, we assume an equity issue at the end of the second forecast year. This is primarily a statement of intent rather than a hard forecast, and we have rolled forward this assumption every year. We do not believe that an issue at the current discount level is probable and indeed believe that the board would be very cautious about any issue at a discount to NAV. However, in the five years, pre-pandemic, on average, RECI traded at a premium to NAV, and should its rating revert to this level, in our view, further equity issues are likely. Given Cheyne's pipeline, it would appear probable that RECI would be able to deploy proceeds quickly in an earnings-enhancing manner. In our view, the trust is suboptimal in scale, and the efficiencies of being larger would be helpful to earnings enhancement.

- 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.

- On the downside, other operating expenses were well below normal, with a swing from a charge of £765k in FY'25 to a credit of £821k in FY'26 in the "*other operating expenses*" category. We understand this is related to a one-off £1.4m accrual reversal (see p95 of R&A).

Key theme 2: credit

Macro environment challenging, but RECI focused in specific niches

Global uncertainties and higher-for-longer interest rates make the overall environment for real estate financing challenging, and this is compounded by country-specific issues such as the variable political situation in France. However, RECI is a specialist real estate lender and so its exposure is much more driven by individual loan situations and not the macro environment. By way of example, while it provides developer finance, it has no exposure to the development of data centres where site-specific regulatory decisions outside the control of the developer can make the land and security values highly volatile. We have written extensively in previous reports on Cheyne's processes in assessing credit, monitoring it and then managing problem situations when they arise. Its portfolio diversity is shown in the charts below.

RECI risk rating analysis

92% of portfolio performing at end-March 2026

RECI has published its risk rating analysis, showing that 92% of the portfolio is fully performing and not even on the watchlist for potential performance. The residual 8% of the portfolio (10.4% of NAV) is primarily in the category of defaulted, but no further loss to NAV is expected.

Need to consider (low) loss in event of default as well as probability of default

Investors should consider potential losses across two metrics – the probability of a default and then the loss in the event of default.

- RECI's strong initial credit assessment and its close relationship with borrowers, ensuring problems are spotted and can be resolved early, reduce the probability of default, hence the 92% of the portfolio is performing. We understand from management comments that the current level of non-performing loans is at a "normal" level.
- RECI's strong security (overwhelming majority senior-secured on real estate) and its proven skills in managing problem situations when they arise (both of which we have covered in previous notes) materially reduce the loss in the event of default. This was most evident in the COVID-19 crisis. 100% of hospitality loans were non-performing, but there were no capital losses, as Cheyne worked with the equity providers to restructure financing.

Risk rating analysis

@ 31 Mar 2026	No of exposures	Gross fair value (£m)	% NAV
Performing: not on watchlist	20	374.4	120.5
Performing: watchlist for potential underperformance	0	0	0.0
Defaulted: no losses to NAV expected	2	28.5	9.3
Defaulted: possible loss to NAV	2	3.3	1.1
Total	**24**	**406.2**	**130.9**

Source: RECI presentation, Hardman & Co Research

North Paris properties Grade A offices, but not in prime locations

RECI provided incremental disclosure on its default exposures (see table below). As can be seen, the key exposures in this category are in Paris. We have previously written about the French market in detail (see Appendix) and our analysis provides a review of the Paris market, specifically in Appendix 2. Looking at the default exposures, we observe:

- Both properties, while prime Grade "A" offices, are in secondary locations in Paris. Cheyne has commented that one lesson learnt is that prime locations have been more resilient than Grade A buildings and that the appetite for new secondary locations is minimal.

Advanced discussions with tenants regarding larger property, but exit from loan looking challenging

- With the larger property, there are active discussions with a potential tenant for a nine-year lease and RECI's valuation reflects the expected probability of this happening. We note management's comment that "*The liquidity for the asset remains muted*", which we interpret as meaning that no early exit by property sale or refinancing is likely. This could lead, though, to a rollover of the existing exposure at maturity, in our view, Cheyne would no doubt seek a higher rate to compensate for the higher market risk and absence of other finance providers. The nine-year lease proposal, if accepted, would support ongoing cashflow to cover interest payments.

- In the vast majority of RECI's problem situations, it has been able to negotiate with the equity providers and ensure a restructuring to the benefit of both parties. In the smaller situation, dedicated Cheyne professionals are working on obtaining lease up/realisation of this deal.

Defaulting exposures commentary, at end-March 2026

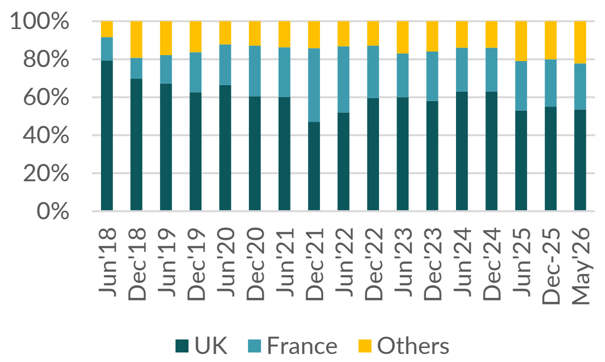
Risk Rating	Asset	Seniority	Commitment	TVPIx	Investment portfolio fair value (Gross)	% of NAV	Commentary
3	Refurbishment and extension of a freehold office in Saint Ouen, Paris	Senior Loan	£30.4m	0.98x	£20.4m (Target recovery: £20.4m)	6.7%	• Senior loan to support the acquisition, refurbishment and extension of a freehold office building located in Saint-Ouen, directly adjacent to Paris 17th arrondissement. • A regional health insurance fund has proposed a 9-year lease with a 3-year purchase option, this offer is currently under review.
3	Loan for grade A office building located to the east of central Paris	Senior Loan	£16.7m	0.70x	£8.2m (Target recovery: £8.2m)	2.7%	• 27,000 sqm Grade A office building located to the east of central Paris. • Since completion in 2023, letting progress has been slow partly thanks to post-pandemic working patterns leading to reduced tenant occupational requirements. • Our loan basis allows us to market the vacant office space at an attractive level relative to the local market. • We continua to work with the asset manager on strategies for letting alongside alternative uses for the building with the aim of optimising the repayment of our loan.
4	Loan for multi-use development located in north Berlin, Germany MZ Holdings	Specialists	£14.2m	0.85x	£3.2m (Target recovery: £3.2m)	1.1%	• Multi-use development located in north Berlin, Germany. • We have been moving the asset's business plan forward but stress. in the German real estate market has slowed progress in resolving the position. Valuation of the asset remains conservative.
4*	Bond secured against a portfolio of UK non-conforming but-to-let mortgages	CMBS	£0.1m	N/A	£0.0m (Target recovery: £0.0m)	0.0%	• CMBS 1.0 transaction issued in 2006 secured against UK care homes. • Cheyne continue to expect recovery of Principal.
Total			**£61.4m**		**£31.8m**	**10.4%**	

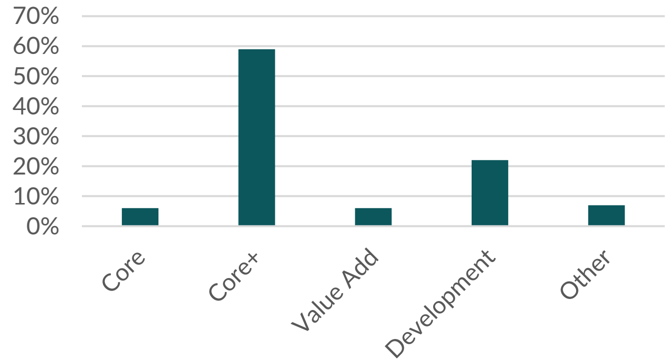
*Repaid in May 2026

Source: RECI May factsheet, Hardman & Co Research

Portfolio summary (May'26)

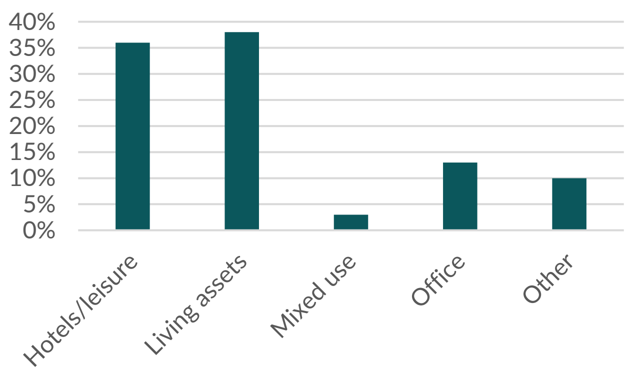
Geographical mix of assets (%) | **Asset type (%)**

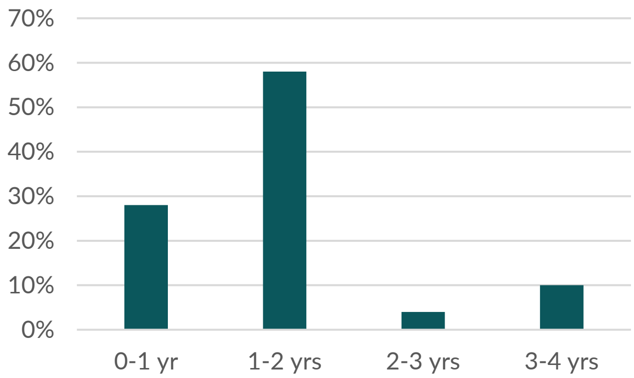




Note: In May'26, 12% of the "others" by geography was in Spain, Source: RECI May factsheet, Hardman & Co Research

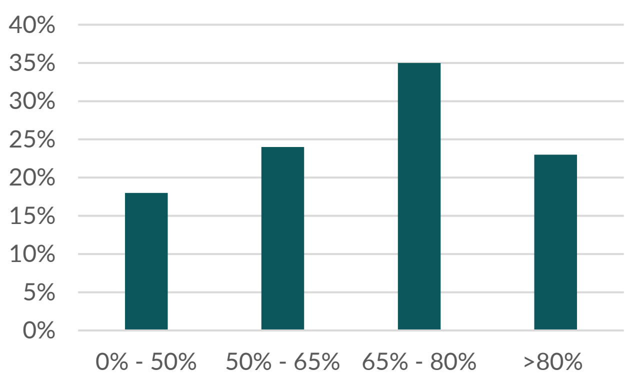
Sectoral mix of investments (%) | **Duration (%)**

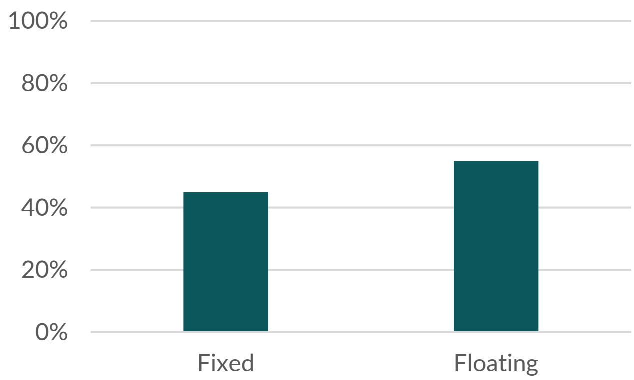




Source: RECI May factsheet, Hardman & Co Research

Current loan to gross development value (%) | **Interest type (%)**





Source: RECI May factsheet, Hardman & Co Research

Top 10 exposures[1]

	Description	Fair Value (Gross)	% of Gross Investments	RECI Commitment	LTV[6]	Investment Strategy	Sector	Country	Asset Type[9]
1	Student accommodation development in London	£67.7 m	17%	£58.3 m	79%	Senior Profit Participating Loan	Student Accommodation	United Kingdom	Core+
2	Senior Loan refinance of four 4-star upscale hotels in central London	£65.1 m	16%	£65.6 m	70%	Senior Loan	Hotel	United Kingdom	Core+
3	Co-living development in central London	£33.7 m	8%	£29.2 m	81%	Senior Profit Participating Loan	Co-Living	United Kingdom	Core+
4	Senior profit participating loan for the refinancing of a portfolio of hotels and spas in the UK	£32.2 m	8%	£35.7 m	80%	Senior Profit Participating Loan	Hotel	United Kingdom	Core+
5	Senior loan to fund the acquisition of a newly built Hotel located in Costa del Sol, Spain	£26.7 m	7%	£25.9 m	53%	Senior Loan	Hotel	Spain	Core+
6	Senior loan to refinance two logistics assets in Italy	£23.2 m	6%	£22.6 m	59%	Senior Loan	Logistics	Italy	Core+
7	Refurbishment and extension of a freehold office building in Saint Ouen, Paris	£20.2 m	5%	£30.4 m	100%	Senior Loan	Office	France	Value Add
8	Senior development loan for the construction of luxury villas in Ibiza, Spain	£17.6 m	4%	£22.4 m	33%	Senior Loan	Residential	Spain	Development
9	Senior loan to support the lease-up of office building in Canary Wharf	£16.6 m	4%	£17.1 m	48%	Senior Loan	Office	United Kingdom	Core+
10	Income producing residential developer in France	£16.5 m	4%	£20.6 m	32%	Senior Loan	Housebuilder	France	Development

Source: RECI May factsheet, Hardman & Co Research

Loan and bond portfolio summaries

Number of assets	21
Total committed capital[10]	£472.3m
Total capital deployed[10]	£415.6m
Leverage deployed[11]	£117.5m
Drawn fair value (gross)	£395.7m
Drawn fair value (net)	£279.1m
Weighted average unlevered yield[12]	9.7%
Weighted average levered yield[13]	11.0%
Weighted average current LTV[6]	68.5%
Weighted average life (years)	1.5

i

Number of assets	2
Gross fair value	£4.3m
Net fair value	£1.1m
Leverage deployed[11]	£3.2m
Weighted average unlevered yield[12]	8.1%
Weighted average levered yield[13]	22.3%
Weighted average current LTV[6]	17.7%
Weighted average life (years)	1.1

Source: RECI May factsheet, Hardman & Co Research

Financing summary

	Balance sheet leverage[14,15]	Contingent Liabilities[15]	Cash[16]	Net Effective Leverage	Asset Level Structured Funding
£ Amount	£114.8m	£2.7m	£27.8m	£89.7m	£5.0m
% of NAV	37.3%	0.9%	9.0%	29.1%	1.6%
W/A cost of finance	5.8%				7.4%

Source: RECI May factsheet, Hardman & Co Research

[1] The footnotes references are in RECI's latest factsheet available here

Other issues

Leverage

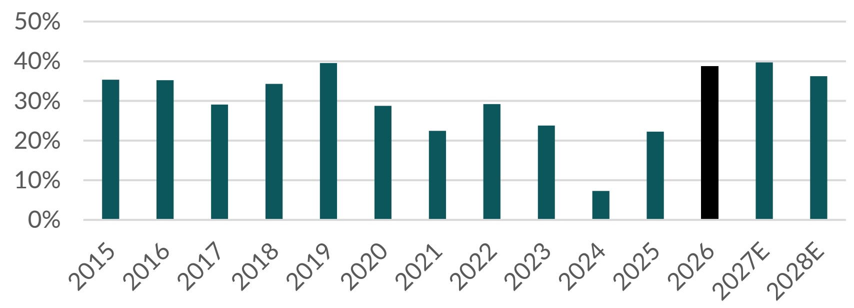
RECI's 31.6% net effective leverage (40% cap) well below most real estate finance vehicles

Leverage is an integral part of virtually all finance providers' balance sheet management. Banks' assets are many multiples of their equity bases (e.g. HSBC March 2026 equity $197bn, total assets $3.3tr). RECI reports that US vehicles with a similar real estate financing model have leverage of 4x-5x NAV. By comparison, RECI's policy to cap its gross leverage at 40% of NAV is very conservative. At end-March 2026, the gross leverage was 38.7% while the net effective leverage was 31.6%.

Gross leverage increasing from very low FY'24 to more normal levels

The chart below shows the trend in gross balance sheet leverage. Currently, it is slightly above the long-run average and has risen sharply in FY'25 and FY'26 from the FY'24 level, which was around a quarter of the long-run average level.

Gross balance sheet leverage (total debt inc. preference shares to equity, %)

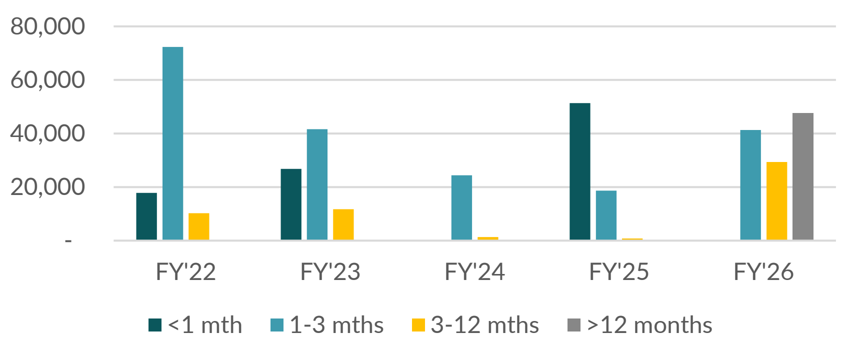


Source: RECI Report and Accounts, Hardman & Co Research

Financing maturity profile sharply extended in FY'26

In addition to the total level of gross debt increasing, FY'26 also saw the extension in its maturity profile. Before that year, on-balance sheet financing has all been short term, but by the end of the year, non-current financing was material. For market bonds, RECI has a typical initial contractual period of six months while REPOS on bilateral bonds/loans are either the underlying loan maturity or the expiry of the REPOS facility (typically extended on an annual basis).

Maturity profile of financing (£000)



Source: RECI Report and Accounts (note 14c), Hardman & Co Research

Modest unfunded commitments

Total commitments made at end-March 2026 were £492.8m, of which £435.7m. were funded. It is normal for unfunded commitments to exceed cash given the expected interest and principal repayments.

Interest cash generation

Keen-eyed readers will note that the interest received in the profit and loss is again significantly below the actual cash interest received in the cashflow statement.

- Part of this reflects payment in kind (PIK) where interest is added to the principal balance of the loan (i.e. interest is capitalised) instead of being paid to the lender in cash. This type of payment is not unusual in development finance.
- Additionally, we understand the French loans are held in SPV, whereby payments up to Cheyne are only completed after an annual review has been completed. This can see some volatility in specific reporting periods as, at the group level, the interest is only recognised in the cashflow when it is received from the SPV, while the profit and loss recognises it when the SPV receives the cash from the borrower.

Interest received as reported in profit and loss and cashflow statements

£000	FY'22	FY'23	FY24	FY'25	FY'26
Reported in P/L	26,982	31,923	30,341	29,520	33,286
Reported in cashflow	26,201	29,657	21,851	15,078	13,071
P/L surplus over cashflow	781	2,266	8,490	14,442	20,215

Source: RECI report and accounts, Hardman & Co Research

Detailed disclosures

Within the R&A and presentations, there are some variances in the basis of disclosures. The details are:

- Page 83 of the R&A shows the maturity profile for RECI. In this table, £78.9m (19.5%) of the £404.5m portfolio matures within one year. This differs from the 38% shown on p4 of the R&A because the latter disclosure is the cashflow duration of the portfolio rather than the contractual maturity.
- Page 86 of the R&A also shows the credit exposure by sector. This differs from the p4 figure because, in the latter, RECI uses commitments rather than the fair value basis used on p86.
- Page 90 of R&A shows that the total unrealised (losses)/gains on investments classified as Level 3 rose from a net positive of £187k to a deficit of £7.1m. Just £4.4m of losses were shown in the FY'26 period statement of comprehensive income. The reason for the net unrealised loss rising more than charge was that positions with unrealised profits were sold in the year and so taken out of the calculation.

Valuation

Absolute

Current NAV is realistic

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, is in line with best practice, resulting in an NAV that fairly reflects the asset's values.

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. As we noted above, the trust appears very committed to this dividend and has been willing to maintain the dividend even when uncovered by earnings. The current yield is 10.3%, 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 15%. Looking at the other AIC debt sectors, the direct lending average discount is 8%, the loans and bonds average premium is 3% 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

By historical standards, the current level of RECI's discount is very high, nearly 10% above the 10-year average. This is despite the fact that RECI used to have a large 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 trimmed our estimates in line with the FY'26 performance.

Profit and loss						
Year-end Mar (£m)	**2023**	**2024**	**2025**	**2026**	**2027E**	**2028E**
Interest income bonds	5.0	1.5	0.8	0.7	0.4	0.2
Interest income loans	26.7	28.4	28.1	31.9	34.9	34.9
Other interest income	0.2	0.4	0.7	0.7	0.7	0.7
Interest income	**31.9**	**30.3**	**29.5**	**33.3**	**36.0**	**35.8**
Net (losses)/gains on investments	0.8	0.6	3.6	(7.2)	1.0	2.5
Net losses on options	-	-	-	-	-	-
Net gains on foreign exchange instruments	(2.1)	0.4	1.0	(0.7)	-	-
Total net gains on fin. assets at FV through P&L	(1.3)	1.0	4.7	(7.8)	1.0	2.5
Operating income	**30.7**	**31.4**	**34.2**	**25.4**	**37.0**	**38.3**
Management fee	(4.3)	(4.2)	(4.1)	(4.0)	(3.8)	(3.8)
Performance fee	-	-	-	-	-	-
Other operating expenses	(1.8)	(1.8)	(2.5)	(0.0)	(2.0)	(2.0)
Operating expenses	**(6.1)**	**(6.0)**	**(6.6)**	**(4.0)**	**(5.8)**	**(5.8)**
Profit before finance costs	**24.5**	**25.4**	**27.6**	**21.4**	**31.1**	**32.5**
Finance costs	(4.0)	(3.5)	(4.8)	(6.3)	(6.3)	(6.5)
Net profit	**20.6**	**21.9**	**22.8**	**15.2**	**24.9**	**26.0**

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

Balance sheet						
@ 31 Mar (£m)	2023	2024	2025	2026	2027E	2028E
Bonds	49.2	7.9	6.8	9.4	5.0	5.0
Loans	341.5	305.0	344.9	379.1	379.1	419.1
Equity securities	10.0	16.4	17.8	16.0	17.0	19.5
Financial assets at FV through P&L	400.7	329.4	369.5	404.5	401.1	443.6
Cash and cash equivalents	14.1	18.3	19.3	18.5	20.2	6.5
Cash collateral at broker	2.4	4.5	2.9	2.3	2.3	2.3
Derivatives	1.8	0.0	0.0	0.0	0.0	0.0
Other assets	0.0	0.1	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	18.2	22.9	22.2	20.9	22.6	8.9
Total assets	**419.0**	**352.3**	**391.7**	**425.4**	**423.7**	**452.5**
Non-current financing	**0.0**	**0.0**	**0.0**	**47.7**	**50.0**	**50.0**
Current liabilities						
Derivatives	0.0	0.1	0.2	0.3	0.3	0.3
Financing	80.2	23.8	70.9	70.7	70.0	70.0
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	1.9	2.0	2.3	0.7	1.0	1.3
Total liabilities	82.0	25.9	73.4	71.8	71.3	71.6
Net assets	**337.0**	**326.4**	**318.4**	**305.9**	**302.3**	**330.9**
No. shares (m)	229.3	225.2	221.7	221.0	219.6	241.6
NAV per share (p)	146.9	144.9	143.6	138.4	137.7	137.0

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.

- 2019: Our *initiation report* (28 August) and *Delivering on its promises* (17 December).
- 2020: *Getting a balanced view on outlook* (21 May) and *Improving returns on new opportunities* (14 September).
- 2021: *Portfolio repayments fund enhanced return pipeline* (18 January), Experience shows resilience of the model (6 May), *Experience shows resilience of the model (2)* (12 August), and *Why rising rates should not hurt RECI* (8 November).
- 2022: *Vive la difference* (15 February), *New faces, same resilience* (20 May), *Marks taken in uncertainty, released thereafter* (5 August), and *Positioned for the current crisis* (17 November).
- *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).
- *Investor Day: opportunities aplenty* (2 December 2025).
- *Manager presentation and Q&A* (4 March 2026).

Appendix 2: Hardman & co analyst view on Paris office market

The Paris office market has seen a sharp slowdown in the pre-2022 optimism. EU-wide office market yields have tracked sideways for two years, having been in a period of rising yields prior to that. While, generally, the worst fears about negative impacts of "work from home" have not been realised in the EU and UK – unlike the US – this yield basis, driven by rising risk-free cost of money, has harmed any hopes of sustained price rises. That said, very few EU markets are in a structural over-supply phase, as new projects were severely reined back from 2021. Paris had been a strong market, driven by optimism on the French macroeconomic prospects in the post Brexit and immediate post COVID-19 period. Its sentiment deterioration, therefore, is worse than several other EU jurisdictions.

This deterioration notwithstanding, the Paris office investor pricing does remain reasonably strong with three clear positives. First, there is a halt, but there appears to be no reversal of the good EU-relative price growth, which took central Parisian office pricing down to 4.0% (Savills Research and others), lower than any other major EU city other than West End London's 3.8%. Secondly, borrowing costs in € remain relatively subdued in global if not historical comparisons. Thirdly, Paris supply-demand is benign; although take-up fell markedly in 1Q'26, rents for newer property rose 3% YoY. RECI's assets are newly comprehensively refurbished.

Inner Paris suburb markets, such as Saint-Ouen, which is important to RECI's asset base, have seen elevated concentrations of inventory. Looking at other non-CBD areas, like London's Canary Wharf and City, Paris has a higher-yielding secondary financial office district, La Défense. La Défense yield basis is 7.5%, London City 5.0% and Canary Wharf 5.75% (Knight Frank and others). The Paris market demand is more concentrated on the one central area than London, hence RECI's writing down of its non-CBD office positions.

The local market is slow and unlikely to improve in the short term. However, debt costs are low, which helps RECI but more significantly helps developers dispose of assets in due course when they are leased-up. The average all-in cost of debt for selected European markets rose by 60bps during 1Q'26 to 4.7%. This is now in line with the average EU prime office yield. EU non-performing commercial real estate loans fell over the 12 months to end-1Q'26, but for France and indeed Germany, Savills states that the figure rose. Again, the FY'26 RECI writedowns chime with this broader picture as well as the property specifics. Savills reports that debt funds are becoming increasingly active via a back-leverage structure for non-prime lending, which is gradually improving liquidity for secondary offices. So, yet again, this for RECI is a mixed picture not without positives in the mix. This has parallels in the generally benign background for credit risk spreads globally, spreads which have been suppressed for many quarters and remain so. And yet, unit-share redemptions in a handful of European open-ended real estate funds were suspended during 1Q'26, in response to the Middle East conflict.

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research@hardmanandco.com

9 Bonhill Street
London
EC2A 4DJ

www.hardmanandco.com