Chief Executive's review

A transformational year for the Group

"The Group has made solid progress towards achieving the business plan set out at IPO."

2018 was a transformational year for the Group, during which we joined the AIM market. We have made a solid start to this new phase for the Group and laid firm foundations for the coming years.

Trading and dividend

The reported loss of £1.7m covers a period of less than eight months. Overall, we have made solid progress, with a total of £525m in committed loans and £371m in new capital available through our partnership arrangements. Gross projected aggregate income on the loan book as a whole is £69m (with just under £43m as the guaranteed minimum income). Our share of the projected aggregate income is £27m, which will eventually translate into earnings in the financial statements over the life of the loans. Our share of the minimum income is £15 million. The weighted average LTGDV on the loan book is 67% and the weighted average IRR is 10% (unlevered), demonstrating excellent credit quality, whilst delivering a strong IRR.

While the raising of capital must occur alongside the commitment of new loans, the two are still distinct business activities and the business will one day manage capital in excess of its committed loan book. The Group 'warehouses' loans until capital raised via asset management strategies matches loan commitments. We call this period, estimated to be two to three years following the IPO, the 'ramp-up' period. Over time, as assets under management grow, the Group will have the ability to grow its loan book without having to warehouse each loan temporarily. I will refer to this stage as the 'steady-state' period. The premium earnings multiple that asset managers' share prices trade at typically, as opposed to balance sheet lenders who often trade at a multiple of book value, shows that the market recognises and values this as higher quality earnings.

Initially, given the time it can take to deploy capital into committed loans, we will value the business using a combination of both NAV and earnings. After the 'ramp-up' period, this valuation approach should gradually transition away from NAV towards earnings as the key measure.

Committed loans of

£525m

Key achievements

For the Group, the eight months to the 31 December have been full of significant milestones. Whilst the business today makes a loss, looking at the loss in isolation fails to paint a true picture of the business's achievements in 2018, some of which were exceptional. Shortly after the IPO, in July 2018, the Company entered into a partnership with KKR, with an initial size of £165m. A partnership with such an industry behemoth involved KKR undertaking a considerable degree of diligence on the Company, the competition and the sector, and therefore substantiated our profile and calibre, the size of the market opportunity and the extent of investor appetite in the sector.

In December 2018, the partnership closed a first-of-its-kind, blind-pool discretionary loan-on-loan funding line with UBS, which provided the Group with a £165m facility on a portfolio basis. Additionally, the Group also secured an additional loan-on-loan funding line from Aviva Investors for a single loan within the partnership structure. The combined firepower of the KKR and UBS venture therefore currently provides circa £363m of development lending available to the Group. The Group also syndicated loans to other financial institutions during the year. The total lending capacity raised in 2018 was £371m.

The various relationships secured with high calibre investment partners will, of course, improve our routes to market, demonstrating our growing market stature and, in turn, the quality of our capital base. These relationships also allow us to leverage our partners' market standing and experience by, for example, securing more favourable terms on facilities utilised to enhance returns.

Capital raising

We have a strong institutional investor network and deep-rooted relationships from the management team's 16 years in the industry, initially as principal developers and then, after the global financial crisis, as a non-bank, specialist development finance lender in the UK. The nature of the asset class, and the technical expertise required in underwriting and managing development loans, requires a specialist team to operate in the space. The Group's platform provides institutional investors with the ideal

> "2019 is going to be an exciting year for us as we continue to build on what we do best and what we can do better."

Manchester, M4

Senior debt facility to fund redevelopment. The building, Brownsfield Mill, dating from 1825 and Grade II listed, is located in central Manchester in the vibrant Northern Quarter and sits on the canal side. The development will be one of the last mill conversions in the city. The development comprises 31 residential units (1 x one bedroom, 24 x two bedrooms, 6 x three bedrooms) and 19 surface car parking spaces, together with the freehold.

Since 1993, Urban Splash is a specialist regeneration developer and has undertaken more than 60 regeneration projects across the country, from Plymouth in the south to North Shields in the north, creating over 5,000 new homes and 2 million sq. ft of working space.

GDV: £14.2m

Chief Executive's review continued

opportunity to gain exposure to the sector with the benefit of our robust mitigation of various risks alongside return protection mechanisms, demonstrated by our lending and asset management track record.

Investor appetite and capital inflows into the sector are strong and demonstrable through our market partnerships announced in 2018, from large private equity funds and financial institutions to development finance providers. The Market Overview demonstrates positive investor sentiment.

Asset management opportunities are prioritised on the basis of i) increasing the Group's capacity to lend with sufficient operational flexibility to allow us to transact on loans in a timely manner; ii) being secured at rates which are sufficiently competitive to enable us to deploy the funds effectively into the marketplace; (iii) being accretive to our total returns.

Managing discretionary pools of capital, both public and private, as well as raising additional managed accounts and loan-on-loan debt lines, achieves these objectives for the Group.

Loan credit quality

At 31 December 2018, the Group had executed 16 loans with commitments totalling £525m with some of the most highly regarded and experienced real estate developers in the UK, including the Galliard Group, Mace Group and Strawberry Star. Our ability to approach loan structuring with a solutions-based focus, incorporating flexibility and ingenuity, has seen a marked increase in the quality of enquiries from both the developer and broker communities. We employ robust credit guidelines, rigorous deal appraisal and stringent policies and procedures to mitigate market risk in our lending and operations.

The Group has pursued a strategy of geographical diversification, executing funding in regional cities such as Birmingham and Manchester. Residential developments in certain regional locations appeal to the domestic owner-occupier market as well as the investor market and, whilst affordability in London remains challenging, these locations offer relatively affordable accommodation and are supported by strong demand-side factors.

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Falmouth, Cornwall

Senior debt facility to fund the acquisition of land and development of 53 residential apartments. The freehold site directly overlooks Gyllyngvase beach and all the apartments will have uninterrupted beach and sea views. The development will consist of 53 residential units above 2,800 sq ft of commercial property. Falmouth Town railway station is located 0.4 miles from the site. The scheme, which has been christened 'The Liner' due to its nautical design, is set to become an iconic and visionary building, adding a new level of quality to the seafront.

Acorn Property Group is a residential and mixed use developer delivering high quality residential property for almost 20 years. During that time, it has completed a significant number of developments and is a consistent award-winner.

GDV: £31.0m

The Group negotiates levels of pre-sales prior to initial drawdown of particular loans. Demand at many schemes is strong, and our stringent pre-sale requirements are often surpassed, both in terms of sales velocity and prices achieved.

An increased quality of counterparties often results in lower leverage requirements due to higher equity contributions from borrowers. Lower leverage doesn't just reduce lender risk through the larger equity buffer, it also disproportionately diminishes the construction risk. The majority of the build risk is typically within the ground and, in the very early stages of construction, more cash equity up front from the developer means this risk can be significantly reduced prior to the Group advancing any funds. Our loan book exhibits this at a number of projects. We also seek to mitigate cost overrun risk through a combination of fixed price contracts, performance bonds and guarantees from appropriately capitalised entities.

The corollary to securing higher levels of equity up front from the borrower is that the Group defers its own income due to loan drawdowns occurring later. However, we protect against this risk, including the risk of early prepayment, through Minimum Income Clauses in our loan contracts. This allows us to lend against highly de-risked assets, knowing that a minimum level of income will still be received regardless of the final drawdown profile.

Operations

As we commence 2019, the increased operational budget includes nine additional employees, larger office space to accommodate the growing team, and investment in the technological automation of the business. At 0.81% of the c. £620m of total committed loans, we are comfortable this represents a good investment for the Group and should generate a strong ROE within three years.

We continue to focus on seeking benefits for our customers through digitising our business processes, providing our clients with an online interface to manage their dealings with us. This project will also improve internal efficiencies through streamlining the origination, underwriting, management and syndication of existing loans, and the servicing of asset management relationships.

"The Group enters 2019 with a substantial live pipeline of new loan transactions and ongoing asset management relationships, some of which are of considerable size and calibre."

Market outlook

We constantly monitor the macro economic and political environment in the UK, the housing market, and the capital markets. The outlook remains positive in the medium term, despite the uncertainties associated with the UK's exit path from the European Union.

Corporate social responsibility

In recent years, we have been proud to support a number of charitable causes, all with the central theme of education and children. In 2019, we have taken the decision to formalise our philanthropic activities within the structure of our own charitable foundation, UE Philanthropy Limited.

Looking forward

In 2019, our strategy is to build on the positive foundations laid in 2018, to service our borrower clients through competitively priced and modestly geared loans, and to continue to raise deep and diverse pools of institutional capital to finance these loans by aligning with the needs of our capital providers.

The Group enters 2019 with a substantial live pipeline of new loan transactions and ongoing asset management relationships, some of which are of considerable size and calibre. We are focused on ensuring the growth in our loan book and assets under management will translate into profit and total shareholder return over the medium term.

We continue to recognise that our business is, and always will be, a work in progress, constantly growing and refining itself as we strive to achieve our vision. 2019 is going to be an exciting year for us as we continue to build on what we do best, and what we can do better.

The Strategic Report includes the Business Model, Market Review, Strategic Framework, Key Performance Indicators, Chairman's Statement, Chief Executive's Review, Finance Review, Principal Risks & Uncertainties and Corporate Social Responsibility and has been reviewed by the Board and signed on its behalf by:

Randeesh Sandhu
Chief Executive Officer