Senior Secured UK Property Debt Investments Ltd

Fact Sheet

As at 30 April 2018

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
Investment Adviser:	ICG-Longbow
Base currency:	GBP
Issued shares:	121.30 million
Management fee:	1.0%

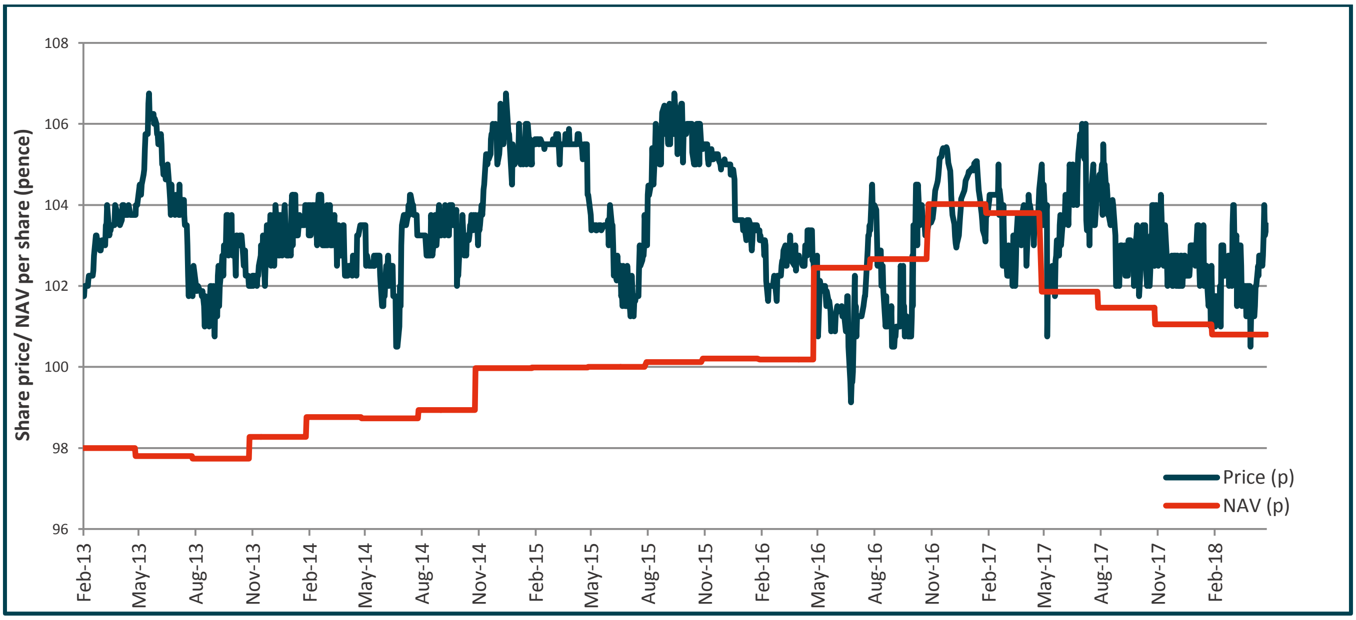
Fund type:	Closed ended investment company
Domicile:	Guernsey
Listing:	London Stock Exchange
ISIN code:	GG00B8C23S81
LSE code:	LBOW
Website:	www.lbow.co.uk

Share price & Estimated NAV at 30 April 2018	
Share price (pence per share):	103.99
Estimated NAV (pence per share):	100.58
Premium:	3.39%
Market capitalisation:	£126.14 million

Key portfolio statistics at 30 April 2018	
Number of investments:	10
Percentage capital invested[1]:	94.62%
Weighted avg. investment coupon:	6.31%
Weighted avg. LTV:	61.2%
Weighted avg. ICR:	211%

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

Share price v NAV (from IPO to 30 April 2018) [(2)(3)]

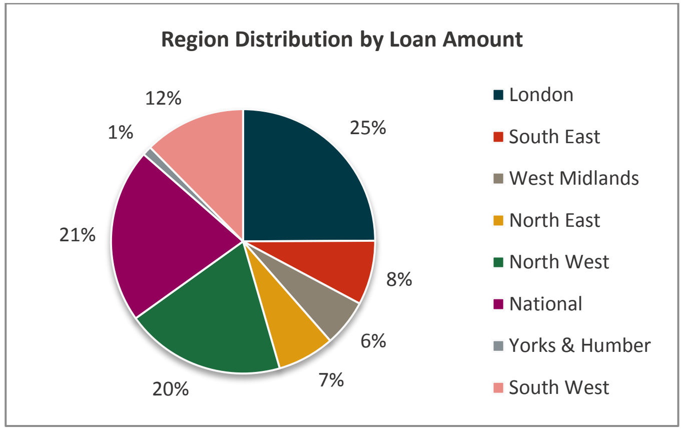


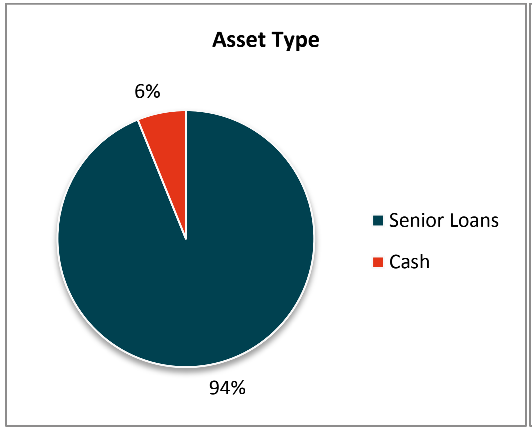
(2) Reduction in NAV in April 2017 due to declaration of 2.25 pence per share special dividend

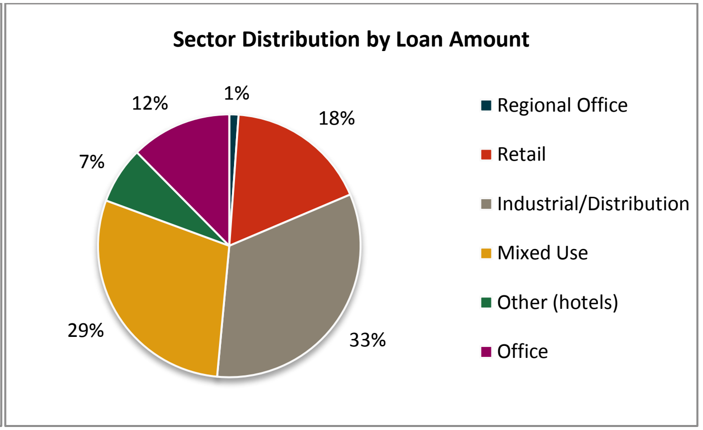
(3) Reduction in NAV from July 2017 due to a level of retained earnings being applied towards the interim dividend whilst the loan portfolio is being repositioned

Investment Portfolio as at 30 April 2018

Project	Region	Sector	Term start	Unexp term (yrs)	Day 1 balance (£m)	Day 1 LTV (%)	Day 1 ICR (%)	Principal Balance outstanding (£m)	Current LTV (%)	Current ICR (%)
Meadow	London	Retail	Sep-13	1.75	18.07	65.0	150	20.00	69.4	109
Northlands	London	Mixed use	Nov-13	0.57	7.20	61.7	192	8.50	53.5	153
Hulbert	West Midlands	Industrial/distribution	Dec-13	0.60	6.57	65.0	168	6.57	50.4	191
Halcyon	National	Industrial/distribution	Dec-13	0.60	8.60	64.8	116	8.60	65.2	113
Carrara	Yorks & Humber	Regional office	Dec-13	0.60	1.30	65.0	113	1.30	65.0	113
Ramada	North East	Other (hotel)	Apr-14	1.00	7.98	64.4	180	7.98	66.0	160
Commercial Regional Space	North West	Industrial/distribution	Mar-16	0.96	22.40	64.0	280	22.40	50.9	347
BMO	National	Mixed use	Jan-17	0.96	16.00	55.4	404	15.79	51.1	438
Quattro	South East	Mixed use	Oct-17	2.71	9.00	83.7	100	9.00	83.7	100
Affinity	South West	Office	Mar-18	4.04	14.20	67.3	100	14.20	67.3	100
Total / weighted average				**1.54**	**111.32**	**65.0**	**217**	**114.34**	**61.2**	**211**







Investment Adviser’s Commentary

Summary

At 30 April 2018 the investment portfolio comprised 10 loans.

- The par value of the loan portfolio was £114.34 million (31 January 2018: £111.15 million)
- NAV per share fell from 100.8 pence to an estimated 100.58 pence where, as in previous quarters, a modest level of retained earnings was applied towards the interim dividend payment of 1.5 pence per share
- Weighted average interest coupon increased to 6.31% (31 January 2018: 6.29%)
- Portfolio LTV is now 61.2% (31 January 2018: 60.6%) and portfolio ICR now 211% (31 January 2018: 218%)
- Weighted average loan maturity of 1.54 years (31 January 2018: 1.37 years) and weighted average remaining coupon protection of 0.80 years (31 January 2018: 0.53 years)

Group Performance

During the quarter, the Group’s £11.94 million IRAF loan repaid in full following a sale of the underlying properties. The proceeds were reinvested into a new £16.20 million commitment, of which £14.20 million has been drawn, secured by a Bristol office building (the Affinity loan), at an attractive return. The Group also increased its support of the Borrower under the Northlands loan by advancing a further £0.92 million.

These portfolio changes, combined with the issuance of 4.26 million new shares under the placing programme, broadly maintained the Group’s principal portfolio metrics whilst improving the weighted average loan term and coupon protection period. The portfolio continues to perform in line with expectations and in compliance with all of the Group’s investment parameters.

Portfolio

Portfolio statistics	30 April 2018	31 January 2018
Number of loan investments	10	10
Aggregate principal advanced	£114,341,227	£111,153,477
Weighted average LTV	61.2%	60.6%
Weighted average ICR	211%	218%
Weighted average interest coupon	6.31% pa	6.29% pa
Weighted average unexpired loan term	1.54 years	1.37 years
Weighted average unexpired Interest income protection	0.80 years	0.53 years
Cash held	£7,455,272	£6,486,150

Market Commentary

Whilst GDP growth for Q1 2018 was lower than consensus estimates at only 0.1% - the slowest since Q4 2012 - on a forward looking basis April PMI data was more positive, and indeed the Bank of England's May Inflation Report states that "the underlying pace of growth remains more resilient than the headline data suggest". The unemployment rate continues to reduce, and at 4.2% is at its lowest level since 1975, matched by record employment of 32.34 million, with nearly 400,000 more people in work than a year earlier, creating a supportive environment for the UK property market. Wage growth has picked up (to 2.9% in the year to March 2018), and with CPI inflation falling to 2.4% in April, real income growth has returned. With this lower inflation rate, the Bank of England may be under less pressure to raise interest rates, albeit an increase is still expected later this year.

In the occupier markets, regional offices continue to perform strongly with Q1 2018 take up in Birmingham, Manchester, Leeds and Glasgow all comfortably above the 10-year average, building on similarly robust demand in Q4 2017. The industrial market also continues to benefit from strong tenant demand and significant rental growth, with 5.3% year-on-year growth recorded in Q1 2018, the same level as Q4 2017 and the highest since Q2 2000, according to Capital Economics. By contrast the retail sector was more subdued, reflecting challenging headwinds, and showed effectively nil rental growth in Q1 2018. As highlighted in the Company's annual report and accounts, we expect vacancy rates in the sector to rise in the coming year.

In the property investment markets, the regular Lambert Smith Hampton investment transactions bulletin showed that Q1 investment volumes were the second strongest in a decade, with £13.6 billion of identified deals. The industrial sector remained heavily backed with £1.9 billion transacted (a Q1 record) led by Blackstone's purchase of a £320 million portfolio from InfraRed, including the assets which previously secured the Company's IRAF loan. Regional offices also continued to be sought after, with £1.0 billion transacted, whilst Central London volumes were c.19% below the average, as in our view purchasers have finally begun to react to softening conditions.

Not unexpectedly the retail market struggled with weak investor sentiment, reflecting concerns over retailer profitability and the structural changes impacting the sector. Q1 investment volumes of £1.5 billion were only around half the quarterly average, with shopping centres in particular out of favour, with only c.£390 million transacted in Q1. Shopping centre yields have moved out markedly, and according to agents some values are down 30% or more on the levels of only two years ago reflecting a dearth of buyers in the market. As a result many owners are reluctant to sell but are also struggling to refinance and, with income yields now substantial and some centres continuing to perform solidly, there may be very selective opportunities for the Company to capitalise here on what in time may appear to be an overcorrection.

In the finance markets, the annual Cass (formerly DeMontfort University) Commercial Real Estate Lending Report for the year ending 2017 was published during the quarter. Total new lending activity was flat year-on-year at around £44.5 billion, with the second half being busier than the first. Non-bank lenders (such as the Company, along with insurers and other debt funds) continue to increase market share, completing 25% of originations in 2017 compared with c.5% in 2008. The report also highlighted a small pick-up in regional lending after six consecutive years of decline.

The report echoes what we have highlighted to shareholders for some time, notably that bank lenders continue to be focused on meeting regulatory capital requirements, leading to lending activity at lower LTVs. The research notes that lending to secondary properties has fallen to an average 57% LTV at end-2017, which as previously identified leaves the Company well placed to capture demand for senior whole loans in the 65% - 80% range.

Outlook

The Investment Adviser continues to incrementally grow its existing loan exposures, with modest increases to the Pentavia and Northlands loans already completed and positive discussions continuing with other borrowers. We do not currently anticipate any meaningful level of redemptions in the coming quarter, and as a result are able to focus on opportunities for growth with the new transaction pipeline remaining strong. To that end the Company recently published a prospectus in respect of a placing programme of 100 million Ordinary Shares and/or C Shares, as proposed in the annual report published on 24th April 2018. When investment opportunities and market conditions permit, the Company expects to announce a further placing of new shares under this programme.

Contacts

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