Update commentary for the period since 30th September 2018

Dear Shareholder,

Following the announcement on 1 November 2018 of the most recent Net Asset Values, Investment and Market Update we are providing a further short update on the progress with regard to further investments in advance of the forthcoming conversion of the C Share and also a commentary on the recent regulatory judgement on Trinity Housing Association ("Trinity") issued by the Regulator of Social Housing ("Regulator").

Further Investments

Since 30 September 2018 a total of £25.7m of the C Share equity has been invested including purchase costs bringing the total C Share equity invested to £239.7 million including purchase costs.

The C Share net proceeds received on issue were £295 million from which (in the same way as the Ordinary Share pool) a cash contingency of £10 million is reserved resulting in £285 million of equity available to invest. The original trigger for the C Share conversion is the earlier of 90% of C Share proceeds being invested (£266 million) or twelve months from the issue of the C Shares being 14 November 2018.

Further progress continues to be made with respect to additional transactions and we would expect, subject to final due diligence, to make announcements in this regard shortly and in advance of the valuation date of 30 November 2018 for both the Ordinary Share and the C Share pools where the respective NAVs will be calculated for the purposes of conversion of the C Shares.

Following C Share conversion, it is our intention to add additional leverage in accordance with the investment strategy and for this to ultimately represent around 35% on a gross asset basis. The terms available to Civitas for debt finance remain very competitive and reflect our track record, the broad diversification of the portfolio and the long-dated predictable nature of the rent roll.

Since the issue of the C Shares in November 2017, £10.8 million of assets have been acquired into the Ordinary Share pool using funds from the extension of the Lloyds revolving credit facility, as part of the stated strategy to move towards a covered Ordinary Share dividend in 2018.

Trinity Housing Association

On 18 September 2018 the Regulator issued a grading under review notice in respect of Trinity Housing Association and this has been followed with the expected regulatory judgement which itself reflects the progress made by Trinity but also highlights important improvements that the Regulator requires, and which have now been made or are planned to be completed.

As part of our regular engagement with housing association partners we have an active working relationship with Trinity and their team and have been pro-active in providing our input into this process as well as positively monitoring our portfolio within Trinity to ensure that it continues to meet our expectations and delivers the expected returns.

Trinity as an organisation has been strengthened during 2018 and, in particularly, has recently made the following changes:

- The appointment of several new independent board members;
- The addition of further resource within the operational side of Trinity with particular reference on governance and on the collection of rents and service charge; and
- The addition of further financial resource from committed business partners.

This reflects the updated Trinity business plan that the management confirm demonstrates their solvency and represents a sensible and achievable plan by which to move forward. It also reflects the very detailed and substantial work that we have seen first-hand has been undertaken and continues to be implemented. Whilst progress must continue to be made, we have seen firm evidence that the team fully understand this and are committed to its delivery.

This includes ensuring that from a governance and health and safety perspective every property has been updated in terms of full compliance. We understand that this is 100% complete in respect of all gas and electricity certification as well as EPC and that it is proposed that full compliance will be reported around the month end.

Whilst Trinity has received a low grading of G3 for governance and V3 for viability it has been impressed on us that the Trinity board, including the new directors, are totally committed to improving this grading as quickly as possible and this reflects the detailed steps and the comprehensive plan that is now in place.

We are fully supportive of the steps being taken and are encouraged by the actions of the Trinity team and the new directors.

We remain positive regarding our own portfolio leased to Trinity on which we are receiving our rents, and this reflects the level of initial due diligence that we undertake prior to acquiring any properties.

On the basis of a fully invested portfolio (c. 35% gross leverage) Trinity represents approximately 4.5% of the rent roll of Civitas.

Trinity as an organisation has developed significantly over the past couple of years and is now providing services to a significant number of individuals with care needs within a community setting as part of a supported living strategy. We intend to continue our work and engagement with them as they strengthen their activities and we look forward to working together in the future.

However, it is important that Trinity continues its active engagement with the Regulator to put themselves into a position to achieve grading improvements in the future and we are pleased that they are committed to doing so.

Civitas Housing Advisors
8 November 2018