

Civitas Social Housing

Socially beneficial investing

In a world where investors want above-average, predictable, inflation-linked income; returns from an asset class that is not correlated with equity markets; liquidity; AND the chance to invest in a company that provides a clear benefit to society, few investments make the grade. However, Civitas Social Housing (CSH) ticks all the boxes.

CSH is helping to inject fresh equity capital into housing associations and is releasing capital for reinvestment by other parties. In turn, this allows them to build new social housing for the neediest in society.

CSH has deployed over £500m since launch. Around £200m of cash from its C share issue last November is still to be invested. The manager says that it expects the pace of investment to accelerate over coming months. Once the issue proceeds have been invested and CSH reaches its target gearing level, we estimate that its 5 pence per share dividend will be amply covered by earnings (see page 14 for our assumptions).

Income and capital growth from social housing

CSH aims to provide its shareholders with an attractive level of income, together with the potential for capital growth from investing in a portfolio of social homes. The company expects that these will benefit from inflation adjusted long-term leases or occupancy agreements with Registered Providers (see page 4) and that they will deliver, on a fully invested and geared basis, a targeted dividend yield of 5% per annum on the issue price. CSH intends to increase the dividend broadly in line with inflation.

Year ended	Price total return (%)	IFRS NAV total return (%)	IFRS adj. earnings per share (pence)	EPRA** earnings per share (pence)	Dividend per share (pence)
31/03/18*	(0.6)	10.7	2.60	1.44	4.25
31/03/19 f					5.0

Source: Morningstar, Marten & Co. * from launch on 18 November 2016. NB: information is for ordinary shares. ** EPRA earnings include an accounting adjustment to reflect the C shares as a liability, the IFRS adjusted earnings backs out this accounting treatment and is more reflective of usual trading conditions.

Sector	Property - other
Ticker	CSH LN / CSHC LN
Base currency	GBP
Price (ord./C)	102.5p / 95.75p
IFRS NAV (ord./C)	104.25p / 97.77p
Portfolio NAV (ord./C)	112.65p / 99.17p
Premium/(discount)*	(1.7%) / (2.1%)
Yield (ord.)	4.9%

* based on IFRS NAV and 5p projected dividend

Share price and premium

Time period 18/11/2016 to 31/05/2018



Source: Morningstar, Marten & Co

Performance since launch

Time period 18/11/2016 to 31/05/2018



Source: Morningstar, Marten & Co

Domicile	England and Wales
Inception date	18 November 2016
Investment adviser	Civitas Housing Advisors
Market cap (ord./C)	358.7m / 289.2m
Shares outstanding	350m / 302m
Net cash	18.2%

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The company's website is www.civitasocialhousing.com

Attractive yield, growing with inflation, plus capital growth from a portfolio of social homes

Strong bias to specialised supported housing properties for people requiring some form of care

Fund profile

CSH launched on 18 November 2016, raising £350m. It expanded through the issue of a C share in November 2017. This issue raised an additional £302m and, as at 11 June 2018, £103m of this had been invested. To date, the two pools have not been merged.

CSH aims to provide an attractive yield, growing in-line with inflation, and the prospect of capital growth. It buys portfolios of social homes in England and Wales which it rents to housing associations and local authorities (Registered Providers) on long-term (typically 10-40 years) leases and occupancy agreements. CSH buys only completed homes and is not involved with developing, forward financing or managing social homes directly.

CSH believes that the returns on its portfolio should have a low correlation to those of the general residential and commercial property sectors. CSH invests in such a way that it should remain qualified as a REIT. As such, it distributes at least 90% of its income profits for each accounting period.

The adviser: Civitas Housing Advisors

CSH is advised by Civitas Housing Advisors (CHA), a business established in 2016. CHA's 17-strong team is based in London and the north-west of England. Many of the team have long experience of working in the sector and, collectively, they have been involved in the acquisition, sale and management of over 80,000 social homes in the UK. More information on the team is given on page 17.

Supported living

There are about 4.8m social housing units in England & Wales and around 600,000 of these are classified as supported living units. According to a review of the sector, carried out for the Department for Work and Pensions (DWP) and the Department for Communities and Local Government and published in 2016, most of these (75%) were owned by housing associations, although local authorities (15%) and charities (6%) have an important role.

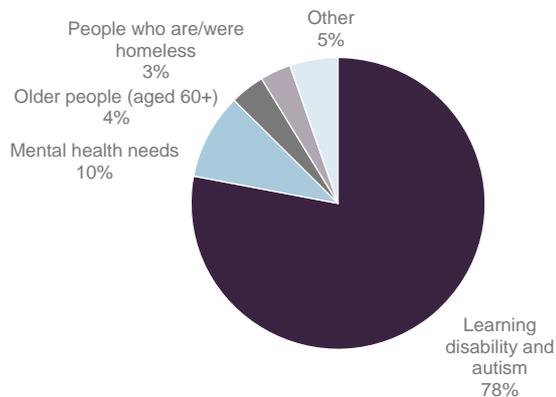
The bulk of CSH's portfolio comprises specialised supported housing properties. These are homes for people requiring some form of specialist care, mainly people with physical and mental disabilities. The 2014 Care Act changed the way that care is provided and paid for. Local authorities have a central role in this. The legislation provides the framework within which care and housing is provided.

An April 2018 report, based on research carried out by the Housing Learning and Improvement Network and published by Mencap, said that they estimated that there were between 22,000 and 35,000 specialised supported housing units (each with a number of residents). Estimated demand for these properties was expected to increase to between 29,000 and 37,000 units by 2027/28.

Government policy is encouraging demand. The report says that state funding for a person in a specialised supported housing unit is £1,569 per week on average (rent and service charge being £235 per week on average). This compares with £1,760 for a residential care placement and £3,500 for a person in an inpatient facility. The research also concludes that people in specialised supported housing have a better quality of life.

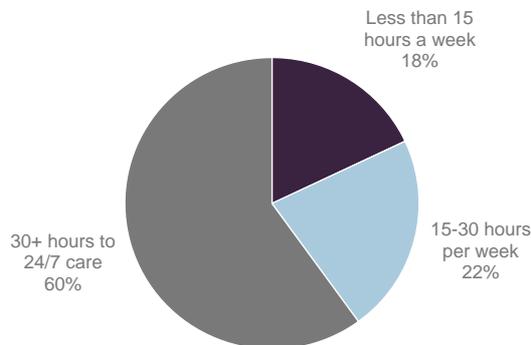
Figure 1 shows that the bulk of specialised supported housing units are thought to be occupied by people with learning difficulties and autism.

Figure 1: Who lives in specialised supported housing?



Source: Mencap, Housing LIN

Figure 2: Breakdown of clients by care/support hours



Source: Mencap, Housing LIN

Meeting a need

Significant shortfall in new housing provision, particularly in social homes

Looking at the wider social housing market, CSH says that there are approximately 4.5m people who qualify for social housing but are on waiting lists in England and Wales. The Ministry of Housing, Communities and Local Government says that 162,180 houses were started in the year to end December 2017 and 163,250 completed. This compares to a broad consensus of a requirement for 300,000 new homes per annum. The proportions of these that were affordable and developed for social housing was tiny however. The regulator publishes figures for periods ending September and March rather than calendar years. For the year ended 30 September 2017, 19,541 affordable rent homes were started and 929 social rent homes.

Investors such as CSH free up capital for much needed investment

The government is keen that housing associations take on some of the task of expanding the national housing stock. Debt finance is available to the larger housing associations at competitive rates but their balance sheets are quite stretched. The Right to Buy scheme, which allows tenants to acquire property well below market value has compounded the problem (NB: Right to Buy does not apply to supported living properties). For the housing associations, selling part of their existing portfolio to investors such as CSH frees up much needed capital to invest in new stock.

Where does CSH fit in?

CSH owns the property and rents it to a Registered Provider. It has no responsibility for care provision

At the core of the service sits the tenant who has both housing and care needs.

- CSH is not involved in the provision of care. The tenant’s care is the responsibility of a **Care Provider** who is paid by a local authority from funding provided by the Department of Housing, Communities and Local Government (**DHCLG**). Care Providers are regulated by the Care Quality Commission.
- Ultimate responsibility for housing provision sits with a **Registered Provider** (usually a housing association, local authority or a charity). Registered Providers are regulated by the Regulator of Social Housing (currently constituted as part of the HCA which in turn operates within the aegis of the DHCLG).
- The Registered Provider creates a tenancy agreement with the tenant. Housing benefit is paid by the local authority to the Registered Provider to cover the tenant’s rent and the costs of managing and maintaining the property. The local authority receives funding from the DWP to cover this.

- CSH owns the property and rents it under a long-term lease or an occupancy agreement to the Registered Provider. The Registered Provider uses the housing benefit that it receives to cover the rent due.

On the face of it, this looks pretty complicated. From CSH's point of view, however, it is only the last paragraph that has any direct impact on it. CSH's team does due diligence on the Registered Provider and the Care Provider, assesses the care needs of the tenant, checks that the property is suitable, the rent is appropriate and has regular dialogue with the key bodies involved at all stages of the process. This is borne out of a desire to ensure that tenants' needs are being met and therefore that tenancy agreements are sustainable. More information on CSH's due diligence process is given on page 6.

Regulatory assessments

Smaller Registered Providers are subject to lower levels of scrutiny

The vast majority of Registered Providers have less than 1,000 units of social housing and, as such, are subject to less scrutiny than larger Registered Providers. Larger Registered Providers are assessed by the Regulator for Social Housing and graded 1-4 on Viability (V) and Governance (G), where V1G1 represents the highest grade.

The regulator may issue a 'Grading Under Review' notice while it is in the process of setting a formal grading. All Registered Providers that exceed 1,000 units must be assessed within three years of passing that milestone. Over 200 Registered Providers have been subject to some form of Grading Under Review notice or other notice. The regulator publishes the result of its reviews on its website.

Inclusion Housing is subject to a review due to it surpassing 1,000 units in 2016/17

One of CSH's Registered Providers, Inclusion Housing, is currently subject to a review. It exceeded the 1,000-unit level in 2016/17. CSH says that Inclusion Housing is a well-regarded and leading social enterprise housing association with a national presence and a range of significant counterparties.

General needs housing

CSH can invest in general needs social housing but will only provide leases to a Registered Provider

CSH's portfolio also has a very small exposure to general needs social housing (i.e. social housing that does not involve a care element), with a limit of 25% of the total portfolio.

CSH's lease/occupancy agreements are with Registered Providers who in turn make tenancy agreements with the underlying tenants. The tenants' rent is covered, in part (c60% on average), by housing benefit. The balance is the responsibility of the tenant. This may leave the Registered Provider with bad debts but CSH says these are as low as 1%. The Registered Provider also pays CSH regardless of whether there are voids in the portfolio.

Lease/occupancy agreements

The Registered Provider is responsible for maintenance, refurbishments and insurance

Lease/occupancy agreements are made on a full repairing and insuring basis, therefore the Registered Providers are responsible for maintenance and refurbishments during and at the end of a tenancy. The Registered Provider pays rent regardless of whether the property is occupied but its local authority funding should take this into account.

Long leases reflect the potential length of tenancies

Lease/occupancy agreement terms are long – typically in excess of 20 years – as the underlying tenancy agreements often are. Some tenants may stay in the same property for life.

Supported living properties can be acquired on yields of 5.5% to 6.5%

Net rental yields are typically 5.5% to 6.5% for supported living properties (although larger portfolios of properties tend to trade at lower yields) and 4% to 4.5% for general needs properties. Rents tend to rise in-line with inflation plus a small margin in some cases. CSH takes care to ensure that all parties agree that rental agreements are sustainable over the long-term. It sets rents with reference to medians for the local area (as a maximum) and it is conscious of the political and economic risks of overrenting its portfolio.

Investment process

CSH is growing its portfolio in a variety of ways:

- Local authorities are identifying tenants with unmet needs and may approach CSH;
- Specialist developers are building both new supported living properties and converting existing housing stock which they then wish to sell on, approaching CSH; and
- Housing associations, encouraged by Homes England, are sometimes keen to free up capital to reinvest in new housing. CSH can provide this.

Portfolios tend to cost more than individual properties

CSH says that most acquisitions will be made off-market, as they have been to date. CSH is happy to undertake the level of due diligence required for the acquisition of smaller portfolios and individual supported living properties, particularly those suitable for high acuity tenants. This granularity would be off-putting to most institutional investors.

No development or forward funding risk

CSH does not take development risk or forward fund new housing. It has established extensive relationships with developers, Care Providers and Registered Providers. As the first and largest fund in the sector, CSH has close relationships with many of these parties, believes it has a good reputation with them and has successfully put in place a number of framework acquisition agreements. All the properties that CSH acquires already have a lease agreement with a Registered Provider in place and so are income producing from day one. CSH may require the vendor to review and upgrade the contracts that it has with various parties before acquisition.

CSH, aided by a team at Jones Lang LaSalle (JLL), makes a detailed assessment of each property to ensure that it is fit for purpose before the acquisition. It may identify snagging issues that it insists are resolved before deals complete. It may also insist on modifications to the property to ensure that it is fit for purpose.

Due diligence process

Enhanced due diligence process

CSH has followed a detailed due diligence programme since launch. This has been enhanced in the wake of the problems that CSH encountered with First Priority Housing Association (see page 12). The due diligence process encompasses:

- completion of diligence forms for KPIs, health and safety and finances;
- discussions with the CEO and finance director of the Registered Provider;
- site visits to meet management and visit properties;
- standard investigation reports on key individuals for standards of conduct;

- regulatory checks;
- review of available management accounts and business plans;
- physical inspections of properties by JLL;
- independent, third-party benchmarking of rent;
- references from all significant care providers; and
- requests for ring fencing, with segregated accounts or charges for protection of rent and deposits due to CSH.

In addition, following the signing of leases, CSH regularly interacts with care providers and housing associations, particularly to examine void payments and other operational and financial data.

Best practice protocol

A best practice protocol has been developed which CHA is encouraging other investors and interested parties to adopt. The objective is to ensure that when a Registered Provider enters into a property transaction it is structured for long-term stability to the benefit of all parties including the tenant, the Registered Provider and the investor.

The protocol contains 10 core principles relating to matters such as financial prudence, resolving any possible conflicts of interest, management and control interaction with regulators. In addition, it contains detailed requirements for the on-boarding of new properties. These include:

- independent verification of rent to confirm this is appropriate within the local authority area and represents value for money;
- a minimum 'on-boarding fee' paid to the Registered Provider from the proceeds of the sale of the property to CSH, to cover the setup costs of getting the property ready for occupation by a tenant;
- the Registered Provider maintaining segregated accounts/charges for rent and service charges for properties leased from CSH;
- the establishment of a rental protection fund for each tenant, to cover three-six months' rent on every property;
- a sinking fund for each property to cover certain capital and maintenance costs and over-runs; and
- an indexation reserve fund to be set up at the outset of a lease and topped up over its life, with indexation being set with reference to CPI.

Some of these points have already been applied to CSH's existing portfolio. However, CSH aims, as far as possible, to implement all aspects of this protocol on each new transaction and to retrofit as much of this as it can on its existing portfolio. Where vendors and Registered Providers are reluctant to abide by the overall direction of the protocol, CSH will walk away from deals.

Prepared to turn away deals -
£300m to date

CSH estimates that it has turned down c£300m worth of potential deals since launch.

Investment restrictions

CSH operates within the following investment restrictions:

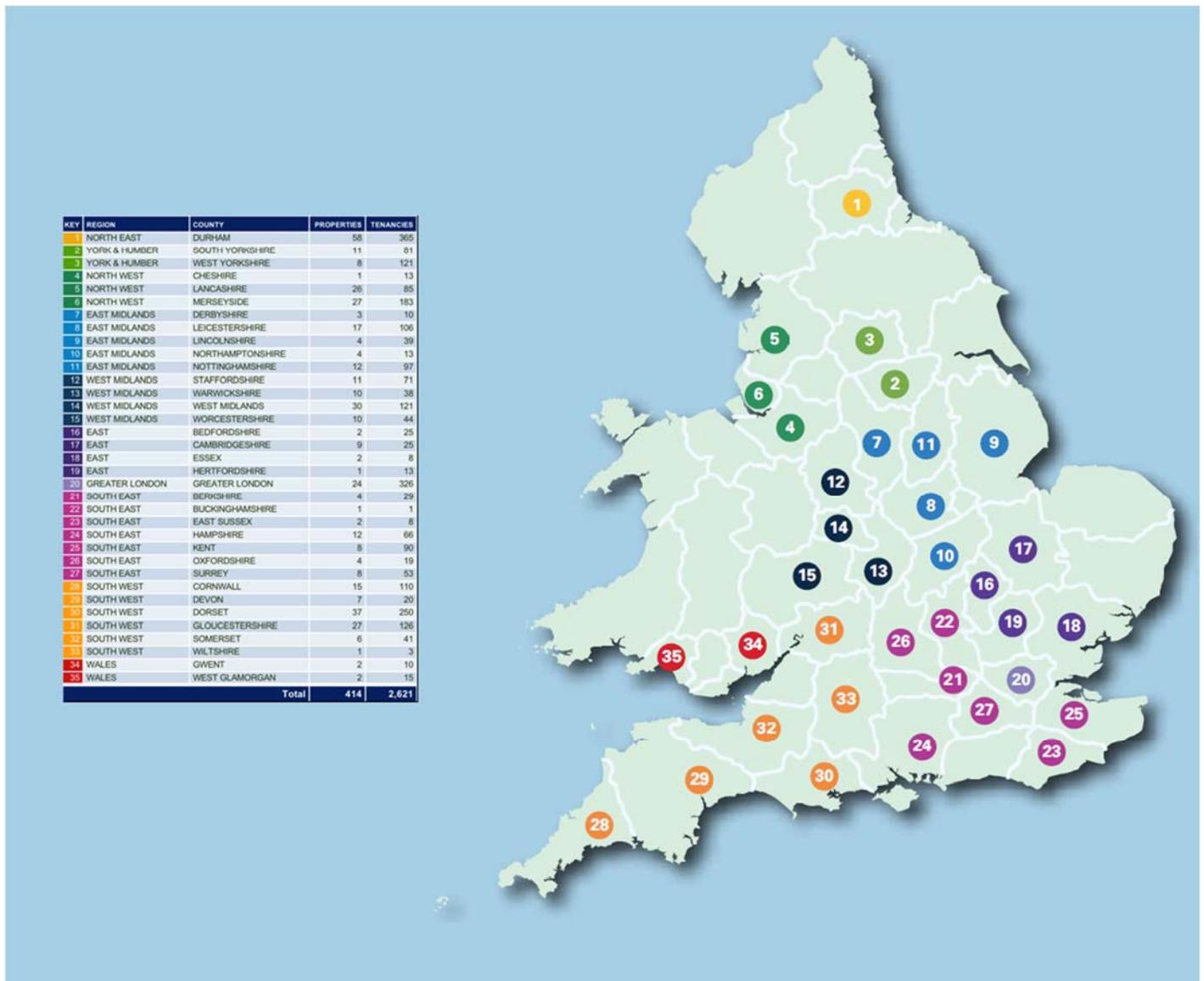
- It may only acquire social homes located within England and Wales;
- It may only invest in social homes where the counterparty to the lease is a housing association or a local authority;

- The minimum unexpired term for a lease or occupancy agreement at the time of acquisition will be 10 years (although sub-10-year leases included in a portfolio of leases acquired which, after reorganisation, will have an average WAULT in excess of 15 years are permitted);
- The maximum exposure to a local authority or housing association is 25% of gross asset value (once the capital of the Group is fully invested);
- The maximum exposure to a group of houses/apartment blocks in a single geographic location is 20% of gross asset value (once the capital of the Group is fully invested);
- Only completed social homes will be acquired and forward finance of social homes under construction is not permitted;
- No investment in other investment companies or alternative finance funds; and
- No short selling.

Asset allocation

At outset, CSH set a target of at least 75% supported living properties and, as at 31 May 2018, supported living properties represented more than 95% of its portfolio.

Figure 3: Distribution of CSH's portfolio at 31 March 2018



Source: Civitas Social Housing

Figure 4: Portfolio growth over time

	31/03/17	30/06/17	30/09/17	31/12/17	31/03/18	11/06/18
Investment (excl. purchase costs)	106	206	284	431	472	502
Properties	82	167	282	384	414	433
Tenancies	487	1,130	1,820	2,405	2,621	2,804
Local authorities	32	68	82	99	109	
Housing associations	5	7	10	10	11	
Care providers	25	42	50	59	64	
WAULT (years)	24.7	24.3	24.3	24.3	24.1	24.0

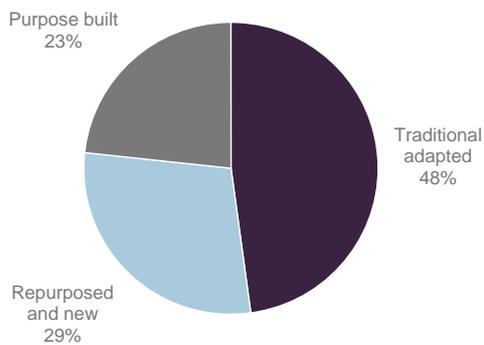
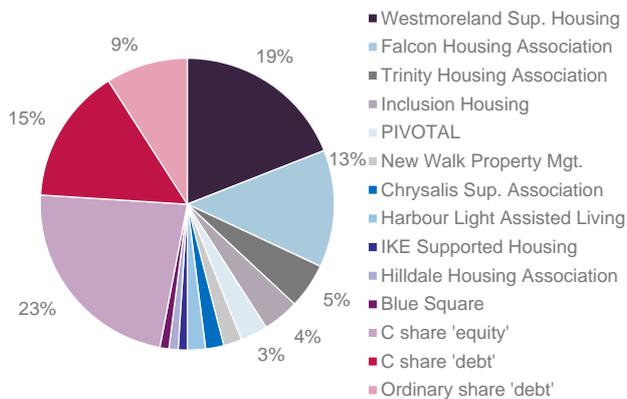
Source: Civitas Social Housing, Marten & Co

Figure 3 shows the regional distribution of CSH’s portfolio as at 1 May 2018, while Figure 4 shows how the portfolio has developed over time.

Figure 5 shows how the rental income on CSH’s portfolio is distributed by housing association, while Figure 6 illustrates the split by property type.

Figure 5: Rental income split by housing association as at 9 May 2018*

Figure 6: Portfolio split by property type as at 31 March 2018



Source: Civitas Social Housing. *Note; including debt and equity still to be deployed. Source: Civitas Social Housing

Figures 3-6 illustrate the diversity of CSH's portfolio. The adviser's intention is that CSH should not become over-reliant on any single Registered Provider. The adviser intends to increase the diversity of the portfolio as the remainder of the C share issue proceeds, the debt to be associated with the C share portfolio and the remaining debt that is intended to be raised against the ordinary share portfolio are deployed.

Performance

At the end of March 2018, CSH's IFRS NAV per share was 105.5p for its ordinary shares and 98.9p for its C shares. On a portfolio basis, the ordinary share NAV was 113.9p and the C share NAV was 100.3p.

Which NAV?

JLL carries out independent valuations quarterly

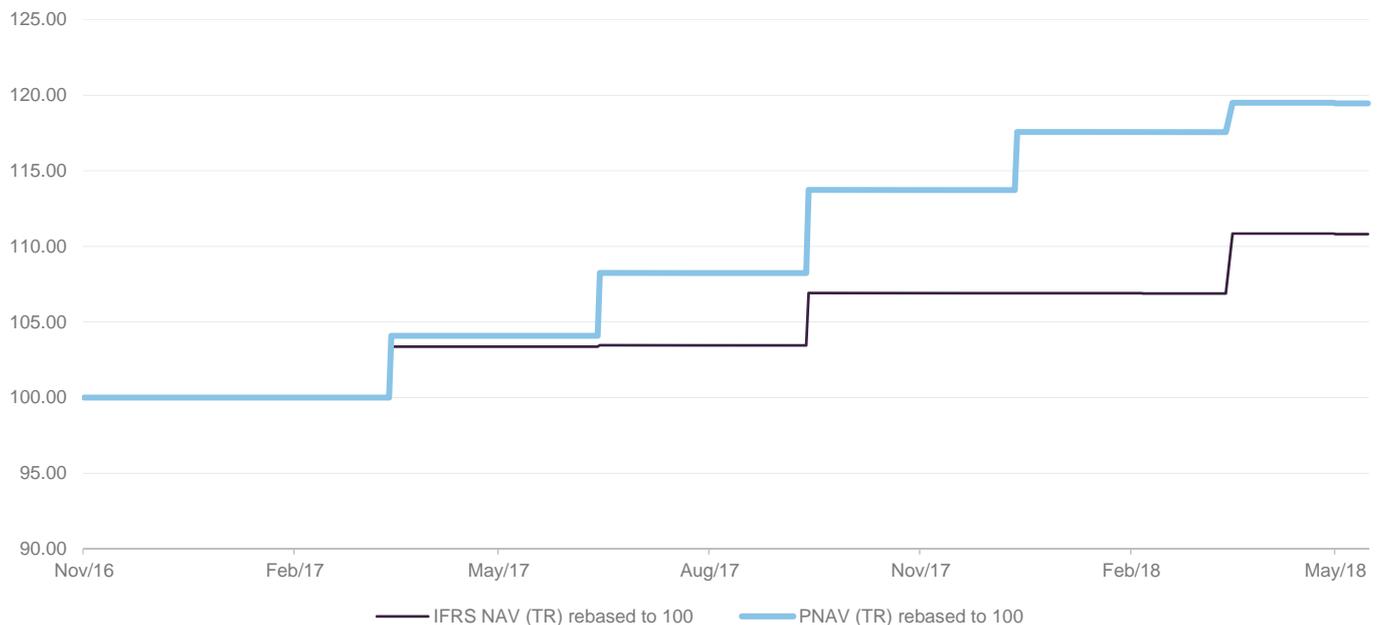
JLL values CSH's property portfolio on a quarterly basis, using a standard RICS 'Red Book' method which is based on discounted cash-flows. The IFRS NAV is based on the valuations of individual assets. It ought to reflect the value that CSH might achieve if it sold its portfolio off on a piecemeal basis. CSH also publishes a portfolio NAV based on what JLL thinks an acquirer would pay for its entire portfolio that reflects the properties being held within SPVs with a lower tax charge on any onward sale.

Real-world evidence of portfolio premium

There is some 'real-world' evidence that portfolios of social care assets change hands at higher valuations than individual assets. AMP Capital backed a management buyout of The Regard Group from Montreux Healthcare Fund and Macquarie Principal Finance. Regard has 1,186 beds across the UK, with a focus on England and Wales. The terms of the transaction were not disclosed but CSH believes the deal was struck at around a 4% yield.

It may be a matter of personal preference for investors as to which NAV they think best represents the true value of CSH. However, it could be that, if CSH traded close to its IFRS NAV but at a material discount to its portfolio NAV for some time, it could attract the attentions of an institutional investor looking to acquire the entire portfolio.

Figure 7: CSH ordinary share NAV total return (including dividends reinvested) since launch



Source: Civitas Social Housing, Marten & Co

The advisers believe that there was an advantage in CSH being first to market and also in its size. It is well known in the social housing community and this has allowed it to acquire a substantial part of its portfolio off-market at attractive prices. The advisers say that this made a material contribution to CSH's NAV uplift since launch.

Valuation sensitivity analysis

With the aid of JLL, CSH has published a table that shows the sensitivity of its IFRS NAV to changes in the discount rate used to value the properties in the portfolio and changes in the rate of inflation as measured by CPI.

Figure 8: Valuation sensitivity analysis

Heading	-0.5% in discount rate £'000	+0.5% in discount rate £'000	-0.5% in CPI £'000	+0.5% in CPI £'000
Impact - £'000	20,634	(19,158)	16,062	(15,412)
Impact - %	+4.0	(3.7)	+3.1	(3.0)

Source: Civitas Social Housing, Marten & Co

Figure 9: CSH share price since launch



Source: Morningstar, Marten & Co

First Priority Housing Association

In February 2018, CSH's share price was impacted by problems at First Priority Housing Association (First Priority). At the time that these issues surfaced, First Priority had 227 individual properties in 50 local authority areas. These properties had 1,075 bed spaces with 759 tenancies; almost a 30% void rate of which the majority were the responsibility of the care providers.

CSH had leased 45 properties to First Priority. The void rate on these properties was within CSH's normal expectations.

In January, the HCA (now the Regulator of Social Housing) announced that First Priority's grading was under review, saying: "The regulator is currently investigating a matter which may impact on First Priority's compliance with the Governance and Financial Viability Standard". The Regulator of Social Housing then published a regulatory notice on First Priority. The notice said that the Regulator believed that First Priority did not have sufficient working capital or the financial capacity to meet its debts as they fell due. It also highlighted governance concerns saying: "The fact the board is dependent on the goodwill of its lease counterparties in relation to rent payments indicates a fundamental failure of governance." First Priority had paid CSH all the rent due up to 31 January 2018.

All parties' first concern has to be the welfare of tenants

All parties' first concern in such a situation has to be the welfare of the tenants. Having clarified the situation at First Priority, the decision was taken to assign these leases to another, financially stable, Registered Provider. On 9 May, CSH announced that all 45 leases had been transferred to Falcon Housing Association CIC on the same terms. As part of the deal, CSH acquired an option to extend the lease terms to 40 years; the terms of this transaction have not been disclosed. The potential cost to CSH of the problems at First Priority will be the loss of a few months' rent on the properties. CSH has said that this would not be material to the company, in any respect. As a rough estimate, we believe the impact should have been around £350,000 and CSH is seeking to recover this.

In the wake of this CSH undertook to enhance its due diligence process and took the steps outlined on page 6.

Peer group

You can access up-to-date information on CSH and its peers on the [QuotedData](#) website

CSH sits within a small group of listed peers comprising Triple Point Social Housing REIT (SOHO) and Residential Secure Income REIT (RESI). CSH is by far the largest fund in this peer group. In our view, RESI, which launched in July 2017, has been slow to make investments and this is weighing on its share price. It took until November 2017 to make its first acquisition and has only just announced its second. It has now deployed about three quarters of its £180m IPO proceeds and the deals that it has done to date have been focused on the provision of retirement properties. This area has a different risk/reward profile to supported living.

Figure 10: Peer group comparison as at 8 June 2018

Heading	Market cap (£m)	Premium/ (Discount) (%)	Yield* (%)	Launch date
Civitas Social Housing ordinary	359	(1.7)	4.9	18/11/16
Civitas Social Housing C	289	(2.1)		14/11/17
Residential Secure Income REIT	170	(2.7)	3.1	12/07/17
Triple Point Social Housing REIT ordinary	214	8.4	4.7	08/08/17
Triple Point Social Housing REIT C	50	6.6		27/03/18

Source: Morningstar, Marten & Co, * based on targeted dividend

Based on targeted dividends, CSH can boast the highest yield of the funds in this peer group.

Earnings

Figure 11 shows what we think the impact of moving to a fully invested position (i.e. having deployed gearing of 30% on gross asset value) would be on CSH's adjusted earnings.

Figure 11: Actual and projected earnings

Heading	31 March 2018 actual		Full investment estimate	
	£'000	pence per share	£'000	% of IFRS NAV at 31/03/18
Rental income	18,606	5.32	56,167	8.41%
Directors' remuneration	(205)	(0.06)	(150)	(0.02%)
Investment advisory fees	(5,773)	(1.65)	(6,362)	(0.95%)
G&A expenses	(2,915)	(0.83)	(2,577)	(0.39%)
Total expenses	(8,893)	(2.54)	(9,089)	(1.36%)
Finance income	413	0.12	-	-
Interest cost	(1,041)	(0.30)	(8,174)	(1.22%)
Adjusted earnings	9,085	2.60	38,903	5.82%
Change in value of property	30,633	8.75		
C share adjustment	(2,792)	(0.80)		
Profit/(loss)	36,926	10.55		

Source: Civitas Social Housing, Marten & Co

Our model suggests dividend covered by earnings once fully invested

With a projected 5.82% adjusted earnings return on the IFRS NAV as at 31 March 2018 once fully invested, Figure 11 suggests that CSH can cover its 5 pence dividend target.

Assumptions

Rent roll of £56.2m

At the end of March 2018, CSH had invested £471.6m and its rent roll stood at £28.4m, equivalent to a net initial yield of 6.02%. We have adopted a cautious stance going forward and assumed a lower net initial yield of 5.75% on new purchases.

£150k of directors' expenses

The run rate of directors' fees is £150,000. We have not added anything for directors' expenses but these should be minimal.

£6.4m for CHA

CHA's fee is based on portfolio NAV (see page 10 for more detail). At 31 March 2018, this was £701.6m which implies an annual fee of £6.4m going forward.

£2.6m of G&A and falling

G&A expenses are hard to predict. CHA has suggested that a typical overhead would be a ratio of 0.7% advisory fees to 0.3% other expenses. On that basis, the G&A expense might be £2.6m. However, it is important to note that most of the company's costs are likely to be front-end loaded, so these expenses should fall once the portfolio is established.

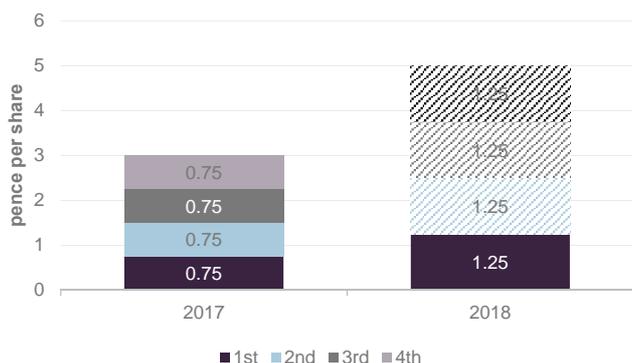
2.85% interest on £286.3m debt

We have assumed that the balance of additional gearing is provided by additional fixed rate funding at 3% (see page 16) and used a rate for Libor of 0.4725%. This would give a blended interest rate of 2.85%

Dividend

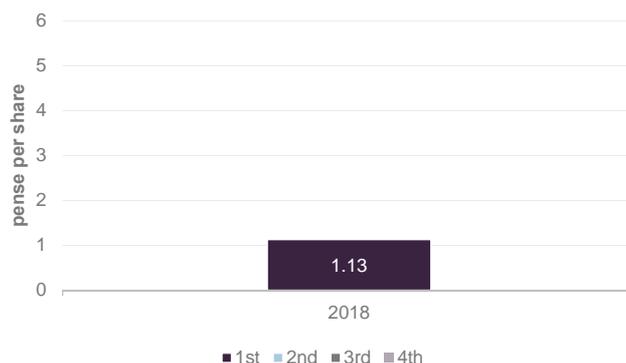
CSH stated that it intended to pay 3p per share in its first year of operations, with the first dividend being declared in relation to the period ending March 2017 and 5p per share in its second accounting year, growing in-line with inflation thereafter. Actual dividends declared have been in line with its objectives.

Figure 12: CSH ordinary shares dividends declared and forecast



Source: Civitas Social Housing

Figure 13: CSH C shares dividends declared since launch



Source: Civitas Social Housing

Discount/premium

Figure 14: CSH ordinary share premium/discount to IFRS NAV since launch



Source: Civitas Social Housing, Morningstar, Marten & Co

CSH's ordinary shares traded at a premium to its IFRS NAV for most of its life but moved to trade at a small discount in the wake of the problems with First Priority that we discussed on page 12.

If they feel it is necessary, the directors have powers to repurchase up to 35m ordinary shares and 45,269,800 C shares, to correct an imbalance in the supply and demand of CSH's shares. Any shares repurchased, up to a maximum of 10% of CSH's share capital, may be held in treasury and resold. Shares will not be resold from treasury at a discount to NAV unless as part of an offer that is being made to all shareholders on a pro-rata basis.

Fees and costs

Tiered management fee, no performance fee

CHA is entitled to an annual advisory fee based on a percentage of CSH's portfolio NAV. This is calculated as 1% on the first £250m, 0.9% on the next £250m, 0.8% on the next £500m and 0.7% on amounts above £1bn. The fee is calculated and paid quarterly in advance. CHA's contract cannot be terminated before 30 November 2021 and thereafter 12 months' written notice is required. If CSH is taken over at a premium to NAV and at a price higher than 100p per share (the initial offer price), CHA is entitled to another 1% of the NAV on top of 12 months of its advisory fee. There is no performance fee.

Other service providers

G10 Capital Limited was appointed as CSH's AIFM on 24 August 2017 (replacing Ledbury Capital Partners LLP). The AIFM is entitled to an annual management fee of

0.03% of NAV, subject to a minimum of £96,000 (this contract is terminable with three months' notice).

With effect from 1 March 2018, the administrator is Link Alternative Fund Administration Limited. The secretary, who has been in place since 28 March 2018, is Link Company Matters Limited. It receives a fixed fee.

Indos Financial Limited was appointed as CSH's depositary, with effect from 1 June 2018. It receives an annual fee of £59,000, plus 0.006% of the first £350m of any new equity capital raised and 0.003% of further equity thereafter, subject to a maximum of £150,000. The agreement is terminable on six months' notice.

The auditor is PricewaterhouseCoopers LLC. It received £308,000 for its auditing services relating to the period ended 31 March 2018 plus a further £255,000 for work related to the launch of the company and the C share issue.

Capital structure and life

As at the date of the publication of this note, CSH had 350m ordinary shares and 302m C shares in issue and no other classes of share capital. No shares were held in treasury.

The C shares will convert into ordinary shares when either 90% of the net C share issue proceeds have been invested or committed; or on 14 November 2018, whichever is the earlier. The conversion ratio will be based on the respective portfolio NAVs of the two share classes.

Maximum 40% gearing on gross assets, target is 30%

Gearing may be used up to an absolute maximum of 40% of gross asset value (i.e. net gearing of 66.7% on net assets). Debt has to be secured at an asset level (a property or a collection of properties held within an SPV) without recourse to CSH. The board has said that it intends that CSH should have average 30% gearing on gross asset value, once fully invested. At the end of March 2018, CSH had drawn down £92.5m under its borrowing facilities.

Funding sources

On 3 November 2017, CSH agreed a £52.5m loan note from Scottish Widows with a 10-year maturity and an all-in fixed cost of 2.99%; and, on 16 November 2017, it agreed a £40m, three-year floating rate revolving credit facility provided by Lloyds. The Lloyds facility was extended by £20m after 31 March.

Covenants

Under the 10-year facility, historical and projected interest cover must be at least 325% and the loan to value ratio must not exceed 40%. Under the three-year revolving credit facility, historical and projected interest cover must be at least 250% and the loan to value ratio must not exceed 55%.

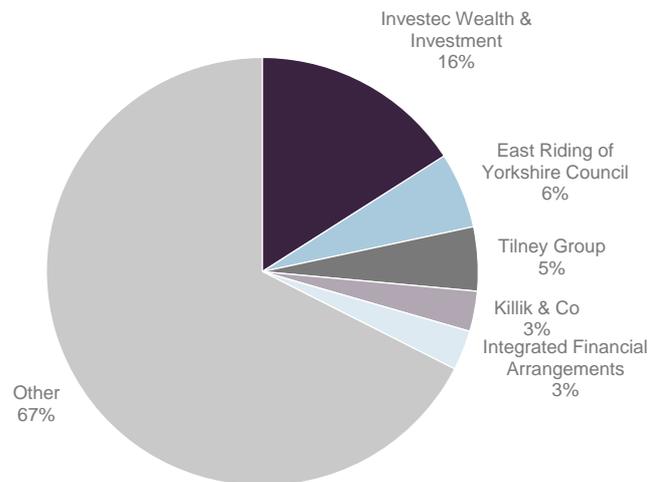
Life

5-yearly continuation votes

CSH's year end is 31 March. CSH will hold a continuation vote at the AGM following the fifth anniversary of its admission (2022) and every five years thereafter.

Major shareholders

Figure 15: Substantial shareholdings



Source: Civitas Social Housing. NB as at 31 March 2018 except Integrated Financial Arrangements which was notified on 8 May 2018.

The team

CHA's 17-strong team has extensive knowledge and experience of the social housing sector in a variety of capacities. The individuals that investors are most likely to meet are:

Paul Bridge is CHA's chief executive officer and co-founder. Paul has over 20 years' experience of working at a senior level in the social housing sector. He is the non-executive chairman of Thames Valley Charitable Housing Association and was previously CEO of Homes for Haringey, a Registered Provider, where he was responsible for 800 staff and 21,000 homes.

Andrew Dawber is a director and co-founder of CHA. Andrew has been active in the social housing sector since 2012. He was part of the team that founded the private investment company, Funding Affordable Homes, and was the adviser and founder of PFI Infrastructure Plc, the first publicly traded social infrastructure fund.

Graham Peck is CHA's finance director. Graham joined CHA in 2018 and has over 10 years' experience within real estate finance, with a focus on healthcare and alternative assets. He was formerly the CFO for pan-European private equity real estate investor, Palm Capital. Prior to this Graham was at Octopus Healthcare where he headed up the finance function for LSE-listed MedicX Fund and the MedicX Health funds. Graham is a Chartered Accountant.

Nicholas Bull, transactions director, has worked in the UK and continental real estate markets for over 20 years, having been responsible for transaction execution within the lending and investment teams of a number of investment and commercial banks and private equity firms. Nick is also a qualified solicitor.

Prior to joining Civitas, Nick was a partner in a real estate corporate finance business, focussing on capital raising and restructuring advisory services. Between 2010 and 2014, Nick worked within the non-core real estate unit of Lloyds Banking Group Plc, responsible for managing a number of large non-performing loan portfolio sales and advising on various asset management and restructuring initiatives. Prior to Lloyds, Nick was responsible for transaction execution for the real estate lending and investment teams of Merrill Lynch, UBS Investment Bank and Lehman Brothers. Nick began his career as a real estate and banking lawyer with Berwin Leighton and Clifford Chance LLP.

Simon Cairns, investment director, has 20 years' experience in the real estate sector within the UK and Continental Europe, focusing on capital raising, fund management and transactions. Prior to Civitas, Simon was a director of Pradera where he was responsible for raising, investing and managing the Pradera Open-Ended Retail Fund, a German domiciled open-ended institutional *spezialfonds* focussed on retail property across Europe. During his 17 years at Pradera, Simon was also a member of Pradera's executive committee, country head for Turkey, acquisitions manager for the Pradera Central & Eastern Fund and asset manager for the Pradera European Retail Fund. Simon is a member of the Royal Institute of Chartered Surveyors.

Nikeel Hussain, head of research and development at CHA, has worked within social housing for over five years with a G15 Housing Association and the Chartered Institute of Housing (CIH). Having joined Catalyst, a leading housing association in 2011, he progressed through operational roles where he played a leading role in property management and regeneration, through to developing and executing strategies on organisational transformation alongside the executive leadership team. He worked within the Business Development team focussing on the identification of land opportunities for development, partnerships and the creation of new asset classes. He has sat on the London board of the Chartered Institute of Housing for over 4 years working alongside sector wide experts and making contributions to housing policy, education and membership. He has also held roles in the field of research for both the Labour Party and a leading market research company.

Board

The board comprises four non-executive directors (details of their individual experience are provided below), all of whom were appointed on the company's incorporation in November 2016. All members are non-executive and independent of the investment adviser.

The company's articles of association require that all directors automatically stand for election at the first AGM following their appointment. Thereafter, all directors are required to stand for re-election at three-yearly intervals, unless they have served for nine or more years, after which they stand for re-election annually. Excluding newly appointed directors that are required to stand for election at their first AGM, and excluding directors who have served more than nine-years and therefore must stand for re-election annually, one-third of the remaining directors must retire and stand for re-election by rotation at each AGM.

Other than CSH's board, its directors do not have any other shared directorships and, as illustrated in Figure 16, all of the directors have made significant personal investments in CSH's ordinary shares. This is favourable in our view as it helps to align the board's interests with those of the ordinary shareholders. The annual limit on directors' fees in CSH's articles of association is £200,000.

Figure 16: The board

Director	Position	Appointed	Length of service (years)	Annual fee (GBP)	Ordinary shares held	C shares held
Michael Wrobel	chairman	18/11/16	1.5	50,000	30,000	45,000
Alastair Moss	director	18/11/16	1.5	32,000	5,000	7,500
Peter Baxter	director	18/11/16	1.5	32,000	20,000	30,000
Caroline Gulliver	chairman of the audit committee	18/11/16	1.5	36,000	25,000	37,500

Source: Civitas Social Housing, Marten & Co

Michael Wrobel has over 30 years' experience in the investment industry. He is the non-executive chairman of Diverse Income Trust Plc. He serves as a trustee director of the BAT UK Pension Fund and chair of its Investment and Funding Committee. He is also the chairman of trustees of the Thorntons Pensions Scheme, a trustee of the Cooper Gay (Holdings) Ltd Retirement Benefits Scheme and acts as an investment adviser to a number of Rio Tinto pension schemes. Formerly, he was a non-executive director of JPMorgan European Smaller Companies Trust Plc and NatWest Smaller Companies Plc. He has served as a director of the Association of Investment Companies and Investment Management Association. He previously worked at Morgan Grenfell, Fidelity International, Gartmore Investment Management and F&C Management. Michael has an MA in Economics from the University of Cambridge.

Alastair Moss is a property development lawyer with over 20 years' experience and is a partner at Memery Crystal LLP. He has been a non-executive director of Notting Hill Housing Group (now Notting Hill Genesis) and a member of the Audit and Treasury Committees. He is the deputy chairman of the Investment Committee of the City of London Corporation and its Property Investment Board. He is also the deputy chairman of the City's Planning and Transportation Committee. He is a trustee of Marshall's Charity and a mentor to commercial directors in government departments. He has also been a board member of Soho Housing Association and was a member of the Area Board of CityWest Homes. He was a councillor at Westminster City Council for 12 years, including his tenure as chairman of the Planning & City Development Committee.

Peter Baxter has 30 years of experience in the investment management industry. He is a managing director of Project Snowball LLP, a social impact investment organisation, and a trustee of Trust for London, a charitable foundation. He is also a non-executive director of BlackRock Greater European Investment Trust Plc. Previously he served as chief executive of Old Mutual Asset Managers (UK) Ltd, and has worked for Schroders and Hill Samuel in a variety of investment roles. He holds an MBA from London Business School and is an associate of the Society of Investment Professionals.

Caroline Gulliver is a chartered accountant with over 25 years' experience at Ernst & Young LLP, latterly as an executive director. During that time before leaving in 2012, she specialised in the asset management sector and developed extensive experience of investment trusts. She was a member of various technical committees of the Association of Investment Companies' and a member of the AIC SORP working party for the revision to the 2009 investment trust SORP. Caroline is a non-executive director and audit committee chair for JP Morgan Global Emerging Markets Income Trust Plc, International Biotechnology Trust Plc and Aberdeen Standard European Logistics Income Plc.

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