Fidante Daily Digest

News bulletin on alternative investment companies

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2 3IN – 3i Infrastructure – Pre-close update 1 April to 27 September 2018

Invests in infrastructure businesses and assets

- On 27 July 2018 the company announced that it will invest c. EUR 220m for the acquisition of

50% of Tampnet, in a consortium with Danish pension fund ATP. The Tampnet management team will also invest to acquire a minority shareholding. Completion is subject to regulatory approvals and is expected in the second half of the financial year. Following the completion of its investment in Attero on 14 June 2018, 3IN has syndicated half of its initial stake to third party investors at a small premium to cost. The intention to syndicate formed part of the investment case for Attero, to reduce the company's exposure to uncontracted power price risk and to the energy sector. Existing commitments of EUR 45m were funded during the period, which included EUR 12.0m for Valorem, EUR 10.9m for La Santé prison in France and EUR 22.2m for the A9 motorway in the Netherlands.

- 3IN's portfolio has, overall, continued to perform well. All 115 trains in the Cross London Trains fleet have now been accepted for operation on the rail network, materially reducing the risk in the company's investment. Infinis, WIG and TCR were all refinanced during the period. ESVAGT has appointed a new CEO, Peter Lytzen, with effect from 1 September 2018 and on 18 September announced that it has signed contracts with MHI Vestas for three new wind farm service operation vessels. Oystercatcher continues to experience softer demand for storage of certain product types resulting in downward pressure on pricing and some vacant capacity. Portfolio income totalled £46.5m in the period and non-income cash of £85.9m was also received.
- As at 28 September 2018, 3IN had a cash balance of £126m and an undrawn balance under its RCF of £283m out of the £300m available. Outstanding equity commitments are around £197m.
- In order to mitigate the risk of additional tax costs following implementation of the OECD's BEPS project, management of the company will move to the UK from 1 October 2018, subject to regulatory approvals (expected shortly). 3i Infrastructure will become a UK approved investment trust and 3i Investments will be the company's investment manager.

2 GRI – Grainger – Trading update to 30 September 2018

Residential property investor and asset manager

- GRI has seen overall like-for-like rental growth year-to-date of 4.0% (September 2017: 3.7%). Like-for-like rental growth year-to-date was 3.1% on the PRS homes (September 2017: 3.2%), where there has been continued strong demand for the company's offering. The annualised rental growth on the regulated tenancy rental reviews was 5.5% (September 2017: 4.4%). Occupancy within the PRS portfolio was 97.2% (September 2017: 97.1%).
- The company's strengthened development team is delivering schemes on time and ahead of their underwriting assumptions. These include: a) Clippers Quay (614 units, £99m) - Phase 1 completion will be in October 2018 with the remaining two phases set for completion by mid-2019; b) Finzels Reach (232 units, £61m) - on target for completion in February 2019; and c) Berewood, Hampshire (104 units, £17m) - 84 units let, with the remaining 20 to be delivered in October 2018. Furthermore, there has been good progress in the second half of the financial year on the company's pipeline: a) Newbury, West Berkshire (232 units, £61m) has now been secured, following the signing of the construction contract; b) at Besson Street, Lewisham, London (c. 300 units) contracts have been agreed on the 50:50 JV with Lewisham; and c) at the Yorkshire Post, Leeds (242 units, £42m) GRI is now on site, with completion forecast for late 2020.
- Residential sales for the year were reported to be strong, both in terms of volume and pricing (sales were achieved at 1.3% above their vacant possession value). There has been continued progression in asset recycling, with over £130m achieved during the year, including the sale of the 50% interest in the Walworth Investment Property.

2 GABI - GCP Asset Backed Income – Results of fundraising

Project lending and debt

- The company announced that it has received applications in respect of 51.5m C shares at a price of 100pps, raising gross proceeds of £51.5m, in the C share offering that was announced on 7 September 2018. The target had been for gross proceeds in excess of £70m. The net proceeds will be used to take advantage of a pipeline of asset backed finance investment opportunities identified by the managers. Admission and the start of trading in the C shares is expected on 2 October 2018.

DID YOU KNOW?

Author: Aliy Akbarov

Coming for Tesla? Inside Europe's only electric-only car factory

Tesla has been all over the news this year. From production delays to the CEO smoking a joint on TV, the company has gone from famous to infamous in a relatively short time. Whilst it is hard to take your eyes off the tumbling share price and Elon Musk's antics, it is important not to forget another factor – with every day, Tesla's head start on other car manufacturers dwindles.

When I think of an electric car I only think of two models – the Prius and the Tesla - but this is likely to change in the near future. VW, the German behemoth, currently operates the only electric-only car factory in Europe in Dresden, Germany. Why is this important? There are only two electric-only car factories outside of China – one is operated by Tesla in California and the other by VW in Dresden. You can't really go on without noting the irony of VW, who was recently involved in an emissions rigging scandal, to be at the forefront of electric cars on the Old Continent.

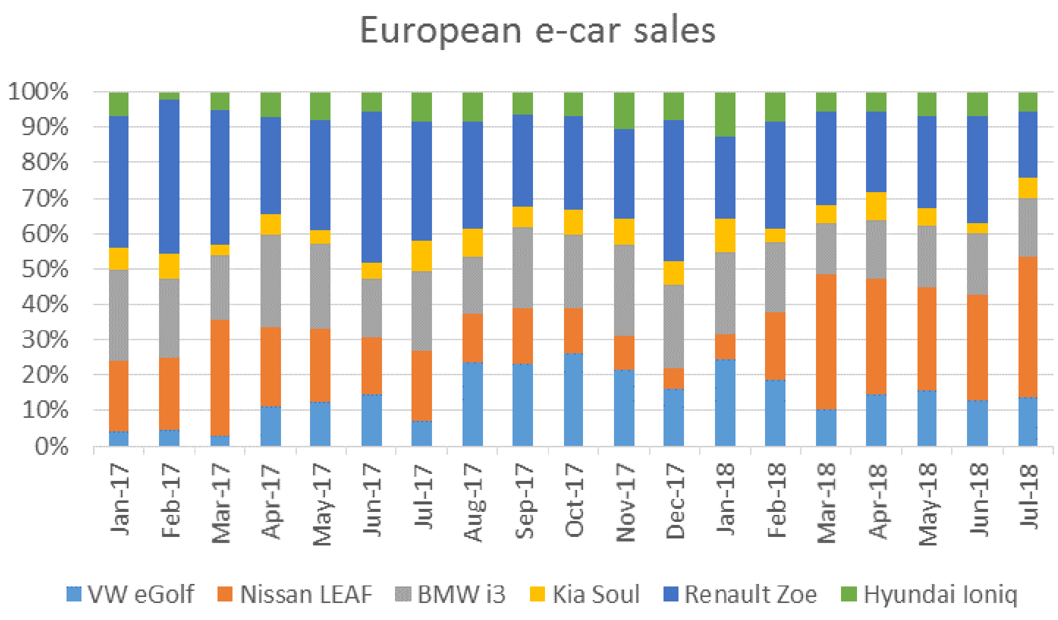
Anyhow – the facility in Dresden, is called 'Die Gläserne Manufaktur' which translates into something like 'The Glass Factory' (I don't speak German unfortunately) and is open to the public and emphasises transparency. It was originally opened in 2002 as a car factory, but in 2016, it was rebranded as a 'showcase for electromobility'. This is in sharp contrast with Tesla's facility in Fremont which is much harder to access. Overall, the factory resembles an Apple store more than an automotive manufacturing plant – it has high ceilings, is squeaky clean and has small production lines that are on display for visitors. It is also useful to note that the plant is a final assembly plant, with most of the parts come from other VW plants in Germany, chiefly from its huge factory in Wolfsburg. Therefore, you won't see the usual traces of paints/coatings etc. and the assembly requires 86 steps.

But what about the numbers? Well, this is where the economic viability starts converging with Tesla's. Given this is a small, nimble factory it currently only produces the VW eGolf. To be more precise, it has a capacity of 150 cars per day and is using less than half of that (72 cars per day) at this stage. eGolfs are also produced in other factories across Europe and their production in Dresden is planned to be phased out in 2020 to make way for other electric cars in VW's stable. In terms of sales, the eGolf's sales in US have been lacklustre. Having started around the beginning of 2017, the company has sold a meagre 300 cars per month, at most, in the middle of 2017 but sales have since declinedto almost nil. The primary issue in the US market is that sales of electric cars in general have been quite sluggish and even those that occur are usually dominated by the Nissan LEAF and Chevy Bolt EV. In Europe, the company has fared much better, selling nearly 50 times more cars than in the US and having a market share of 15% instead of the 6% in the US. This does come with some pretty important caveats however – the aggregate number of electric cars sold in Europe is more than twice that of the US and the range of models is of course different.

Relating this back to Tesla – it is estimated that Tesla's facility churns out about 2,832 cars per week. Based on a five-day week, it means the factory is able to produce about 566 cars per day. This is merely four times higher than VW's facility in Dresden, which is basically there as more of an exhibition centre anyway. . Without going into too many details, it is quite curious to see that using Bloomberg estimates, the Tesla Model 3 production rates have declined significantly week-on-week..

At its peak in in mid-August 2018, Tesla was producing nearly 5,000 cars per week against the latest estimate of 2,832. So where does the company go from here?

If you are ever in Dresden, you may want to add the VW plant on your bucket list.



Source: Anton Wahlman, Bloomberg, Fidante Capital, 2018.

Portfolio news

- Ediston (EPIC) – Lease restructurings – EPIC has restructured its lease terms with Royds Withy King at Midland Bridge House, Bath. Royds Withy King occupy the entire 18,500 sq ft property on a lease which had been due to expire in March 2023. EPIC has signed an agreement to restructure the terms of the tenant's lease, effective from 27 September 2018. The tenant will sign a six-year lease extension, with the lease now expiring in March 2029, and receive an incentive equivalent to 5.8 months rent free. Royds Withy King will continue to pay a rent of £360,000 per annum as agreed in March this year, which reflects an increase of 11.50% on the previous passing rent.
- Syncona (SYNC) – Nightstar pricing – SYNC has noted that its portfolio company Nightstar Therapeutics has announced the pricing of its previously announced underwritten public offering of 4,000,000 American Depositary Shares (ADSs) representing 4,000,000 ordinary shares at a public offering price of $18.00 per ADS. Syncona has agreed to invest $18m (£13.7m) in the offering. Following the offering, SYNC will retain a stake of 39.0% in Nightstar, valued at £187.6m as at 27 September 2018.
- Tritax Big Box (BBOX) – Acquisition – BBOX has exchanged contracts, conditional on full planning consent, for the forward funded development of a new logistics sortation centre at Haydock, St Helens, Merseyside, close to good transport links and pre-let to a financially robust world leading retailer. The price represents a maximum commitment of £68.7m, reflecting a net initial yield of 4.9% (net of acquisition costs), rising to 5.4% at the first rent review in 2024. A regular configuration, with a 45% to 50% site cover, of the site could accommodate a building in total of c. 700,000 sq ft. Upon practical completion of the construction, the property will be leased on a new 15-year lease, subject to five-yearly upward-only rent reviews indexed to CPI (collared at 1% per annum and capped at 3% per annum). The first rent review is expected in September 2024. From completion of the land purchase and during the construction phase to the target date of practical completion, BBOX will receive an income return equivalent to the agreed rent from the developer.

Results in brief

- Dunedin Enterprise (DNE) – Interims to 30 June 2018 – The NAV as at 30 June 2018 was 447.5pps, down 0.1pps (0.02%) with respect to the estimated NAV as at that date and up 2.85% over the reporting period (total return). The company returned capital amounting to

50pps in February 2018 and paid a dividend of 5.5pps in May 2018. Realisations during the half year totalled £2.6m in the half year and there were new investments of £10.0m. The trading performance of the portfolio companies generally improved in the half year. Unrealised value increases were £7.8m, partially offset by value decreases of £4.9m. DNE had outstanding commitments to LP funds of £42.2m as at 30 June 2018, reduced to £35.5m following a drawdown (it is estimated that only £23m of this total outstanding commitment will be drawn over the remaining life of the funds). DNE has a RCF with Lloyds Bank of £10m (reduced on 31 May 2018 from £20m) which was undrawn as at 30 June 2018.

- F&C UK Real Estate (FCRE) - Finals to 30 June 2018 – The NAV as at 30 June 2018 was 108.5pps (as previously reported), up 5.85% year-to-date and up 13.61% over the reporting period (total return). Total dividends for the year were 5.0pps, with dividend cover of 95.7% (2017: 94.4%). Performance was driven by capital growth of 6.1% and an income return of 5.3%. Positive sentiment for the industrial sector led to the portfolio's industrial and distribution assets being the key contributors to performance. The void rate reduced to 4.6% following the completion of asset management initiatives, and the average unexpired lease length fell over the period to about six years. FCRE's strategy continues to be the retention of an overweight position to industrial and warehouse property, with the retail portfolio under continual review given the difficulties currently being experienced by this sector - there was a further sale during the period from this portfolio, of 100a Princes Street, Edinburgh, as well as an office building in Brookwood. FCRE had £15m of cash available and an undrawn facility of £7m as at 30 June 2018, with acquisition opportunities being constantly under review. Gearing, net of cash, was 26.2% of the investment properties valuations as at 30 June 2018.
- Marble Point Loan Financing (MPLF) - Interims to 30 June 2018 – The NAV as at 30 June 2018 was $0.965 per share ($0.9646 per share was previously reported), down 1.51% since the IPO on 13 February 2018 which raised $42.5m of gross proceeds. Following the IPO, net assets stood at $203.7m, including the assets from the pre-existing unlisted fund. MPLF is now effectively fully invested. The company has paid dividends totalling $0.0304 per share since the IPO, in line with the initial targeted dividend of 8% per annum based on the IPO price. Strong institutional demand for loans continued through the first half of 2018, driven in part by new CLO issuance, and there was continued market-wide loan spread compression during the period. The investment manager closed two capital market transactions involving CLOs in the company's portfolio during Q2 2018, each of which reduced the weighted average cost of debt of the respective CLOs and helped to mitigate ongoing loan spread compression. The investment manager is continuing to actively evaluate opportunities to refinance or reset the Marble Point CLOs at lower costs.
- VPC Specialty Lending (VSL) - Interims to 30 June 2018 – The NAV as at 30 June 2018 was 90.74pps (as previously reported), up around 4.3% over the reporting period (total return, taking into account the change to IFRS 9 reporting at the start of the year). Total quarterly dividends declared for the first half of the year were 4.00pps and were fully covered by the total revenue generated. As at 30 June 2018, the portfolio consisted of 26 balance sheet investments, 25 equity investments and the remainder of the marketplace loans and securitisations, the latter of which will continue to run off as the underlying loans mature. The investment portfolio performed well during the period, and in particular the capital returns improved. After a negative start to the year, primarily due to the implementation of IFRS 9, VSL finished the period with three consecutive months of positive capital returns, resulting from the continued strong performance of the company's public and private equity portfolio. The buyback programme repurchased a total of c. 4,6m shares at an average price of 79.03pps during the period.

Credit/lending NAV performance

- P2P Global Investments (P2P) NAV as at 31-Aug-18 (953.89pps) was up 0.50% in August and up 2.73% year-to-date.
- TwentyFour Select Monthly Income (SMIF) NAV as at 26-Sep-18 (93.20pps) was unchanged since the last NAV on 19-Sep-18, up 0.40% month-to-date and up 1.23% year-to-date.
- VPC Specialty Lending (VSL) NAV as at 31-Aug-18 (90.71pps) was up 1.01% in August and up 5.47% year-to-date.

Private equity NAV performance

- NB Private Equity (NBPE) NAV as at 31-Aug-18 ($17.74 per share) was down $0.07 per share (0.39%) in August and up 4.81% year-to-date.
- Tetragon (TFG) NAV as at 31-Aug-18 ($21.54 per share) was up 1.22% in August and up 4.79% year-to-date.

Share buybacks and issuance

- CVC Credit Partners European Opportunities (CCPG) issued 3,821,000 GBP shares out of treasury at 114.38pps on 27-Sep-18.
- JPMorgan Global Convertibles Income (JGCI) bought back 625,306 shares at 90.19pps on 27-Sep-18.
- NB Global Floating Rate Income (NBLS*) bought back 475,000 GBP shares at 92.6419pps and 10,000 USD shares at $0.95 per share on 27-Sep-18.
- P2P Global Investments (P2P) bought back 4,000 shares at 776.8pps on 27-Sep-18.
- Personal Assets (PNL) issued 145 shares at 39900pps on 27-Sep-18.
- Residential Secure Income (RESI) bought back 100,000 shares at 94.20pps on 27-Sep-18.

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