

**SHINING A LIGHT ON THE.....
Civitas Social Housing Plc**

AT A GLANCE

Investment Objective
To invest in a diversified portfolio of Social Homes throughout the United Kingdom. The Company intends to meet the Company's investment objective by acquiring, typically indirectly via Special Purpose Vehicles, portfolios of Social Homes and entering into long-term inflation adjusted leases or occupancy agreements for terms primarily ranging from 10 years to 40 years with Approved Providers, where all management and maintenance obligations will be serviced by the Approved Providers. The Company will not undertake any development activity or assume any development or construction risk. However, the Company may engage in renovating or customising existing homes, as necessary.

Fund Factsheet Link	https://www.morningstar.co.uk/uk/report/cef/quote.aspx?t=F00000Y60E&lang=en-GB
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Management	
Manager Name	Start Date
Paul Bridge	18 th November 2016
Andrew Dawber	18 th November 2016
Connell Grogan	31 st March 2022
Darly Quarry	31 st March 2022
Charles Reif	31 st March 2022

FUND PERFORMANCE

Performance from 1st January 2017 to 30th September 2022:

	2017	2018	2019	2020	2021	2022
Civitas Social Housing PLC	11.81%	-0.75%	-10.08%	20.81%	-2.69%	-29.05%
IA UK Direct Property	7.60%	2.86%	-0.78%	-3.77%	7.43%	1.37%

Performance over 12 months, 3 years, 5 years and since launch:

	1 year	3 years	5 years	Since launch
Civitas Social Housing PLC	-20.27%	-10.73%	-23.87%	-16.57%
IA UK Direct Property	4.99%	3.91%	9.57%	16.50%

You should note that past performance is not a reliable indicator of future returns, and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

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Tracking Error	Information Ratio	Active Share	Upside Capture Ratio	Downside Capture Ratio	Batting Average	Beta	Alpha	Equity Style
-	-	-	-	-	-	-	-	-

Volatility Measurements	
3-Yr Std Dev (volatility)	20.11%
3-Yr Mean Return (average)	-3.71%

Investment Style Details	
Giant	-
Large	-
Mid	-
Small	-
Micro	-

Top 5 Holdings		
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-

Fund Benchmark	IA UK Direct Property
Fund size	£366.86 million
Ongoing Charge (share class B)	1.52%

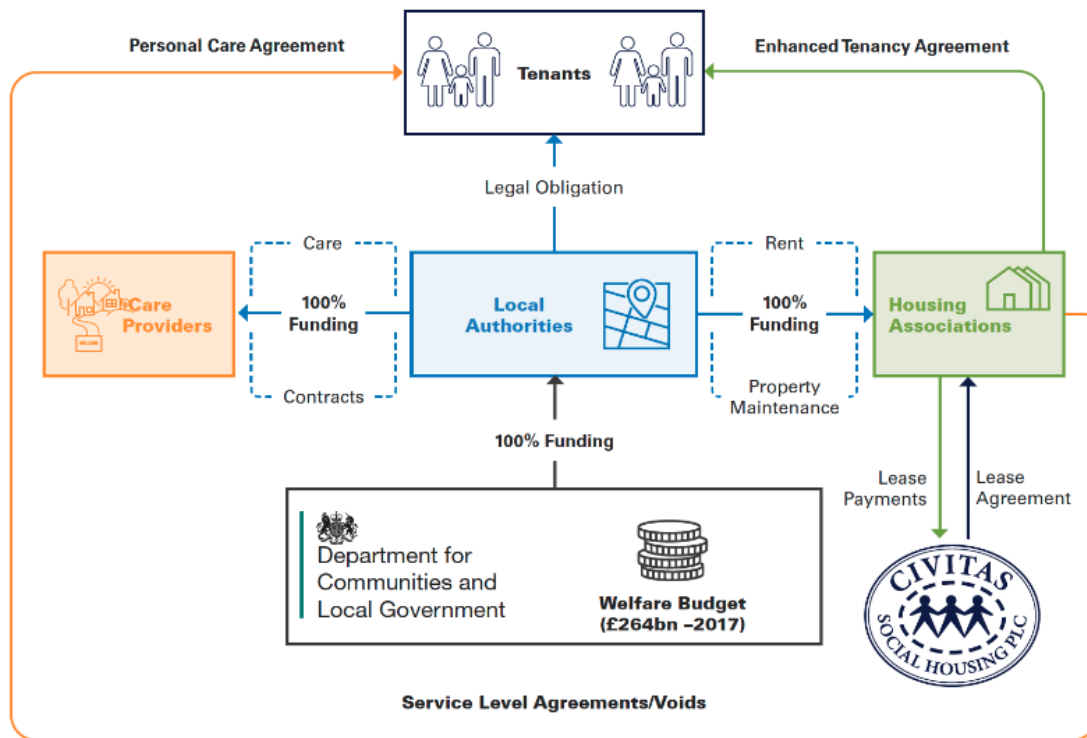
Bull points (pro)	Bear points (con)
<ul style="list-style-type: none"> • First Real Estate Investment Trust specialising in social housing • Focus on specialised supported housing for vulnerable people with care needs • Don't have self-pay tenants so there are fully funded via benefits • Focus on "giving back" by working with housing associations and small charities • Common purpose to transform lives 	<ul style="list-style-type: none"> • The trust came under significant pressure for a "short-seller" in 2021 which drove down the share price • Recent uncertainty in the market over interest rates, inflation and regulatory pressures have pushed the value down further • The discount on the trust is around 45%. The team were buying back shares to reduce this • Regulatory pressures within the market have created uncertainty

UPDATE....

This is a trust that focuses on social housing. 70% of the holdings are within supported living and 30% residential care. The residents of the properties are not self-pay so rents from the tenants to the housing associations are fully funded via benefits.

The chart below is important as it highlights the funding cycle for the strategy. Effectively Civitas own the properties, and these are leased to the housing associations who then have agreements with the tenants. The local authorities are responsible for providing the funding to the housing associations.

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In terms of leases, 30% have leases capped at 30%, 27% at CPI plus 1, and the balance at CPI. We discussed whether this may be seen negatively. They explained that this is the fairest means of applying rent increases, and the housing associations should be able to get funding for those increases from the local authority.

Although Civitas own the properties the maintenance and running of those properties' rests with the housing association. We talked about the risk of poorly managed properties and there are several steps that the team take to manage this.

Firstly, each week the different teams meet to discuss any issues on finance, the buildings etc and this enables them to keep on top of what is happening and pick up issues at an early stage. Secondly, they have teams that check the properties and have an independent report which does random spot checking. They also had a book published which follows people's journeys over 18 months. Thirdly, they have spent money on work which increases the quality of buildings and the experience for those using the properties. Fourthly, when buying properties, they aim to "buy well" and therefore the due diligence element is really important.

An important aspect of the strategy is the ethos. They come at this from a care perspective. Of course, this is a business that needs to make money, but to make this work they want people to be happy and therefore it is important that they hold on to the fact they are helping people to live fuller lives.

The team is 36 strong and includes people who have come across from social housing, housing associations and local authorities, so that knowledge is invaluable in what they are building. They believe in creating a positive environment for the team and have recently moved offices to deliver better conditions. Staff are also rewarded if the business is successful. They engage with housing associations and work with them. In terms of charity work, emphasis is put on lending out skills. They tend to work with small charities and staff are encouraged to get involved.

Fundamentally this is about having a common purpose to transform people's lives.

The trust does have nearly 40% in gearing (lending). A paper will be issued on this shortly. However around 55% of the book has fixed loans until 2028 at around 3% and the balance is currently being fixed. The average yields are around 5% / 6% so there should be plenty of scope to cover debt repayments.

There is growing demand for social housing:

What is Driving Increased Demand for Specialist Supported Housing?



Demand growing by
5/6% per annum

- Move out of family homes with parents/carers become elderly
- Closure of long-stay hospitals
- Government policy to promote Care in the Community
- Longer life expectancy
- Medical advance (survival rates at birth)

Local authorities like private companies and Civitas have developed a good reputation in this area.

There are however regulatory changes which has placed a dark cloud over the sector. This, if anything, improves the sector, but until this comes through it is likely to dampen potential returns.

Principal Objectives:-

Benefits for Housing Associations

- Achieve greater alignment between income receipts and lease liabilities
- Set achievable capital solvency requirements against lease obligations
- Achieve greater alignment and demonstrate a further degree of risk sharing

Benefits for the Company

- Counterparties better able to achieve regulatory compliance
- Enhanced information and step in rights (having regard to tenant welfare) in addition to existing lease transfer and assignment rights
- Unchanged lease and property values supported by strong underlying demand and active asset management

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Civitas have already done a great deal of work as can be demonstrated below:

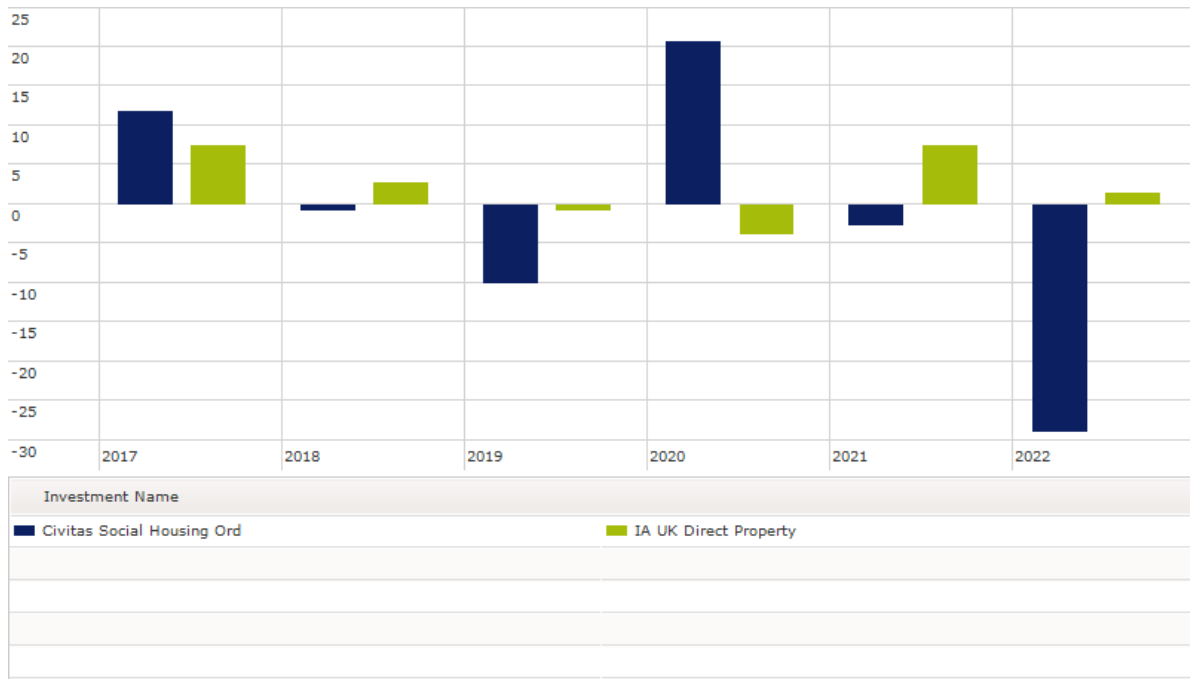
Completed		Next Steps
<ul style="list-style-type: none"> ■ New Regulatory Clause designed by Civitas with input from leading sector law firm ■ Initial outline discussions held with various relevant counterparties including certain shareholders, lenders and valuers ■ Detailed negotiations underway with several housing associations at Executive and Board level ■ Sample specimen leases identified relating to unencumbered properties to potentially adopt new clause 		<ul style="list-style-type: none"> ■ Conclude negotiations with initial housing associations and incorporate clause into specimen leases ■ Socialise the clause with a wider group of housing associations ■ Seek formal consents and final approvals to enable wider adoption of the new regulatory clause ■ Monitor sector, regulatory response and levels of support ■ Determine programme for wider adoption if deemed appropriate to move sector forward

Turning to performance, the strategy was performing strongly in 2021 when it was “attacked” by a “short seller” who was actively aiming to drive down the stock price to profit from this. This may appear illegal but it can be done and there is very little that can be done to stop this. The company were forced to issue a statement which can be found this link

<https://www.civitasocialhousing.com/media/1955/csh-market-update-11-october-2021.pdf>

This year it has been caught by an indiscriminate sell-off in the market. Effectively anything with interest rate sensitivity has been significantly de-rated over the last few weeks. Until there is greater stability within the UK this volatility will remain and therefore, short term, this is something that investors should be aware of. Longer term the story remains strong; the yields are high, the debt will be fixed, and the demand remains strong.

The charts below show performance and volatility:



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Clearly, as it stands investors are being “rewarded” for the social impact but not in terms of performance.

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696 properties
acquired¹



£835 million
invested¹



4,592 tenants with
dependable
accommodation



based on
long-term
leases signed with
**18 Approved
Providers**



supported by
**130 care
providers**



across **178 Local
Authority Partners**

The Good Economy, the social impact advisory firm, in its fourth annual independent Social Impact Report on Civitas, noted that Civitas continues to be an authentic 'impact investor' according to IFC operating principles and is proactive in its approach to asset management, taking well defined steps to improve the quality of existing homes, especially in terms of improving environmental performance.

¹ over the life of the Company as at 31 March 2022.

The impact of the "short-seller" in 2021, coupled with inflation and interest rate shocks, have been a drag on performance. However, the team continues to grow, and the trust itself is trading on a significant discount. There is no doubt that until there is some form of stability within markets this will continue to be volatile but when the focus returns to quality assets this is one that will no doubt generate interest.

In summary, here is a team that have care at the focus of what they do and have made a significant impact in this part of the market. There is no doubt around the impact but performance may deter investors. This has been driven by known factors creating a significant discount. This could change at any point but investors may not want that level of volatility, and it may be that existing investors feel it is better to hold, and for potential new investors to wait until stability comes. We know this will not be for everyone and a lot of work and consideration needs to be made before investing.

The source of information in this note has been provided by Civitas and is correct as of October 2022. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to decide based on these notes we cannot take responsibility for this, and you should carry out your own research before deciding. We would also recommend that you receive advice before following up on any decision.