



Senior Secured UK Property Debt Investments Ltd

Fact Sheet

As at 31st October 2022

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	Fund type:	Closed ended investment company
Investment Manager:	ICG Alternative Investment Ltd	Domicile:	Guernsey
Base currency:	GBP	Listing:	London Stock Exchange
Issued shares:	121.30 million	ISIN code:	GG00B8C23S81
Investment Management fee:	1.0%	LSE code:	LBOW
		Website:	www.lbow.co.uk

Share price & Estimated NAV at 31 October 2022

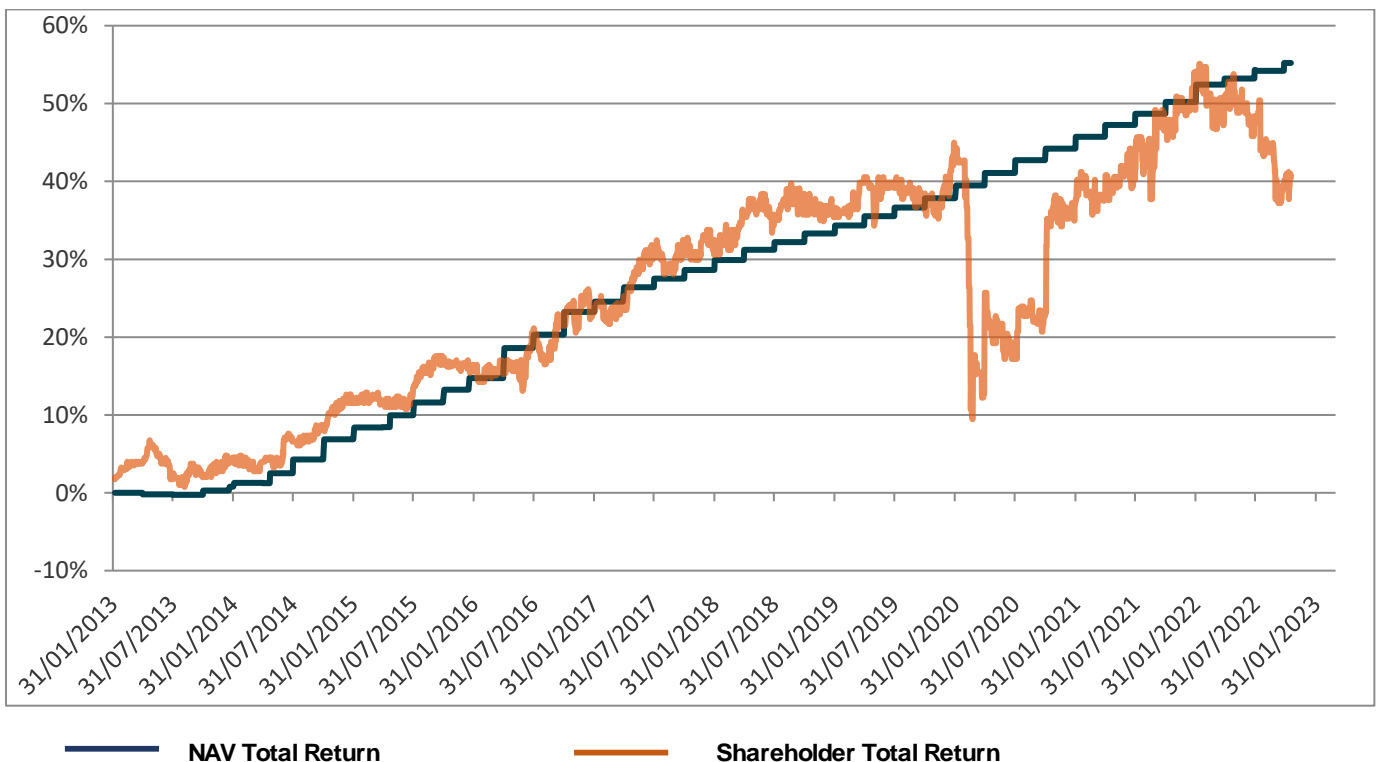
Share price (pence per share):	54.50
NAV (pence per share):	66.45
Premium/(Discount):	(18.0%)
Market capitalisation:	£66.11 million

Key portfolio statistics at 31 October 2022

Number of investments:	5
Percentage capital invested ⁽¹⁾ :	96.0%
Weighted avg. investment coupon:	7.35%
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 October 2022)

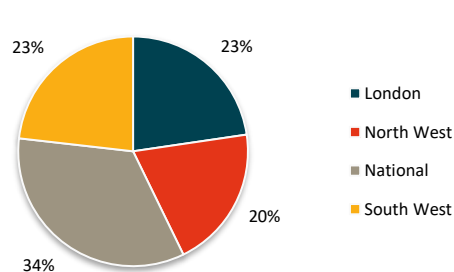


Investment Portfolio as at 31 October 2022

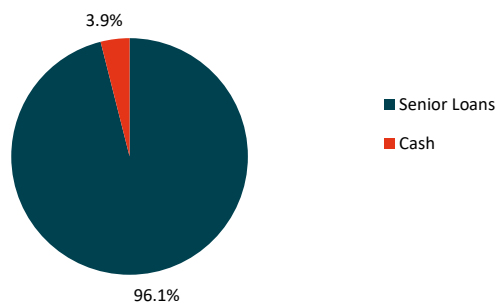
Project	Region	Sector	Term start	Unexp. term (years)	Day 1 balance (£m)	Day 1 LTV (%)	Balance outstanding ⁽¹⁾ (£m)	Balance undrawn (£m)	Current LTV (%)
Affinity	South West	Office	Mar-18	0.00	14.20	67.3	17.30	0.00	68.4
Southport	North West	Hotel	Feb-19	0.45	12.50	59.5	15.20	0.00	96.2
Northlands	London	Mixed use	Aug-19	0.00	9.00	55.3	9.53	0.00	56.5
RoyaleLife	National	Residential	Sept-19	0.96	20.27	74.3	25.38	0.00	60.9
LBS	London	Office	Oct-19	0.00	4.92	69.3	6.47	0.00	58.5
Total / weighted average				0.42	60.89	66.4	73.89	0.00	69.1

⁽¹⁾ For the RoyaleLife facility, Balance outstanding includes capitalised interest

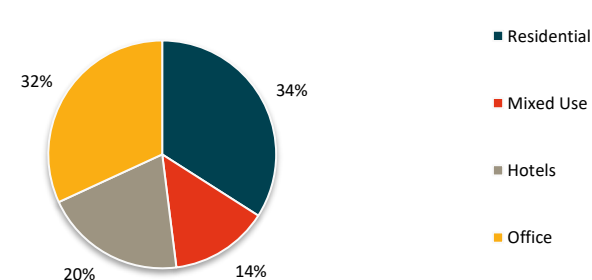
Region Distribution by Loan Amount



Asset Type



Sector Distribution by Loan Amount



Investment Manager's Commentary

Summary

At 31 October 2022 the investment portfolio comprised five loans. As at Quarter end or during the period:

- Par value of the loan portfolio of £73.9 million (31 July 2022: £74.7 million)
- NAV per share of 66.5 pence (31 July 2022: 66.4 pence)
- Weighted average LTV of 69.1% (31 July 2022: 67.4%) following a revaluation of the Southport asset
- The Company's share price of 54.50 pence per share showed an 18.0% discount to NAV at period end.

The Company's performance was largely stable during the quarter.

Investment Overview

We have highlighted previously that most of the Company's borrowers are concluding exit processes for their loans, with certain of the facilities now having passed their contractual maturity dates. While several of the borrowers sought property sales earlier in the year, the disruption to transaction activity in recent quarters meant sales stalled and borrowers have largely sought refinancing facilities as an alternative means of repayment. Most of these refinance processes are now well advanced.

We are closely monitoring asset performance and also the respective borrowers' exit and repayment efforts. Each of the borrowers are clear that the Company will not extend loans and where appropriate we are now charging default rates of interest to further incentivise timely repayment.

During the period we appointed administrators over the borrower of the Southport loan, following a material breach in the LTV covenant. We believe taking this enforcement action will accelerate repayment of the loan and consequently the return of capital to shareholders. The asset continues to trade as normal and a sales process is ongoing. As at quarter end we do not believe any impairment provision is required, and we will keep shareholders updated with any material developments.

Portfolio

Portfolio statistics	31 October 2022	31 July 2022
Number of loan investments	5	5
Aggregate principal advanced ¹	£73,888,763	£74,749,557
Weighted average LTV	69.1%	67.4%
Weighted average interest coupon	7.35%	7.34%
Weighted average unexpired loan term	0.42 years	0.60 years
Cash held	£3,369,684	£3,068,278

¹ Includes capitalised interest

Market Commentary

Economic and market conditions in the quarter were turbulent, in particular in the UK where the impact and aftermath of the 'mini-budget' in late September 2022 dominated headlines.

In an environment of elevated inflation the Government's announcements of increased spending (notably the cost of the energy price cap), tax cuts and significant further borrowing led to a rapid sell-off in UK Government bonds. This was compounded by forced selling of gilts and other liquid assets by UK pension funds seeking to meet margin calls on hedges within their LDI portfolios. Allied with the rapid repricing and withdrawal of mortgage products the overall impression was of a Government that had lost control, leading to a change of Chancellor and ultimately Prime Minister.

The appointments of Jeremy Hunt and Rishi Sunak, and subsequent reversal of the Truss-era policies, appear to have settled markets. Nonetheless the gloomy Bank of England forecasts highlighted in our last report have not improved, with the technical recession forecast in Q4 2022 now expected to continue through to H2 2024. This would be the longest recession since the 1930s, and gives policymakers unenviable choices.

The UK inflation rate of 11.1% remains elevated, albeit is broadly in line with the Eurozone (10.7%). As a response to the sustained rises in UK inflation, the Bank of England base rate has increased from 1.25% at quarter end to 3% at the date of this report. The benchmark five year swap rate, around 2.25% at the end of July, peaked at over 5% in early October, although has since fallen back following the return of some stability to Downing Street. Market forecasts for peak interest rates are now beginning to soften.

In the real estate markets, which were already seeing headwinds given the inflation and interest rate environment, the volatility in September meant that Q3 returns were the weakest since 2009, according to data from MSCI. October was the worst month on record, delivering a total return of negative 6.5%. Prices have corrected in all sectors, with industrial markets being particularly heavily affected given the prevailing yields for those assets which had hit record lows. Price discovery continues but some estimates suggest parts of the market are off 20% to 30% from the peak. By contrast the 'beds' sectors (residential, student, hospitality) have so far been less affected, in part because of the inflation protection offered by the ability to adjust tenancy and room rate pricing more regularly.

Unsurprisingly transactional activity was much reduced in Q3, with Lambert Smith Hampton reporting £10.6bn of trades, a 24% reduction on the prior year, with September 2022 being the weakest month since May 2020, at the height of the pandemic. Wider bid-ask spreads have resulted in reduced volumes. It is worth highlighting that this is not a UK-only phenomenon - CBRE report year on year reduction in volumes of 27% globally (in dollar terms) and 18% in Europe (based on local currencies).

A similar trend is being seen in debt markets where price discovery remains challenging. With prevailing swap rates exceeding 5% during the quarter, and lenders understandably seeking to price risk wider, all-in debt costs in excess of 7% for senior loans were seen as uneconomic for borrowers without material price correction at property level. As a result the quarter saw a period of stasis in the debt markets, albeit this has since eased somewhat as property pricing has begun to correct and swap rates reduced.

At the time of writing, the political and macro outlook in the UK looks more stable than it has been for some time, with interest rates softening and showing less volatility. The Chancellor's Autumn Statement signals the UK entering a period of fiscal tightening with higher taxes to finance cost of living increases across pensions and welfare, alongside selective spending rises.

Outlook

The Company's loan portfolio totalled approximately £74 million at period end.

As highlighted above exit processes are underway across the loan portfolio, which in many cases are well advanced. Nonetheless market conditions remain challenging and we are closely monitoring our borrowers' progress towards repayment. Generally, we believe that allowing the borrowers space to work towards consensual exits remains the best strategy for balancing the pace and quantum of capital repayments, but we are also charging default interest on loans to further incentivise exits and enhance shareholder returns during this period, and will take additional action to accelerate repayments as required.

Contacts

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