WhichInvestmentTrust.com

GCP to raise new money for ‘boring’ high yielding fund

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Debt

GCP Project Finance is hoping to double in size to invest in providing project finance loans secured against physical assets or secure contracts with lengthy durations, and delivering a dividend to shareholders of around 6%.

GCP or Gravis Capital Partners, was founded by a Corporate finance team from property company DTZ, who specialised in arranging loans for large property developments. Since establishing GCP in 2008, the team have launched two successful investment trusts prior to GCP Project Finance (LON:PROJ); those being GCP Student Living, and the circa £700 million GCP Infrastructure fund.

The latest launch GCP Project Finance or Proj, launched in October last year raising £100 million from investors, most of which has already been deployed, faster than expected, and leading to the first year dividend being increased from 4% to 5%, and the payment date being brought forward from August to May.

The Board is seeking to raise between £60-£106 million of new money in an offer which is **due to close on May 23rd.**

The trust can borrow or gear up to 25% but this is presently zero. GCP utilises gearing in their infrastructure investment trust, but only for short term cash flow requirements and the Board has no plans to make use of gearing with Proj.

Encouragingly there is no performance fee, just a management fee of 0.90% per annum.

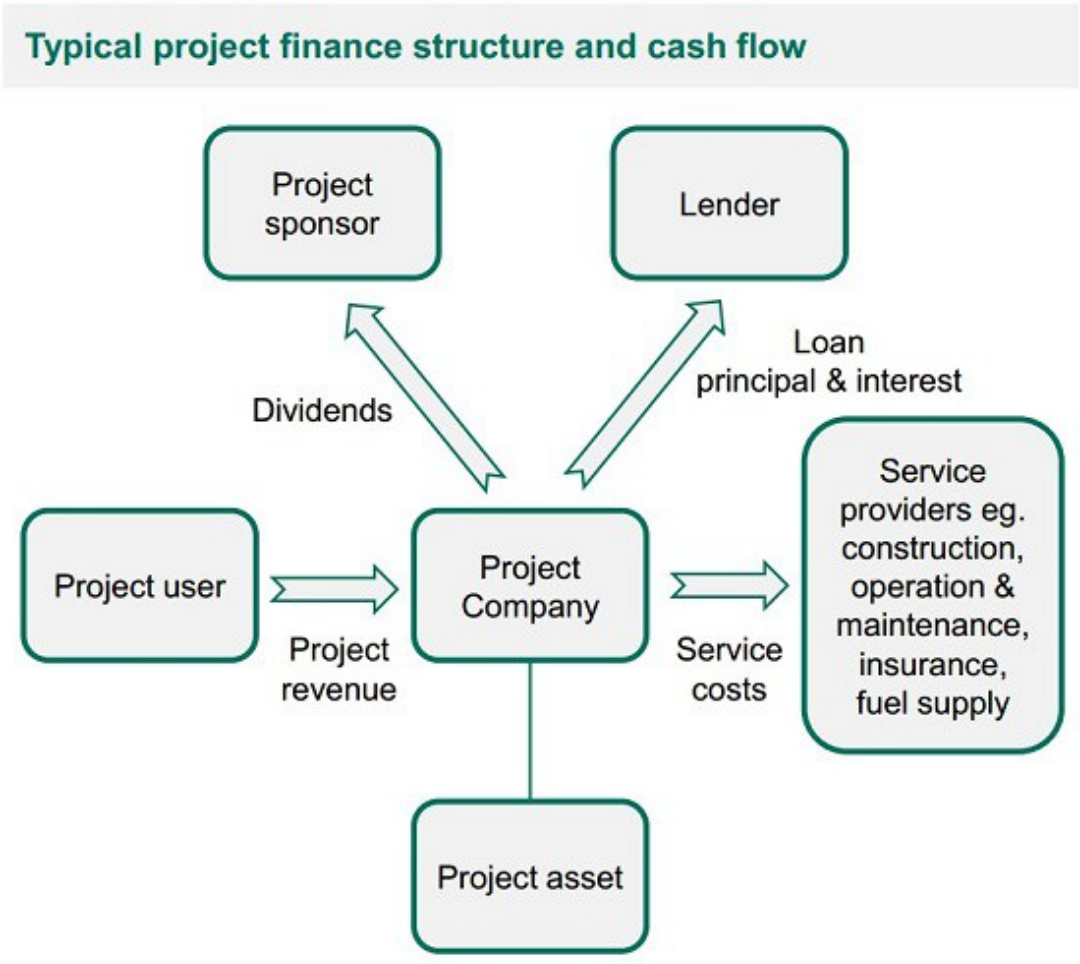
Proj provides the debt element of projects such as care homes, where it provides the finance to build or acquire the home. The debt is secured against the building so that in the event that the operator was to go under, Proj would inherit the building and seek to appoint a new operator or dispose of the building. This doesn't mean it is completely insulated from financial difficulties, but providing they've choses their assets carefully, they should get a substantial portion of their investment back, or might even lose nothing at all.

What is project finance?

Project finance investments are investments in projects that have contracted, predictable medium to long term income (cash flows and/or physical assets). Investments are typically made in a single purpose, ring fenced company that owns the contract or the asset.

In the diagram below, the 'Project Company' at the centre of the diagram owns the physical asset, such as, for example, a care home; on the diagram the care home would be the 'Project asset'. Proj would be the lender, with care home operator being the 'Project sponsor' though they may also be the service provider too, or that could be a third party.

The 'Project company' at the centre of it all does nothing other than own the asset. It would also own any contract the asset benefitted from, such as a local authority contract to provide beds in the care home. If the care home operator went bust, Proj would be entitled to appoint another in their place, or sell the home on to another entity.



It's all about income……

Proj's appeal is undoubtedly to income investors, seeking a reasonably safe yield, though, it has to be recognised that that is dependent on the Proj management choosing their assets carefully. It is difficult for ordinary investors to evaluate the quality of these contracts.

Proj's stated objective is:

to generate attractive risk-adjusted returns primarily through regular, growing distributions and modest capital appreciation over the long term.

Most of the returns shareholders make will come from the dividend rather than increases in the NAV (net asset value) and share price.

The partners in GCP have invested £5 million of their own money when it IPO'd last October, which may provide some comfort.

The type of loans Proj provides are called Senior Secure Debt. The advantage of this type of debt is in the event of anything going wrong, they are first in line to be paid. In fact, Proj negotiates either the physical asset such as a building or boilers (they provide finance for a domestic boiler company), and or lengthy contracts be offered as security, increasing the likelihood they will get some or all of their money back.

Proj is aiming to pay a 6% yield on the money raised by year two. As stated already, for this year, with the existing pool of money, a 5% yield will be achieved. The new share sale is being done by way of a C-share issue. This is an additional pool of money, managed alongside but separate from the existing fund. The reason for this is until it is invested it will not be earning money, and it would disadvantage existing shareholders whist getting up to speed. Once 90% of the new pot of money is invested, or in six months time, whichever is first, both pools of money will be merged together.

Dividends will be paid quarterly.

Assets:

Proj targets deals valued at £5-£20 million.

- Exposure is limited to the performance of the project company
- Project finance lending has key structural benefits, compared with corporate lending, including;
- Tight control of project cash flows and assets
- Highly transparent
- Pre-defined risks, with the ability to place the risk with the party best able to manage it
- Single purpose or limited scope companies

Weighted average yield of 8.1%, remaining term c.8.9 years

Sector	Asset	Security	Rate	Date of investment	Value (£m) million*	Expected Term (years)	Perce gross
Asset finance	Domestic boilers	Senior	Fixed	October 2015	16.0	9.8	1
Energy & infrastructure	Renewable energy O&M	Senior	Fixed	November 2015	10.9	14.5	1
Property	Bridge finance	Senior	Fixed	November 2015	20.5	6.5	1
Asset finance	Various	Senior	Fixed	November 2015	9.8	17.5	9
Property	Bridge finance	Senior	Fixed	January 2016	12.0	5.0	1
Property	Social housing	Senior	RPI Linked	February 2016	4.2	20.8	4
Energy & infrastructure	Waste	Senior	Fixed	April 2016	14.5	15	1
Property	Care homes	Senior	Fixed	April 2016	11.3	17	1
Total / weighted average					99.2	8.9	9

*Value is at 31 March 2016, with the exception of the two assets booked in April 2016 which are shown at their

GCP Project Finance Current Portfolio

How to invest

To participate in this offer you need to contact your stockbroker or savings platform. Platforms participating include; The Share Centre, Tilney Bestinvest and Hargreaves Lansdown.

More information can be found on the GCP Proj website **here.**

Applications must be in by Monday 23rd May.

Sector	Asset	Security	Rate	Date of investment	Value (£m) million*	Expected Term (years)
Property	Care homes	Senior	7.8%	Fixed	22	15
Property	Bridge finance	Senior	7.8%	Fixed	18	5
Asset finance	Various	Senior	7.0%	Fixed	3	19
Property *	Student accommodation	Subordinated	9.5%	Fixed	15	2
Asset finance	Agriculture	Senior	7.8%	Fixed	10	5
Asset finance	Rehabilitation centres	Senior	8.2%	Fixed	10	10
Energy & infrastructure	Power	Senior	8.5%	Fixed	10	9
Energy & infrastructure	Power	Senior	8.5%	Fixed	30	9
Energy & infrastructure	Power	Senior	8.2%	Fixed	30	8
Energy & infrastructure	Renewable energy O&M	Senior	7.8%	Fixed	5	15
Energy & infrastructure	Domestic boilers	Senior	7.8%	Fixed	3	8
Property	Bridge finance	Senior	7.8%	Fixed	8	5
Property	Social housing	Senior	6.3%	RPI	5	21
Total / weighted average			**8.2%**		**169**	**9**

*The partners of the Investment Manager indirectly own, in aggregate, between 25 and 50 per cent. of the student accommodation project

GCP Project Finance Portfolio Pipeline

WhichInvestmentTrust.com view

We expect this issue to be popular with investors seeking a high yield which is reasonably secure.

One of the biggest risks for investors is the difficulty in being able to truly value and understand the loans being made.

Another risk to consider is inflation. Although it is very low right now, some of the loans Proj undertakes are lengthy and almost all are fixed rate with no link to inflation.

With an attractive yield we expect Proj to trade on a premium to NAV, and with existing shareholders having first refusal, it may well be over subscribed.

Sector	Asset finance
Security type	Hard assets Contracted cashflow
Security	Senior
Rate	7.8% – fixed
Value (31.03.16)	GBP 16m
Remaining term	c.10 years
Reasons for lack of alternative lenders	Deal size Lack of expertise Onerous credit process
Attractions of investment	▪ Installations critical to the customer ▪ Security over the boiler ▪ New installations add additional security ▪ The borrower has good reputation and is well known to GCP

Domestic customer enters into a 10 year contract with the borrower under which:

- Customer pays monthly fee by direct debit
- Borrower installs a boiler integrated into the existing heating and hot water system
- Borrower provides service and maintenance (with warranty from manufacturer)
- Debt is secured against receivables under the contracts and the boilers themselves
- Default rate less than 1.3% over the past 3 years and falling
- Cover ratio allows for an 18% annual default rate before debt repayments are hit
- New boilers being installed every month increasing loan protection