ZSL CAP 7 LIMITED | Q3 2024

Up To 9.0% Fixed Rate 36-Month Secured Loan Notes

A diversified, asset-backed loan portfolio underpinned by UK Real-Estate

ZENZIC CAPITAL

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News

Zenzic Capital announces a new funding line with Shawbrook Bank

Zenzic Capital ("Zenzic"), a real estate credit investment manager focused on providing innovative and flexible capital solutions, has agreed a multi-million pound funding line with Shawbrook Bank.

Transactions range from acquisition and development finance to complex special situations, typically in the £3-50m bracket. Each Zenzic facility is structured to drive value and borrower alignment.

The new facility with Shawbrook Bank will enable Zenzic to provide additional financial support for real estate groups and developers, many of whom are underserved by wider capital markets.

Ismail Farhat, Director, Shawbrook Bank commented: "Increased funding availability for the UK's SME property developers is critical for our economy. We are proud to fund Zenzic Capital as they facilitate growth amongst our country's property developers."

"We are delighted to have secured a funding line from Shawbrook and it is perfectly timed as we grow our business. Extending our funding lines will enable us to help more developers thrive at this crucial time for the economy. Property development is a key element of the UK's economy, and with many of our customers requiring repeat funding, we will be able to continue to service their growing needs."

NADINE BUCKLAND
MD Zenzic Capital

Loan Note Overview

ZSL Cap 7 Limited ("**the Loan Note Issuer**") forms part of the Zenzic Capital group of companies ("**Zenzic**"), an experienced real-estate lender.

Zenzic is led by a team of senior finance professionals specialising in the provision of structured finance across real-estate and other asset-backed industries. Collectively, the Zenzic team has worked on a combined transactional value of several billion.

As a real-estate lender, Zenzic has directly financed over £250m of real-estate asset value to date with expertise across a range of sectors including residential, purpose-built student accommodation, hotel & leisure, storage and logistics.

Zenzic's role is to provide loan origination, underwriting and asset management services to the Loan Note Issuer by arranging secured loans to real-estate groups and developers. This provides for a diversified, asset-backed loan book underpinned by high quality UK real-estate.

Zenzic is able to demonstrate a successful track record of lending since inception.

Diversification

Zenzic diversifies its loan portfolio by lending to multiple borrowers across a number of growth locations throughout the UK. To further strengthen its portfolio, Zenzic targets a diversified range of scheme sizes, loan amounts and real-estate asset-classes. This commitment to diversification reduces the concentration/investor risk that is typically associated with single asset or single project lending. All Zenzic loans are secured against UK real-estate by an asset-level charge. Where necessary, further security is taken in the form of personal or corporate guarantees, charges over non-development assets, various step-in rights and collateral warranties.

Key Investor Terms

ZSL Cap 7 Limited

(Fixed Rate 36-Month Secured Loan Notes)

Loan Note Issuer	ZSL Cap 7 Limited
Investment Type	Secured Loan Notes
Income Option 1 Payment Frequency	8.0% per annum Paid in 2.0% quarterly instalments
Growth Option 2 Payment Frequency	9.0% per annum Paid as a single bullet payment on maturity
Investment Term	36 months
Transferability	Freely Transferrable
Minimum Investment	£10K (increments of £1K thereafter)

Security Trustee	Truva Trustees 011 Limited (TRUVA CORP)
Investment Servicer	Zenzic Capital

Purpose of Loan	Secured Loans to SME real-estate borrowers in the UK covering all major real-estate asset classes
Loan Note Status	Senior Secured Debt under English Law
Investor Suitability	Professional, certified HNW, self-certified Sophisticated
Investor Security	A debenture is granted to the Security Trustee providing fixed and floating charges over the Loan Note Issuer. These charges capture all assets and undertakings of the Loan Note Issuer, including all loans to borrowers and all rights to Secured Assets
Exit Strategy	The Loan Note Issuer will advance secured loans to real-estate borrowers with the corresponding maturity dates falling due in advance of the Loan Note maturity dates

Investment Structure

ZSL Cap 7 Limited

(Fixed Rate 36-Month Secured Loan Notes)

The Loan Note Issuer, ZSL Cap 7 Limited, is an SPV set-up solely for the purpose of issuing Loan Notes and using these proceeds to advance secured loans to real-estate firms and developers. The use of an SPV provides for a clean investment vehicle with no historical liabilities, ensuring that all assets and undertakings of the Issuer are secured only in favour of investors.

Investor Security

The Loan Note Issuer has entered into a registered Debenture with Truva Corp ("**the Security Trustee**") granting Fixed and Floating charges over all of its loans, assets and undertakings. This debenture is held for the benefit of investors by the Security Trustee.

Truva Corp ("Truva") is a professional services business based in London. Operating as a multi-disciplinary team, Truva draws on extensive legal expertise to deliver a range of services to its clients. Among these, Truva provides a comprehensive range of capital market trustee services, including security trustee, note trustee and share trustee. Truva is also a member of The Association of Corporate Trustees ("TACT") and a Certified Information Privacy Professional ("CIPP").

For additional information on Truva visit www.truvacorp.com

Fixed Charges

Investors are secured by way of a first fixed legal charge granted to the Security Trustee, including but not limited to all licenses, consents, authorisations (statutory or otherwise) and all Secured Asset charges.

The fixed charge also captures;

- All Book Debts;
- All funds held on account and all rights and benefits accruing from those funds;
- All Investments;
- All rights in respect of all Secured Assets;
- All Intellectual Property;
- All its present and future goodwill;
- All uncalled capital.

Floating Charge

As a continuing security, the Loan Note Issuer has also granted full title guarantee charges to the Security Trustee, by way of first floating legal charge, capturing all undertaking, property, assets and rights not otherwise captured under the fixed charges.

Managing the Loans

Zenzic will advance secured loans to SME real-estate groups across numerous developers, locations, scheme sizes and real-estate asset classes. This provides a diversified, asset-backed portfolio underpinned by UK real-estate.

Zenzic concentrates on senior, junior and whole loans secured by high-quality real estate, focussing on established locations with affordable price points and small-medium sized schemes. These metrics are designed to ensure the Loan Note proceeds are used to finance projects that are widely affordable by a large cross section of buyers, avoiding sales pressure caused by highly priced property or saturating local areas with overly large schemes.

All loans are secured against UK real-estate by an asset-level charge. In addition, and wherever possible, further security is taken in the form of personal or corporate guarantees and charges over non-development assets.

"Zenzic's rigorous approach to downside protection means fewer than 5% of funding applications are successful in passing its credit analysis process"

Investment Approach

Zenzic continuously monitors risk, both at a portfolio and individual loan level to ensure rigorous downside protection. Before any loan is approved, it requires a three-stage credit committee approval, with unanimity amongst members at each stage. The credit analysis process involves a significant number of data metrics to assess loan viability.

These metrics include;

- GDV on an absolute and per square foot basis by reference to historic comparable transactions, third party red-book valuations from leading valuation firms,
- Income and population demographic analysis to assess buyer profile and ability to transact;
- Sales liquidity and absorption analysis;
- Construction costs on an absolute and per square foot basis;
- Construction timescales;
- Scenario and sensitivity analysis including worst case scenario modelling to establish investment return in the event of adverse movements in construction costs, sales values and project timelines;
- Average Loan portfolio weighting of 70% LTV to provide downside protection buffer.

The Seven Stages of Investment

Over the previous quarter, more than 47 inbound transactions did not proceed after initial and subsequent analysis. Reasons varied widely, including but not limited to doubts regarding project viability, concerns with sponsor reliability and capabilities, and policy environment uncertainty.

The Zenzic team places a high importance on ensuring that resources are deployed with care and discretion, and has a continual focus on evaluating transactions at all stages of the credit and risk process. The illustration below shows the key stages in our investment process. It starts with sourcing the opportunity from our network of existing borrowers, brokers or direct introductions. An initial financial and qualitative evaluation is carried out, analysing pricing, borrower experience, competitor analysis and financial modelling. Detailed Risk Analysis is performed before the opportunity is presented to the Credit Committee. If approved, further due diligence is undertaken, analysing all legal, risk and valuation aspects, before being presented to the Credit Committee for final approval and then executed.

For instance, a recent proposal was brought to the team comprising a mezzanine finance opportunity for a 35-unit residential development. After further investigation during the Financial / Qualitative Evaluation stage, it was decided that the developer lacked the experience to reliably complete the project within time and cost requirements, and therefore the transaction sat outside of an acceptable risk profile for mezzanine lending.

The high level of experience within the team allows Zenzic Capital to deploy resources where they can be utilised most effectively, to optimise returns and risk profiles for the deployment of lending capital.

Target Market Overview

Residential Housing

Even before the Covid crisis the UK faced acute housing shortages driven by population growth and a significant shortfall in housebuilding that has fallen below official targets for decades. The government was 120,000 homes short of meeting its target to build 300,000 homes per year in 2021[1].

This shortfall was exacerbated during the pandemic as housebuilding slowed throughout 2020. The urgent government need to meet housing targets will ensure residential real estate is well positioned for continued growth in both the Build-to-Sell (BTS) and Build-to-Rent (BTR) sectors.

Purpose-Built Student Accommodation

The UK has a global reputation for outstanding higher education which is appealing to both UK and none UK students. Destination cities for these students experience significant under supply of quality accommodation. This has resulted in a purpose-built student accommodation sector that presents a growing number attractive investment opportunities.

Senior Living Sector

In the UK, over 65s will account for almost a quarter of the population by 2040[2]. This profound demographic shift, along with the impact of the pandemic on individual priorities for quality of life and care, have led to growing strength in the ‘later-living’ and ‘assisted living’ residential sectors.

Hotel & Leisure

Financial relationships in the hotel and leisure sector experienced fundamental changes during the pandemic. Banks withdrew finance from the sector as fears grew about the impact of Covid-19. This provided smaller, more flexible capital providers an opportunity to fill many of the lending gaps and maximise greater value for investors. There is now a significant rise in hotel and leisure developments due to the increase in post-Covid demand. Existing hotel assets are expected to change ownership more frequently and a higher demand for non-core assets to be repurposed into leisure facilities.

All-Weather Lending Capability

Zenzic operates in a niche market servicing SME real-estate firms looking to raise between £500K - £10M, a market that is important to the UK economy but underserved by mainstream lenders. Mainstream bank allocations in this lending bracket remain compressed due to enhanced regulations and this has created greater lending opportunities for flexible finance providers such as Zenzic.

The recent interest rate hike and general economic turmoil will see an increase of high-value “distressed” opportunities. Zenzic’s highly proactive, flexible and nimble approach to the market means we are well positioned to capitalise on distressed market opportunities, whereby we tend to see and realise more value in the transactions we close.

[1] www.homebuilding.co.uk/news/government-short-on-housebuilding-targets-in-2021
[2] www.schroders.com/en-gb/uk/individual/insights/how-the-ageing-population-could-be-a-boon-for-investors/

In the Pipeline

Below are a selection of projects we are currently reviewing.

Project Summary	Six new houses in a residential development sponsored by a well-established property developer	Eight new houses in a mixed self-build and developer-lead project on the prepared development site	Twelve new houses of varying size and configuration constructed on development site to be cleared and prepared	Conversion of existing river-side office building into eight apartments with a ground-floor commercial space
Loan Type	Acquisition and Development Loan - Stretched Senior Facility	Acquisition and Development Loan - Stretched Senior Facility	Acquisition and Development Loan - Stretched Senior Facility	Acquisition and Development Loan - Stretched Senior Facility
Loan Amount	£2.7m	£3.6m	£7m	£3.5m
LTGDV	75%	71%	68%	70%
Term	18 months	18 months	24 months	18 months
Exit	Sale of completed properties on the open market	Sale of six completed houses on the open market; transfer of two houses to existing site owner	Sale of completed properties on the open market	Sale of completed residential and commercial properties on the open market

Latest Transaction

Term	20 months
Security	A full security package appropriate for a facility of this nature, including a first ranking legal charge over the assets of the Borrower, a charge over the shares of the Borrower, a Guarantee by the Sponsors in favour of the Lender, and a first ranking charge over the securing property.
LTGDV	68%
Exit	Sale of units upon completion

Zenzic has recently completed a c£3m facility to convert a pub into nine residential units (three apartments and six houses) in Welham Green in Hertfordshire. The units are of a premium standard and the bespoke nature of the development will appeal to the target market of young families and downsizers taking advantage of Welham Green's semi-rural surrounds and close commuting proximity into London.

Transaction Counterparties

ZSL CAP 7 LIMITED

Loan Note Issuer

ZSL Cap 7 Limited
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ZENZIC CAPITAL

Investment Servicer

www.zenziccapital.com

TRUVA CORP

Security Trustee

www.truvacorp.com

property investor partnership

Investor Relations

www.propertyip.net

Understanding the Risks

As with all investments, the ZSL Cap 7 Limited Loan Notes ("**the Notes**") carry certain risks and we set out below what we believe to be the principal risks, along with some other points to consider in relation to investing in the Notes.

The Notes are illiquid and investors are expected to hold them until maturity

The Notes carry a three year investment term. During this period, investors will not be able to access the principal funds invested. In special circumstances, where an urgent and unexpected liquidity event has arisen - for instance, if the death of an investor means money is needed to pay estate liabilities - investors will be allowed to redeem subject to adequate liquidity provisions of ZSL Cap 7 Limited at the time of the request. Although the notes may be listed on a recognised investment exchange, there is no active secondary market in the Notes and investors should not assume that they will be able to sell the Notes prior to the redemption date. The notes are however freely transferable to another willing investor throughout the investment term.

Enforcing security and the potential impact on payments due under the Notes

If a borrower does not pay any or all of the money due under the loan agreement, we may be compelled to enforce the security and/or demand payment from guarantors. This process may take time and could result in delays in recovering the sums due.

The Notes are not covered under the Financial Services Compensation Scheme (FSCS)

Any losses are not protected under the Financial Services Compensation Scheme.

The performance of the Notes is dependent upon the performance of the underlying loans, the security and other factors relating to the underlying assets

Our ability to pay interest and to redeem the Notes at the end of the investment term depends on whether we receive the amounts due under the loans we make to the 3rd party real-estate borrowers. Their ability to make those payments depends, in turn, on a number of factors, including those set out below.

- The value of the property and other assets our loan is secured against may fluctuate in value.
- UK real-estate values may be affected by domestic and/or global economic and political events, affecting its value and how quickly an asset can be sold.
- If we are forced to dispose of an asset during an enforcement scenario, we may not be able to recover its full open market value versus the value that could have been achieved in a non-enforcement scenario.

Change of Law

The lending activities we undertake, the issue of the Notes and the security held by the Security Trustee is based on the prevailing laws and administrative practices in effect at the time of this brochure's publication. No assurance can be given as to the impact of any possible change to the law or administrative practice after the date of this publication.

The following are prescribed FCA risk warnings for non-readily realisable securities which are debentures

Due to the potential for losses, the Financial Conduct Authority (FCA) considers this investment to be high risk.

What are the risks?

1. You could lose all the money you invest

- If the business you are investing in fails, there is a high risk that you will lose your money. Most start-up and early-stage businesses fail.
- Advertised rates of return aren't guaranteed. This is not a savings account. If the borrower doesn't pay you back as agreed, you could earn less money than expected. A higher advertised rate of return means a higher risk of losing your money. If it looks too good to be true, it probably is.
- These investments are sometimes held in an Innovative Finance ISA (IFISA). An IFISA does not reduce the risk of the investment or protect you from losses, so you can still lose all your money. It only means that any potential gains from your investment will be tax free.

2. You are unlikely to be protected if something goes wrong

- Protection from the Financial Services Compensation Scheme (FSCS), in relation to claims against failed regulated firms, does not cover poor investment performance. Try the FSCS investment protection checker here. *https://www.fscs.org.uk/check/investmentprotection-checker*
- Protection from the Financial Ombudsman Service (FOS) does not cover poor investment performance. If you have a complaint against an FCA regulated firm, FOS may be able to consider it. Learn more about FOS protection here. *https://www.financialombudsman.org.uk/consumers*

3. You are unlikely to get your money back quickly

- Many bonds last for several years, so you should be prepared to wait for your money to be returned even if the business you're investing in repays on time.
- You are unlikely to be able to cash in your investment early by selling your bond. You are usually locked in until the business has paid you back over the period agreed.

4. Don't put all your eggs in one basket

- Putting all your money into a single business or type of investment for example, is risky. Spreading your money across different investments makes you less dependent on any one to do well.
- A good rule of thumb is not to invest more than 10% of your money in high-risk investments. *https://www.fca.org.uk/investsmart/5- questions-ask-you-invest*
- If you are interested in learning more about how to protect yourself, visit the FCA's website here. *https://www.fca.org.uk/investsmart*

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