Senior Secured UK Property Debt Investments Ltd

Fact Sheet

As at 31st July 2020

Summary

The Investment objective of the Group, as approved by the Shareholders of the Company, is "to construct a portfolio of UK real estate debt related investments predominantly comprising loans secured by first ranking fixed charges against commercial property investments, with the aim of providing shareholders with attractive, quarterly dividends, capital preservation and, over the longer term, a degree of capital appreciation."

Fund facts

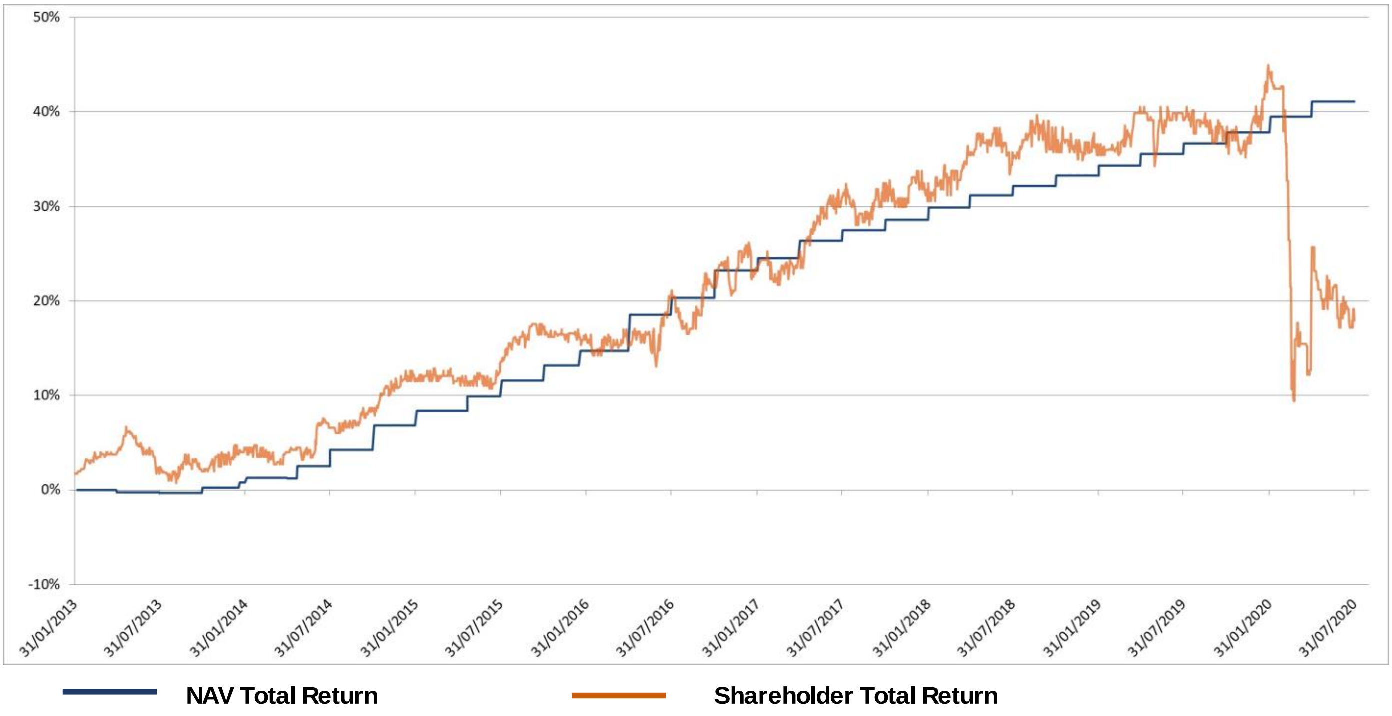
Fund launch:	5 February 2013	Fund type:	Closed ended investment company
Investment Adviser:	ICG-Longbow	Domicile:	Guernsey
Base currency:	GBP	Listing:	London Stock Exchange
Issued shares:	121.30 million	ISIN code:	GG00B8C23S81
Investment Advisory fee:	1.0%	LSE code:	LBOW
		Website:	www.lbow.co.uk

Share price & Estimated NAV at 31 July 2020	
Share price (pence per share):	72.50
NAV (pence per share):	98.26
Premium/(Discount):	(26.2%)
Market capitalisation:	£87.94 million

Key portfolio statistics at 31 July 2020	
Number of investments:	11
Percentage capital invested[(1)]:	101.2%
Weighted avg. investment coupon:	7.31%
Weighted avg. LTV:	69.3%

[(1)] Loans advanced at amortised cost / Total equity attributable to the owners of the Company. Includes amounts drawn down on the Group working capital facility.

Share Price Total Returns vs NAV Total Return (from IPO to 31 July 2020)

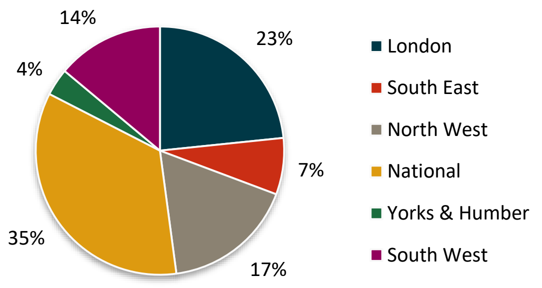


Investment Portfolio as at 31 July 2020

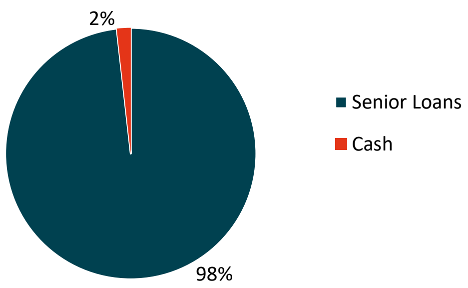
Project	Region	Sector	Term start	Unexp. term (years)	Day 1 balance (£m)	Day 1 LTV (%)	Balance outstanding [1] (£m)	Balance undrawn (£m)	Current LTV [2] (%)
Halcyon	National	Industrial/distribution	Dec-13	0.35	8.60	64.8	5.73		65.2
BMO	National	Mixed use	Jan-17	0.00	16.00	55.4	11.44		48.7
Quattro	South East	Mixed use	Oct-17	0.46	9.00	83.7	8.83		80.6
Affinity	South West	Office	Mar-18	1.79	14.20	67.3	16.70		66.0
Southport	North West	Hotel	Feb-19	2.71	12.50	59.5	15.20	0.31	64.8
Northlands	London	Mixed use	Aug-19	2.21	9.00	55.3	9.24	3.26	56.8
RoyaleLife	National	Residential	Sept-19	3.22	20.27	74.3	24.85	0.19	82.9
LBS	London	Office	Oct-19	2.21	4.92	69.3	6.04	0.43	73.5
Knowsley	North West	Industrial	Feb-20	2.71	3.50	60.3	5.65	2.10	71.1
Carrara	Yorks/Humb	Office	June-20	1.55	4.25	73.3	4.25		73.3
GMG	London	Office	July-20	2.21	12.75	70.0	12.75	4.14	70.0
Total / weighted average				**1.99**	**114.99**	**66.6**	**120.69**	**10.43**	**69.3**

(1) For the Southport and RoyaleLife facilities, Balance outstanding includes capitalised interest
(2) For the Southport, LBS and Knowsley facilities, LTV is calculated based on the most recent third party valuation of the properties, plus capital expenditure works at cost

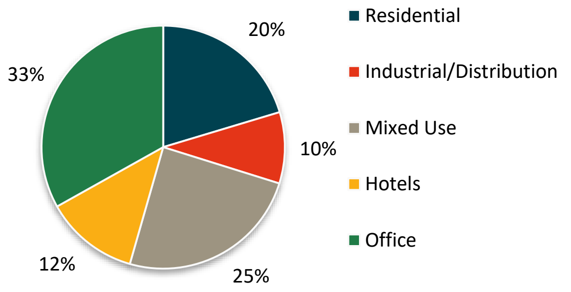
Region Distribution by Loan Amount



Asset Type



Sector Distribution by Loan Amount



Investment Adviser's Commentary

Summary

At 31 July 2020 the investment portfolio comprised 11 loans. Principal activity in the quarter included:

- Completion of new £16.89 million commitment secured by an office property in St James's, London
- Restructure of the Group's Carrara loan into a new £4.25 million facility secured by an office property in Leeds
- Partial repayment of the BMO loan following the refinancing of one of the security properties
- Increase in the par value of the loan portfolio to £120.69 million (30 April 2020: £105.46 million), with total commitments of £131.11 million

As at the quarter end:

- Weighted average LTV of 69.3% (30 April 2020: 68.2%) as a result of the portfolio changes
- WA interest coupon of 7.31% (30 April 2020: 7.48%), before recognition of arrangement and exit fees
- NAV per share largely flat on the quarter at 98.26 pence (30 April 2020: 98.37 pence), as the Company prudently held cash during the quarter pending reinvestment
- The Company's shares continue to trade at a significant discount to NAV, at 72.50 pence per share as at 31 July 2020 and at 76.00 pence per share at 8th September 2020
- The Company does not anticipate any impairments and expects to maintain its target dividend

Group Performance

The Company's primary focus during the quarter was in reviewing the performance and outlook for its existing loan positions in the light of the Covid disruption. We summarise the investment status in more detail below, but would highlight that we continue to believe the Company has a satisfactory security position on all its investments and do not expect any shortfall in interest, principal or fees on any of the investments.

As lockdown conditions eased during the quarter and parts of the investment market re-opened, the Company was able to take advantage of a reduction in debt market liquidity caused by Covid-19 to add to its investment portfolio, closing a £16.9 million loan commitment secured by an office in St James's, London. The Group is participating in a larger £22.3 million loan alongside another fund managed by the Investment Adviser.

Additionally, the Company completed an increase and extension to its Carrara loan facility, which now has a balance of £4.25 million secured by the full freehold interest in a recently refurbished and fully let office building in Leeds. The Company also received a £4.35 million partial repayment of the BMO Partners facility, following a refinancing of one of the portfolio assets by a third-party lender.

As a result of these portfolio changes, the Group's loan commitments now total approximately £131.1 million, of which £120.7 million is drawn. During the period the Group made a modest drawing of £4.4 million from its £25 million revolving credit facility, with net debt at quarter end of £2.2 million, or 1.8% of NAV.

Portfolio LTV remains robust and defensive at 69.3% at quarter end, all secured by first ranking mortgage investments. We would highlight that several of the Group's investments have seen LTVs vary in recent quarters; this is a result of drawings on capital expenditure facilities increasing the loan exposure, without the benefit of such expenditure works being fully reflected in underlying property values.

The weighted average loan coupon was largely unchanged in the quarter, and the weighted average unexpired loan term broadly flat at 2.0 years, with a diverse spread of loan maturities which should allow for easier reinvestment in future with reduced periods of cash drag.

Portfolio

Portfolio statistics	31 July 2020	30 April 2020
Number of loan investments	11	10
Aggregate principal advanced [1]	£120,686,207	£105,455,198
Weighted average LTV	69.3%	68.2%
Weighted average interest coupon	7.31%	7.48%
Weighted average unexpired loan term	1.99 years	2.06 years
Cash held	£2,183,556	£13,157,675
Drawings under working capital facility [2]	£4,400,000	£nil

[1] Includes capitalised interest
[2] As at the date of this Fact Sheet, drawings under the working capital facility totalled £4,400,000

Investment Overview

Four of the Company's loans (Halycon, BMO, Northlands and Knowsley) are modestly leveraged and secured by properties or portfolios with a highly diversified tenant base. Rent collections have been robust and interest continues to be met promptly. The Halcyon and BMO borrowers are each pursuing a refinancing of their respective portfolios – the latter making a partial repayment during the quarter – and the Company expects to be repaid in full during H2 2020. The Northlands and Knowsley borrowers continue to implement their business plans which are each progressing in line with expectations.

Four of the Company's loans (Carrara, Affinity, LBS and GMG) are secured by high quality office properties, the latter two in Central London. The Carrara property is fully let to two high quality tenants; the Affinity asset is 70% let with much of the vacant space having recently undergone a refurbishment, with part of this space under offer at a rent ahead of underwriting. The LBS asset has been newly renovated and is now majority let, again at a rental level ahead of business plan, whilst the GMG asset is fully let to a Government agency with the sponsor expected to renovate the asset during 2021. Interest continues to be met promptly and the Company expects a period of stable income from these investments.

The Company's largest loan, RoyaleLife, is secured by a portfolio of bungalow home sites, predominantly in and around the South Coast in locations popular with retirees. Interest is serviced primarily from new home sales, along with recurring lease and ground rent income. Whilst no new home sales were completed during the initial Covid-19 lockdown, and the Company agreed to defer and capitalise one quarter's interest, all sites have now reopened, and sales have recommenced. Interest has been substantially paid for the second quarter, with the balance due in September and the deferred interest expected to be caught up over the coming quarters.

Following an independent revaluation of the RoyaleLife properties after the quarter end, we are pleased to report an increase in value of approximately 15% since closing, reflecting the Sponsor's continued investment in the sites and the granting of major new planning permissions for additional homes, in line with its original business plan. As a result, pro forma LTV on the facility has reduced from 82.9% at quarter-end to 73.0% currently.

The Company has one hotel investment (the Southport loan), which has undergone a £2.4 million refurbishment programme across both the rooms and common parts since completion. The property was required to close during the Covid-19 lockdown, and given the material disruption this caused, the Company agreed to defer and capitalise interest due in the first and second quarter of 2020. The hotel re-opened at the beginning of August and has begun to benefit from an increase in domestic tourism. The Company expects that it may take some time for trading to stabilise, but it remains confident in the long-term prospects for the asset and the security of the loan.

The Company's Quattro loan, secured by a portfolio of three assets in and around South West London, has seen some challenges with prospective sales of certain of the assets becoming abortive. As such the initial cash interest reserve supporting the loan was exhausted, and the loan fell into arrears with interest only partially covered from underlying rental income. Total loan exposure including arrears and fees owed is approximately £9.4m, reflecting 85.8% LTV. We have reserved the Company's rights in respect of the default, and agreed a payment plan with the Sponsor to make good the arrears over the next two quarters.

Positively, contracts have been exchanged for sale of one of the Quattro portfolio assets, and the Sponsor continues to invest in the remainder including implementation of a planning consent which will see eight new residential apartments added above one of the properties. Upon sale of these units, we expect the loan position to be regularised with a reduction in LTV.

As previously highlighted, the Company has only limited exposure to the retail sector, in the Northlands, BMO and Quattro mixed-use portfolios. In each case this exposure is generally convenience-led high street retail units with flats or offices above, and represents less than 50% of the respective portfolio security.

Market Commentary

At the time of writing the UK is continuing its steady emergence from lockdown, with the vast majority of businesses able to reopen, and the scale of the impact of Covid-19 is beginning to be quantified. GDP for the second quarter decreased by 20.4%, beyond all historical comparisons, although output began to rebound in May and climbed by 8.7% in June, according to the ONS. The initial scale of the impact of Covid-19 on the labour market can be seen in the increase in unemployment, with 2.7 million people claiming unemployment benefit as at June 2020 – more than double the number for March.

The economic lockdown has had a highly divergent impact on occupational demand for real estate, manifested in both leasing activity and rent collections. The best performers have been industrial and logistics assets, supermarkets, and privately rented residential; worst performers were retail, hospitality and leisure. Offices continue to perform satisfactorily in terms of rental collection and whilst new leasing has understandably slowed, we have seen positive leasing activity in London as well as the major regional centres.

One of the most immediate impacts of Covid-19 on the property markets was the stalling of investment activity, as buyers and sellers adjusted to both the economic uncertainty and practical difficulties of conducting inspections, valuations and meetings. The full impact has now been quantified with the release of Q2 transaction data, with less than £4bn of transactions recorded – 73% below the five-year average. Activity did however rebound in July, with over £2bn transacted, according to data from Colliers International.

Whilst the lack of transactional activity has in many cases made assessment of valuations difficult, the latest (August) IPF Consensus Forecasts suggest that capital values could end 2020 down 11.7% on average compared to the prior year, but with high divergence between sectors. Shopping centres – where the Company has no exposure – are projected to fall by a further 28%, with industrial (-3.5%) and office values (-8.8%) relatively less affected, and City and West End offices forecast to return to growth in 2021 and thereafter.

Anecdotally, we believe the major clearing banks have largely withdrawn from considering new opportunities in earnest, as management and credit committee time has been focused on existing loan exposures and considering CBIL loan applications. We do not expect to see significant write downs by the banks (outside of retail), due to the greatly reduced size of their property loan books since the GFC, and more rigorous and prudent regulation driving more cautious lending policies over the last ten years. We do however anticipate a healthy volume of refinancing opportunities from the banking sector from Q4 2020, with consolidation of loan books continuing.

To the extent they are active, we believe senior lenders are looking to reduce LTV ratios on new loans by 5% - 10% from 2019 levels, together with a focus on structural improvements such as tightened lending covenants, interest reserves and increased levels of amortisation. Typical credit margins have increased by between 25 - 100bp from 2019 levels, dependent on sector.

Lenders are focused on Covid-resilient sectors with solid rent collection and strong sponsorship; there is very limited debt market liquidity for shopping centre and hospitality assets. We expect this to remain the case until there is evidence of rental and trading levels stabilising, and an increased level of activity in the investment markets against which to benchmark valuations.

Outlook

The Board has previously highlighted the Company's return to full dividend coverage, and, notwithstanding the challenges of Covid, expects to maintain its target dividend of 6.0 pence per share per annum given the resilience of the portfolio and its expectations of performance for the coming quarters.

The Company continues to selectively pursue high quality lending opportunities which would provide shareholders with attractive risk adjusted returns. Whilst we are cautious about investing aggressively in the current environment, we do believe that such opportunities can still be found through investing selectively in sectors and locations where occupational demand remains robust. We remain of the view that investments benefitting from diversified income and/or latent value-add potential offer the best security and protection against uncertainty.

The Company's loan commitments currently total approximately £130 million, of which circa £120 million has been drawn to date. It has ample available liquidity with circa £20 million available to draw on its revolving credit facility which may be used to pursue defensive investment opportunities or, if required, support the existing portfolio.

Contacts

Investment Adviser	Administrator, Designated Manager & Company Secretary	Corporate Broker
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