Senior Secured UK Property Debt Investments Ltd

Fact Sheet

As at 31st January 2021

Investment Objective

On 3rd November 2020, the Board announced that it had decided to recommend to shareholders that the investment objective and policy of the Company are amended so that the Board can pursue a strategy of orderly realisation and the return of capital over time to shareholders. This recommendation was approved by shareholders at an Extraordinary General Meeting held on 14th January 2021.

The Company's investment objective is now to conduct an orderly realisation of the assets of the Group.

Summary

Fund facts

Fund launch:	5 February 2013
Investment Manager:	ICG Alternative Investment Ltd
Base currency:	GBP
Issued shares:	121.30 million
Investment Management fee:	1.0%

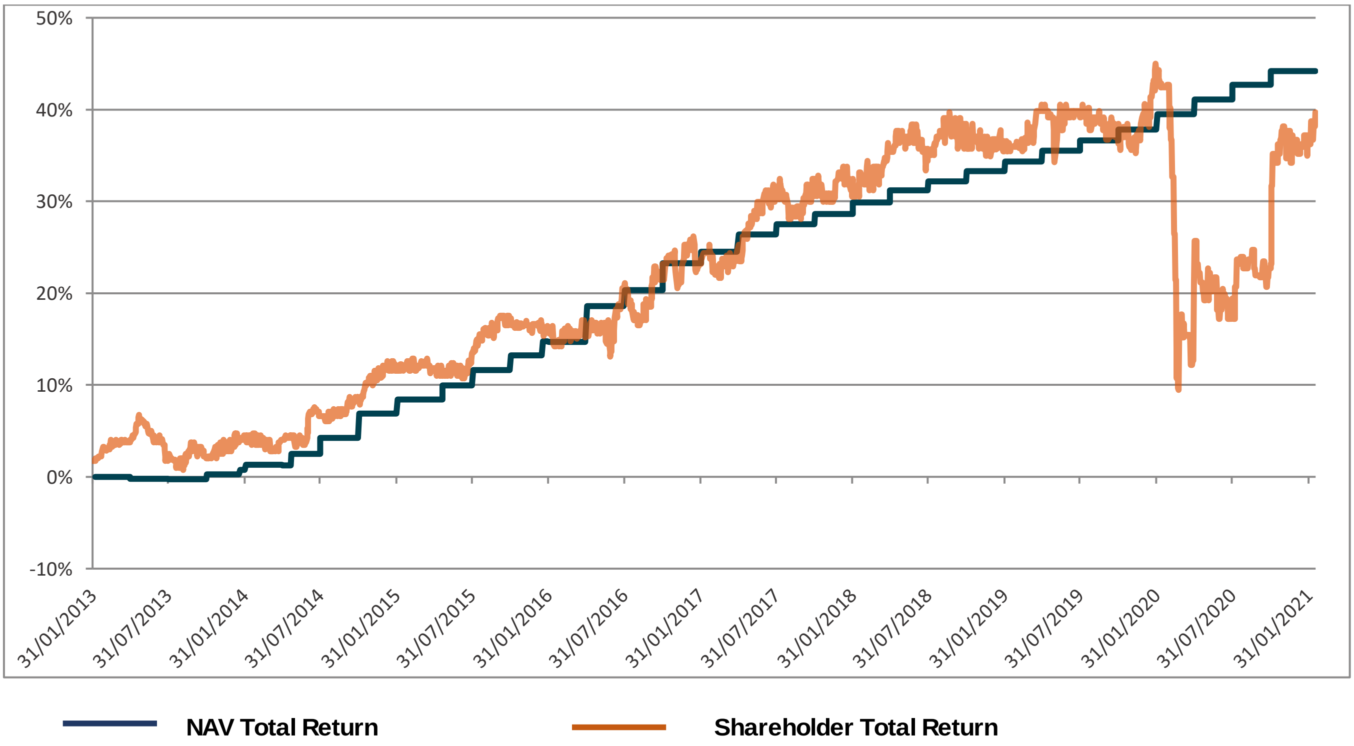
Fund type:	Closed ended investment company
Domicile:	Guernsey
Listing:	London Stock Exchange
ISIN code:	GG00B8C23S81
LSE code:	LBOW
Website:	www.lbow.co.uk

Share price & Estimated NAV at 31 January 2021	
Share price (pence per share):	88.00
NAV (pence per share):	98.31
Premium/(Discount):	(10.5%)
Market capitalisation:	£106.75 million

Key portfolio statistics at 31 January 2021	
Number of investments:	9
Percentage capital invested(1):	92.8%
Weighted avg. investment coupon:	7.19%
Weighted avg. LTV:	69.1%

(1) Loans advanced at amortised cost / Total equity attributable to the owners of the Company.

Share Price Total Returns vs NAV Total Return (from IPO to 31 January 2021)

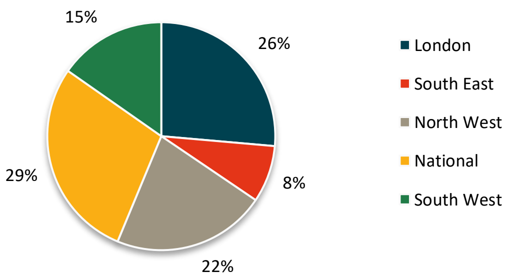


Investment Portfolio as at 31 January 2021

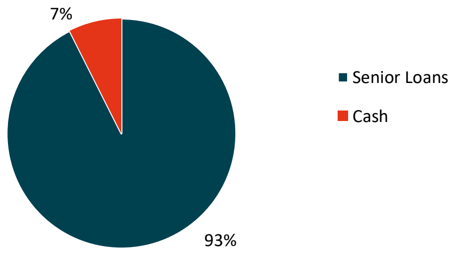
Project	Region	Sector	Term start	Unexp. term (years)	Day 1 balance (£m)	Day 1 LTV (%)	Balance outstanding [1] (£m)	Balance undrawn (£m)	Current LTV [2] (%)
Halcyon	National	Industrial/distribution	Dec-13	0.09	8.60	64.8	5.73		65.2
Quattro	South East	Mixed use	Oct-17	0.00	9.00	83.7	8.84		79.3
Affinity	South West	Office	Mar-18	1.28	14.20	67.3	16.70	1.00	66.0
Southport	North West	Hotel	Feb-19	2.20	12.50	59.5	16.06		68.3
Northlands	London	Mixed use	Aug-19	1.70	9.00	55.3	9.58	2.92	58.8
RoyaleLife	National	Residential	Sept-19	1.70	20.27	74.3	25.37		74.6
LBS	London	Office	Oct-19	2.70	4.92	69.3	6.28	0.19	57.1
Knowsley	North West	Industrial	Feb-20	2.20	3.50	60.3	7.75		69.2
GMG	London	Office	July-20	1.70	12.75	70.0	12.98	3.91	71.3
Total / weighted average				**1.76**	**94.74**	**68.2**	**109.32**	**8.02**	**69.1**

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

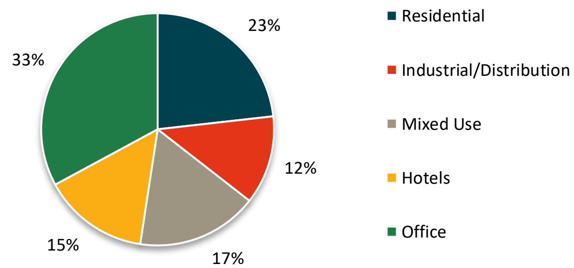
Region Distribution by Loan Amount



Asset Type



Sector Distribution by Loan Amount



Investment Manager's Commentary

Summary

- During the quarter, shareholders approved a change in the Company's Investment Policy to allow the orderly realisation of the Company's assets and return of capital to shareholders.

At 31 January 2021 the investment portfolio comprised nine loans. Principal activity in the quarter included:

- Repayment in full of the Company's £4.25 million Carrara loan, following a sale of the underlying property securing the loan;
- Ongoing financing on committed capital expenditure facilities across the security portfolio;
- Quarter end free cash position of £8.8 million with unfunded commitments of £8.0 million;
- Overall reduction in the par value of the loan portfolio to £109.32 million (31 October 2020: £111.58 million), with total commitments of £117.34 million

As at the Quarter end:

- NAV per share of 98.31 pence (31 October 2020: 98.38 pence)
- Weighted average LTV of 69.1% (31 October 2020: 70.1%) as a result of the portfolio changes
- WA interest coupon of 7.19% (31 October 2020: 7.17%), before recognition of arrangement and exit fees
- The Company's shares continue to trade at discount to NAV, at 88.00 pence per share as at 31 January 2021

Group Performance

In a period where the UK economy saw a transition from a period of moderate Covid restrictions to a third national lockdown, the Company's portfolio and performance continued to show a pleasing degree of stability, with NAV per share and portfolio LTV largely stable, and rent and interest collections broadly in line with the prior quarter.

The Company received repayment in full of the £4.25 million Carrara loan towards the end of the quarter, together with interest and prepayment fees totalling £0.1 million. The Company advanced a further £1.4 million under its committed facilities across the Northlands, LBS and Knowsley loans.

Loan commitments at quarter end totalled approximately £117.3 million, of which £109.3 million is drawn, with £8.0 million of undrawn capital expenditure commitments. As at the date of this Fact Sheet, the Company had £8.1 million of cash. Portfolio LTV stood at 69.1% at quarter end.

Investment Overview

The Company's Quattro loan continues to see an improvement in its risk positioning, with a capital injection by the sponsor reducing some of the historic interest arrears, in line with an agreed payment plan, alongside the ongoing renovation of one of the security properties. Whilst this loan has passed its contractual maturity date, we have evidence of the sponsor progressing sales and refinancing proposals which would see the Company repaid in full. As such we have not taken any further action, at this time, in respect of this maturity breach and expect full repayment in the next three to six months.

In March 2021 Southport was awarded a £37.5 million grant via the UK Government's Towns Fund programme. It is anticipated part of this grant will be applied towards the regeneration of the waterfront area surrounding the Company's Southport hotel security, which we expect to be positive for the property.

The property securing the LBS loan was revalued during the period, where the Sponsor's capital expenditure programme and leasing success has led to an increase in the property value and consequent reduction in the LTV exposure, from 75.2% to 57.1%.

Portfolio

Portfolio statistics	31 January 2021	31 October 2020
Number of loan investments	9	10
Aggregate principal advanced [1]	£109,319,992	£111,576,053
Weighted average LTV	69.1%	70.1%
Weighted average interest coupon	7.19%	7.17%
Weighted average unexpired loan term	1.76 years	1.97 years
Cash held	£8,773,640	£11,027,208
Undrawn loan commitments	£8,021,889	£9,444,785
Drawings under working capital facility [2]	Nil	£4,400,000

[1] Includes capitalised interest

Market Commentary

UK GDP saw modest growth of 1% in the final quarter of 2020, as lockdown restrictions began once again to bite on economic performance. Whilst Q1 2021 figures are expected to be weak, the recently-released Office of Budgetary Responsibility (OBR) forecasts for 2021 as a whole predict GDP growth of 4.0%, followed by a record 7.3% growth in 2022 with the economy reaching its pre-pandemic levels by Q3 2022. Labour market forecasts by the OBR suggest unemployment peaking at 6.5%, which whilst some way ahead of the 5.1% level in December 2020 is a significant improvement on prior forecasts, and well below the post-GFC low of 8.5% seen in 2011.

In the property markets, whilst there was an end-of year surge in investment activity, preliminary data suggests that this surge was far weaker than the usual seasonal Q4 increases seen in previous years. Investment volumes reached £6.7bn in December, down from £10.1bn in December 2019, but 50% above the 2020 monthly average. Overall investment volumes reached £44bn, down by almost 20% from the 2019 level and the weakest since 2012. Interestingly, despite (or perhaps partially because of) the UK's departure from the European Union, overseas investors accounted for over 50% of all investment, the highest ever share.

The industrial and office sectors each accounted for over £2bn worth of investment each in December, while alternatives/mixed-use volumes stood at £0.9bn. Interest in retail assets remained limited. With the exception of retail and leisure, yields are generally stable. Mild compression is evident for supermarkets and prime office and industrial assets.

According to Bank of England data, net lending to commercial property fell sharply in Q4 2020, at negative £1.7bn, showing a significant disinvestment from property debt during the period. This matches our experience and anecdotal feedback of a marked drop in lending activity from the leading UK clearing banks, including on loan renewals, which has not been fully offset by growth in new loans from other institutions.

Of particular relevance for 2021 will be the manner in which lenders approach their existing loan books, particularly those challenged by the impact of Covid. During the initial stages of the pandemic lenders were largely supportive of borrowers who acted responsibly and collaboratively; however there are now suggestions that levels of support are waning. As investment market liquidity has returned to provide comparable transactional evidence, we expect a material increase in revaluations for the purposes of testing lending covenants, which may see an increase in recapitalisation requirements, and possibly lender-led asset sales. Similarly. we have already seen what no doubt will be the first of many loan sales hit the market, with Natwest said to be seeking bids for a £550m portfolio of shopping centre loans.

In February the UK Government and devolved administrations announced plans to release the UK from lockdown over the course of four months, provided that the early success of the vaccine programme continued, and assuming infection rates and hospitalisations remain under control. This has bought some optimism to the economy with forecasts projecting significant increases in consumer spending as a result, and many leisure and hospitality operators now making plans to relaunch their businesses in the summer.

Outlook

Following the change to the Company's Investment Objective and Policy approved by shareholders at an Extraordinary General Meeting held on 14th January, the Company is progressing an orderly realisation of its assets and return of capital to shareholders. As the Board noted in the Circular to shareholders, the cash distributions resulting from this change in policy are expected to be made when sums available for distribution exceed £5 million, balanced against the Company's undrawn loan commitments and working capital requirements.

The Company currently has committed but undrawn funding obligations totalling approximately £8.0 million, broadly in line with its current cash position. Based on the expected timing of drawdown of commitments and loan repayments, the Company does not expect to make a capital distribution imminently until such time as it receives further loan repayments. The Board is aware that shareholders will be seeking transparency on the timing and quantum of such distributions, and will endeavour, where possible, to provide visibility to this whilst noting that the timing of repayments from the underlying loan investments is often uncertain.

The Company remains financially resilient with a defensive portfolio of first mortgage investments, and a strong net cash position. With the continued positive vaccination news and the announcement of a steady emergence from the UK lockdown, the immediate economic and market outlook appears more favourable than for some time, which we believe will bode well for the property security underpinning the Company's loan investments.

Contacts

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