



## Fidante Daily Digest

### News bulletin on alternative investment companies

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This is a marketing communication. Author: Martin McCubbin

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#### IMPACT SCORE

Our impact score reflects our own assessment of how the news would affect the company's stock. It focuses on the potential future impact on discount/premium and performance dynamics that are likely to arise as a result of the news. It is not indicative of the company's overall health and performance and is not directional (positive/negative). A high impact score can mean either adverse or positive impact, hence readers must make their own judgment with regards to this.

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### 3 BGLF\* – Blackstone / GSO Loan Financing – Finals to 31 December 2018

Invests in a portfolio of European and US senior secured loans and CLO income notes

- The published NAV as at 31 December 2018 was EUR 0.8963 per share, up 6.70% in 2018 (total return). The NAV return was composed of dividend income of +11.38%, offset by a net portfolio movement of -4.68%. The company continued to declare quarterly dividends of EUR 0.025 per share in 2018 and anticipates maintaining a EUR 0.10 per share annual dividend in the future.
- The company's NAV performance, through its investment in Blackstone / GSO Corporate Funding (BGCF), was impacted by compression of the net interest margin of the underlying CLO investments due to spread narrowing within the loan portfolios held within the CLOs, particularly in the early part of the year. Many of BGCF's CLO positions had, however, undergone liability refinancing at lower costs, which helped to offset this impact; in total, five CLOs were refinanced or reset, reducing the average cost of debt by c. 0.6%. Performance during 2018 was also supported by stronger-than-modelled fundamental performance in the underlying CLO portfolios (i.e. lower defaults).
- BGCF increased its exposure to US assets during the year. As at 31 December 2018, 46% of BGCF's portfolio was composed of US CLO income notes and CLO warehouses (31 December 2017: 33%). Exposure to directly held loans, net of leverage, decreased from 27% to 18% through the year, while European CLO income notes remained stable at 37% (31 December 2017: 39%). Within the CLO portfolio, newer vintage CLOs made first distributions that exceeded the modelled cash flows. During 2018, BGCF originated EUR 2.8bn of senior secured loans and floating rate notes (EUR 2.3bn in 2017) and invested EUR 90.6m (EUR 72.3m in 2017) in four European CLOs as well as \$238.7m (\$232.7m in 2017) in six US CLOs. BGCF also invested \$242.9m (\$255.6m in 2017) in seven US CLO warehouses during the year. And as referred to above, BGCF continued to refinance/reset existing CLO investments soon after the expiration of their non-call periods.
- The board regularly assesses the balance between maintaining liquidity of the EUR shares, the stability of the rating with respect to the published NAV, and shareholders' desire to see the EUR shares trading close to their intrinsic value. On 23 January 2019, the board reminded shareholders that, under the general authority gained at the AGM on 22 June 2018, it has the right to buy back shares with the goal of reducing the discount (7.4% currently, based on the published NAV). No shares have been bought back to date.
- On 21 December 2018, the company announced the results of the rollover opportunity offered to shareholders in Carador Income\*. Around 34% of shareholders in that company chose to rollover into newly-issued BGLF C shares in consideration for the transfer of rollover assets valued at c. \$90m. These BGLF C shares started trading on 7 January 2019 and will convert into BGLF ordinary shares after a transitional period, expected to be between six to twelve months. Currently, 31% of the rollover assets have been realised.
- The company also published an IFRS NAV as at 31 December 2018 of EUR 0.8065 per share. The IFRS NAV total return in 2018 was -3.99%, composed of dividend income of +11.38%, offset by a net portfolio movement of -15.37%. Almost the whole difference between the published and IFRS year-end NAVs was due to the different valuation bases used to determine the value of the investments. For financial reporting purposes, annually and semi-annually, to comply with IFRS, the valuation of BGCF's portfolio now

uses models that incorporate a "mark-to-market" approach. At previous year-ends, there has been no material difference in the two valuation approaches and, consequently, the financial statements before 31 December 2018 do not require a reconciliation. At the end of Q4 2018, there was a large market sell-off in the broadly syndicated loan market, which resulted in a fall in the NAV of the CLO income notes, driving down the fair value of CLO positions, despite a lack of observed CLO income note transactions in the market. Volatility in the loan and CLO markets had a significant impact on the year-end IFRS NAV compared to the published NAV, which remained relatively stable due to its hold to maturity strategy and its valuation of long-term CLO income note investments based on expected cash flows. The board will continue to assess the performance of the company using the published NAV. Going forward, the board and the portfolio adviser are considering presenting additional information and commentary on market colour, credit risk exposure and any material divergence from the published and IFRS valuation bases.

### 3 IHR – Impact Healthcare REIT – Q1 2019 NAV and dividend

Invests in residential care homes with long leases

- The NAV as at 31 March 2019 was 104.18pps, up 0.18pps (0.17%) with respect to the estimated NAV as at that date and up 2.46% year-to-date. The company has declared a quarterly dividend of 1.5425pps (up 0.0425pps), payable on 7 June 2019, with ex-dividend date 16 May 2019. The company is targeting a total dividend of 6.17pps for 2019.
- Net assets at the end of the period were £200.2m (31 December 2018; £197.8m) and the portfolio was valued at £230.4m (31 December 2018; £223.8m). The £6.6m increase in market value includes £2.8m of acquisitions, £1.1m invested in capital improvements in homes, and a net value uplift of £2.7m (an increase of 1.2% on a like-for-like basis).
- As at 31 March 2019, the portfolio comprised 73 residential care homes (3,529 operational beds) let to six tenants on fixed-term leases of 20 to 25 years (with no break clauses), subject to annual upward-only RPI-linked rent reviews (with a floor and cap at 2% per annum and 4% per annum, respectively). IHR completed the acquisition of Yew Tree during the quarter, adding 76 beds to the company's portfolio. The WAULT across the portfolio was 19.4 years, and the portfolio had an annualised contracted rent roll of £18.1m as at 31 March 2019.
- As previously announced, the company intends to raise at least £25m by way of a placing, closing on 9 May 2019, to fund a strong pipeline of potential acquisitions. The issue price of 106pps represents a discount of 2.3% to the closing price on 12 April 2019 and a premium of c. 1.7% to the NAV announced today.

#### Portfolio news

- 3i Infrastructure (3IN) – Completion of acquisition – 3IN has completed the acquisition of Joulz Diensten (Joulz) following the receipt of third-party approvals. 3IN has invested around EUR 220m to acquire 100% of Joulz, a leading owner and provider of essential energy infrastructure equipment and services in the Netherlands.
- International Public Partnerships (INPP) – New investment – INPP announced that it will invest up to £12.4m of additional risk capital in the Midlands Batch Priority Schools Project as part of a recapitalisation of the project. The company has been a lender to the project since March 2015, when it funded 8% of the project's senior debt requirements, the aim being to fund five batches of new schools making up the Priority Schools Programme sponsored by the Department for Education. The additional investment is projected to provide returns in line with similar investments in the company's portfolio. The completion of the works was delayed with respect to the original timetable due to the fact that members of the Carillion Group (now in liquidation) were amongst the original equity sponsors of the project - completion is now

expected by the end of 2019. This funding is expected to help place the project on a sound financial footing, enabling it to deliver the services required over the remaining 22 years of the operational contract.

- **Oakley Capital (OCI) – Acquisition** – OCI announced that Oakley Capital Private Equity III (Fund III) has agreed to form a JV with Admiral Group (the UK insurance company specialising in car insurance) and Mapfre (a Spanish multinational company dedicated to the insurance and reinsurance sectors) to combine Rastreator Comparador Correduría de Seguros (Rastreator), Asesor Seguros Online and Asesor Consumer Services (together Acierto.com), two of Spain's most well-regarded digital brokers for insurance and other financial products. Rastreator is currently 75% owned by Admiral and 25% by Mapfre, while Acierto.com is majority-owned by its two founders, who will retain a stake in the combined group following the transaction. OCI's indirect contribution through its interest in Fund III is expected to be around £17m. Completion of the transaction is subject to approvals.
- **UK Mortgages (UKML) – Refinancing** – The company announced that notice has been given to exercise the portfolio option on the loans underlying the Malt Hill No.1 securitisation. This will lead to the redemption of the securitisation on its next interest payment date in May 2019, allowing the refinancing of the portfolio. The terms of the refinancing are still being finalised and further details will be published once they are completed. As the pool size has declined since acquisition from around £310m to around £200m, this refinancing will allow the company to re-lever the portfolio, thereby increasing returns on the remaining loans and releasing capital for further investment.

#### **Other corporate actions**

- **Carador Income (CIFU\*) – Compulsory partial redemptions** – The company has completed the compulsory partial redemptions of ordinary shares and repurchase pool shares. Settlement is expected by 9 May 2019.
- **EJF Investments (EJFI) – Corporate update** – As previously announced, EJF Capital (EJF), through its ownership of EJF Investments Manager (the investment manager), currently absorbs 100% of the recurring operating expenses of EJFI, except for management and incentive fees. The board of EJFI has now announced that with effect from 1 July 2019, EJF has agreed to absorb 90% of EJFI's recurring operating expenses, except for management and incentive fees, through to no earlier than 1 January 2020.

#### **Declared dividends**

- **CEIBA Investments (CBA)** declared a maiden annual dividend of 4.9pps (\$0.0625 per share), payable on 14-Jun-19, with ex-dividend date 30-May-19.
- **Chenavari Capital Solutions (CCSL\*)** declared a quarterly dividend of 0.7pps (up 0.2pps), payable on 31-May-19, with ex-dividend date 9-May-19.

#### **Credit/lending NAV performance**

- **CVC Credit Partners European Opportunities (CCPG)** GBP NAV as at 18-Apr-19 (108.74pps) was up 0.34pps (0.31%) since the last NAV on 12-Apr-19, up 0.61% month-to-date and up 2.34% year-to-date.
- **Hadrian's Wall Secured Investments (HWSL)** NAV as at 31-Mar-19 (96.92pps) was down 0.01pps (0.01%) in March and up 1.08% year-to-date.

#### **Hedge fund NAV performance**

- **BH Global (BHGG)** GBP NAV as at 26-Apr-19 (1530pps) was up 24pps (1.59%) since the last NAV on 18-Apr-19, down 1.06% month-to-date and down 0.43% year-to-date.
- **BH Macro (BHMG)** GBP NAV as at 26-Apr-19 (2454pps) was up 42pps (1.74%) since the last NAV on 18-Apr-19, down 0.36% month-to-date and up 1.69% year-to-date.
- **Highbridge Multi-Strategy (HMSF\*)** share NAV as at 26-Apr-19 (223.80pps) was down 0.28pps (0.13%) since the last NAV on 18-Apr-19, up 1.37% month-to-date and up 4.01% year-to-date.

- Third Point Offshore (TPOU) pro forma NAV as at 30-Apr-19 (\$19.2897 per share) was up \$0.3597 per share (1.90%) in April and up 11.89% year-to-date.

## Private equity NAV performance

- Dunedin Enterprise (DNE) NAV as at 31-Mar-19 (427.2pps) was up 14.3pps (3.46%) year-to-date.

## Share buybacks and issuance

- Baillie Gifford US Growth (USA) issued 300,000 shares at 131.5pps on 30-Apr-19.
- Capital Gearing Trust (CGT) issued 9,500 shares at 4176pps on 30-Apr-19.
- Custodian (CREI) issued 1,000,000 shares at 113.9pps on 30-Apr-19.
- Funding Circle SME Income (FCIF) bought back 400,000 shares at 87.0pps on 30-Apr-19.
- JPMorgan Global Convertibles Income (JGCI) bought back 22,487 shares at 91.0pps on 30-Apr-19.
- NB Global Floating Rate Income (NBLS) bought back 900,345 GBP shares at 90.05pps on 30-Apr-19.

\*Current corporate client of Fidante Capital.

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### RESEARCH

**Joachim Klement**  
+44 20 7832 0956  
[jklement@fidante.com](mailto:jklement@fidante.com)

**Martin McCubbin**  
+44 20 7832 0952  
[mmccubbin@fidante.com](mailto:mmccubbin@fidante.com)

### CORPORATE FINANCE

**John Armstrong-Denby**  
+44 20 7832 0983  
[jdenby@fidante.com](mailto:jdenby@fidante.com)

**Nick Donovan**  
+44 20 7832 0981  
[ndonovan@fidante.com](mailto:ndonovan@fidante.com)

**Will Talkington**  
+44 20 7832 0936  
[wtalkington@fidante.com](mailto:wtalkington@fidante.com)

### UK SALES

**Justin Zawoda-Martin**  
+44 20 7832 0931  
[jzawodamartin@fidante.com](mailto:jzawodamartin@fidante.com)

**Daniel Balabanoff**  
+44 20 7832 0955  
[dbalabanoff@fidante.com](mailto:dbalabanoff@fidante.com)

**Max Bickford**  
+44 20 7832 0934  
[mbickford@fidante.com](mailto:mbickford@fidante.com)

**Hugh Ferrand**  
+44 20 7832 0935  
[hferrand@fidante.com](mailto:hferrand@fidante.com)

**Mike Rumbold**  
+44 20 7832 0929  
[mrumbold@fidante.com](mailto:mrumbold@fidante.com)

### MARKET MAKING

STX 79411 79412  
**Mark Naughton**  
+44 20 7832 0991  
[mnaughton@fidante.com](mailto:mnaughton@fidante.com)

**Anthony Harmer**  
+44 20 7832 0995  
[aharmer@fidante.com](mailto:aharmer@fidante.com)

### INTERNATIONAL SALES

**Nordics**  
**Ian Brenninkmeijer**  
+46 8 1215 1361  
[ibrenninkmeijer@fidante.com](mailto:ibrenninkmeijer@fidante.com)

**Benelux**  
**Yves van Langenhove**  
AAMYS\* (Fidante Partners)  
+32 468 29 08 04  
[yvanlangenhove@fidante.com](mailto:yvanlangenhove@fidante.com)

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