# Senior Secured UK Property Debt Investments Ltd

## Fact Sheet

As at 30th April 2019

# 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% |

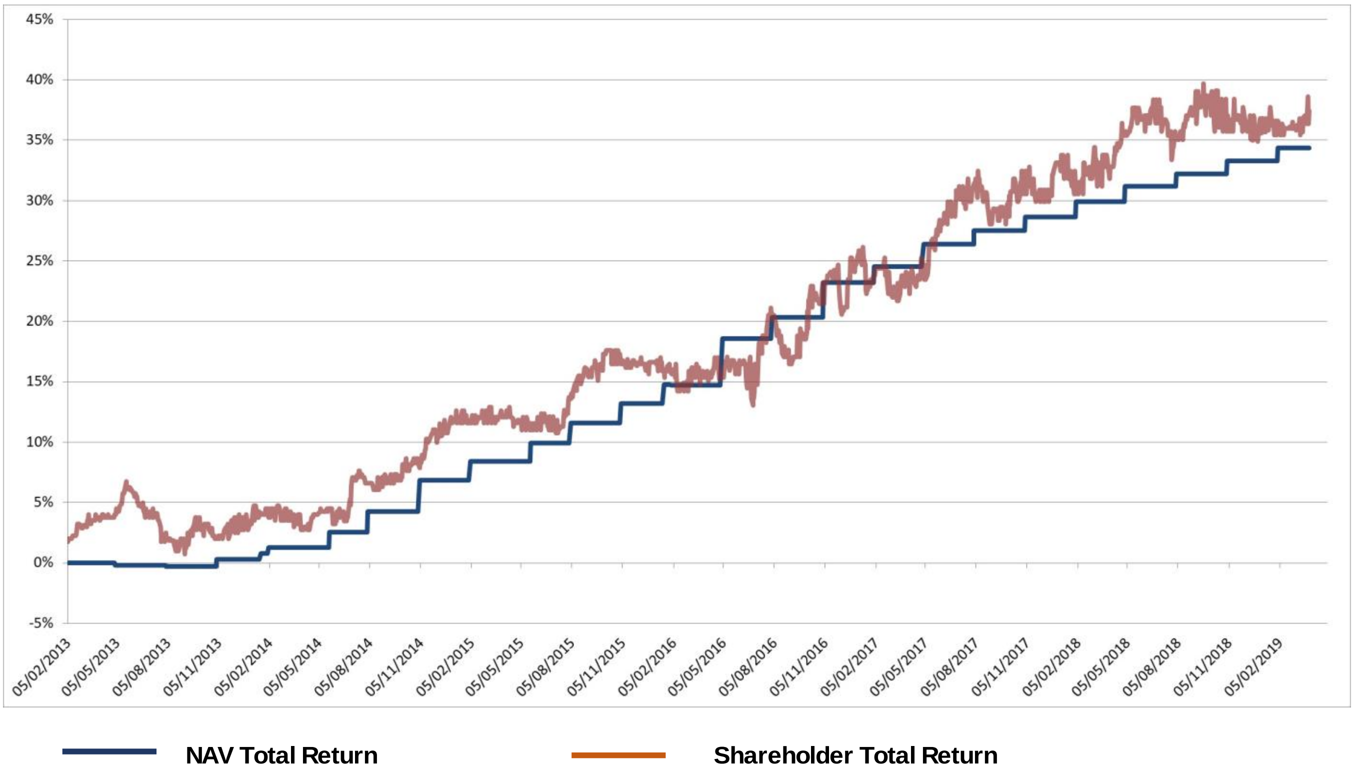
| | |
|---|---|
| Fund type: | Closed ended investment company |
| Domicile: | Guernsey |
| Listing: | London Stock Exchange |
| ISIN code: | GG00B8C23S81 |
| LSE code: | LBOW |
| Website: | www.lbow.co.uk |

| **Share price & Estimated NAV at 30 April 2019** | |
|---|---|
| Share price (pence per share): | 100.06 |
| NAV (pence per share): | 98.82 |
| Premium/(Discount): | 1.26% |
| Market capitalisation: | £121.38 million |

| **Key portfolio statistics at 30 April 2019** | |
|---|---|
| Number of investments: | 10 |
| Percentage capital invested[(1)]: | 102.7% |
| Weighted avg. investment coupon: | 7.19% |
| Weighted avg. LTV: | 63.1% |
| Weighted avg. ICR: | 203% |

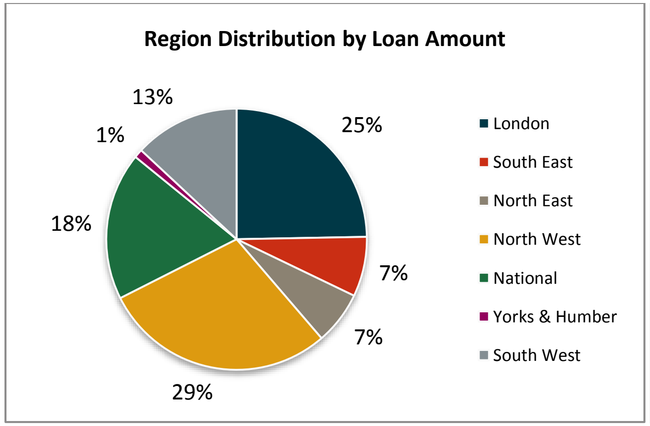
[(1)] Loans advanced at amortised cost / Total equity attributable to the owners of the Company. Includes amounts drawn down on the Group working capital facility.

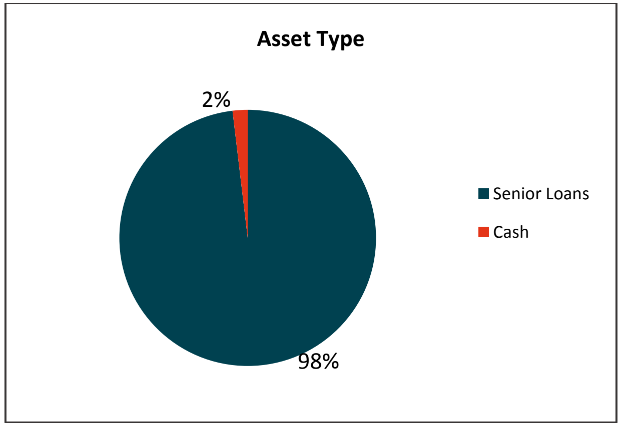
**Share Price Total Returns vs NAV Total Return (from IPO to 30 April 2019)**

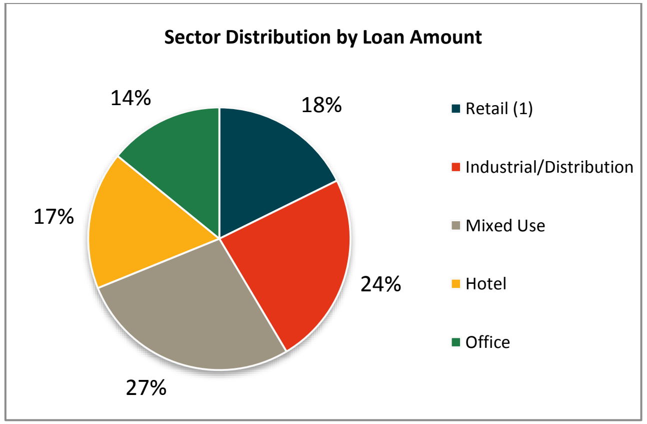


# Investment Portfolio as at 30 April 2019

| Project | Region | Sector | Term start | Unexp. term (years) | Day 1 balance (£m) | Day 1 LTV (%) | Day 1 ICR (%) | Balance outstanding (£m) | Current LTV (%) | Current ICR (%) |
|---|---|---|---|---|---|---|---|---|---|---|
| Meadows RE Fund II | London | Retail[1] | Sep-13 | 0.76 | 18.07 | 65.0 | 150 | 21.50 | 70.3 | 100 |
| Northlands Portfolio | London | Mixed use | Nov-13 | 0.17 | 7.20 | 61.7 | 192 | 8.50 | 53.5 | 185 |
| Halcyon Ground Rents | National | Industrial/distribution | Dec-13 | 0.60 | 8.60 | 64.8 | 116 | 6.42 | 65.2 | 115 |
| Carrara Ground Rents | Yorks/Humb | Office | Dec-13 | 0.60 | 1.30 | 65.0 | 113 | 1.30 | 65.0 | 114 |
| Ramada Gateshead | North East | Hotel [2] | Apr-14 | 0.00 | 7.98 | 64.4 | 180 | 7.98 | 66.0 | 160 |
| Commercial Regional Space Ltd | North West | Industrial/distribution | Mar-16 | 0.25 | 22.40 | 64.0 | 280 | 22.40 | 50.9 | 360 |
| BMO Real Estate Partners | National | Mixed use [2] | Jan-17 | 0.00 | 16.00 | 55.4 | 404 | 15.79 | 51.5 | 364 |
| Quattro | South East | Mixed use | Oct-17 | 1.71 | 9.00 | 83.7 | 100 | 9.00 | 83.7 | 100 |
| Affinity | South West | Office | Mar-18 | 3.04 | 14.20 | 67.3 | 100 | 15.87 | 75.2 | 100 |
| Southport Hotel | North West | Hotel | Feb-19 | 3.96 | 12.50 | 59.5 | 143 | 12.64 | 60.2 | 195 |
| **Total / weighted average** | | | | **1.15** | **117.25** | **64.4** | **201** | **121.41** | **63.1** | **203** |




(1) Whilst the existing use of the Meadows secured property is retail, the site is subject to a planning application for residential redevelopment
(2) Agreement has been reached for the short-term extension of certain of the Company's loans whilst refinancing proposals conclude.

# Investment Adviser's Commentary

### Summary

At 30 April 2019 the investment portfolio comprised 10 loans.

- One new investment and an increase to an existing loan completed in the quarter, bringing the par value of the loan portfolio to £121.41 million (31 January 2019: £107.22 million)
- The above transactions and the repricing of two legacy positions totalling circa £38 million drove an increase in the weighted average interest coupon to 7.19% (31 January 2019: 6.23%)
- Four new transactions in solicitors' hands, totalling circa £46 million, at an average coupon of over 7.4%
- NAV per share fell from 99.16 pence to an estimated 98.82 pence
- Portfolio LTV of 63.1% (31 January 2019: 62.2%) and portfolio ICR now 203% (31 January 2019: 208%) owing to changes in the composition of the loan portfolio

### Group Performance

The commitment of a new £15.0 million loan to the Bliss Hotels Group (of which £12.6 million has been drawn), secured by a hotel and leisure complex in Southport, Merseyside, completed during the quarter. Additionally, a further £0.5 million commitment was made to the borrower of the Affinity loan, increasing the Group's portfolio to £121.4 million during the quarter. Further, two legacy loans totalling circa £38.2 million were repriced upwards during the period.

This investment activity materially increased the weighted average coupon at quarter end to 7.19% per annum, thereby improving dividend coverage from current earnings.

As at the quarter end, the Company had drawn £3.5 million under the working capital facility.

### Post quarter-end activity and pipeline

Following the quarter end, the £22.4 million Commercial Regional Space loan repaid. All drawings on the working capital facility were repaid from these proceeds. The balance of cash available is expected to be used to fund the investment activity detailed below, with further drawings under the facility, as required:

- commitment to fund a new £15.3 million loan secured by a hotel portfolio (to be funded simultaneously with the anticipated redemption of the £8.0 million Ramada Gateshead loan in early July)
- terms agreed (subject to documentation) for a longer term refinancing of the Northlands loan, including a committed £4.0 million increase
- terms agreed (subject to documentation) on three new transactions totalling approximately £31 million of commitments, all expected to complete during July and August
- due diligence complete (subject to documentation) on a potential £25 million investment into the most recent ICG-Longbow private fund.

In aggregate, this circa £42 million of net new direct investment carries a weighted average coupon of over 7.4% (excluding arrangement and exit fees), with an expected LTV of c. 70% and average loan term of over 3.0 years. Should each of the pipeline transactions complete, it will be necessary to utilise substantially all of the £25 million facility.

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 2019 | 31 January 2019 |
|---|---|---|
| Number of loan investments | 10 | 9 |
| Aggregate principal advanced | £121,412,881 | £107,221,546 |
| Weighted average LTV | 63.1% | 62.2% |
| Weighted average ICR | 203% | 208% |
| Weighted average interest coupon | 7.19% pa | 6.23% pa |
| Weighted average unexpired loan term | 1.15 years | 0.96 years |
| Weighted average coupon protection period | 0.51 years | 0.42 years |
| Cash held | £2,339,913 | £12,370,129 |
| Drawings under working capital facility | £3,500,000 | - |

## Market Commentary

Against a backdrop of extended uncertainty for the economy and the property market following the extension of the deadline for Brexit to October 2019, Q1 GDP grew by 0.5%. Importantly for real estate markets, the UK labour market and jobs outlook remain exceptionally strong, with continued growth in full time positions, record labour market participation and record low unemployment. This has been accompanied by real wage growth, currently at 1.5% p.a., the highest level since 2016.

As we have previously highlighted, the Brexit impact on UK property is likely to be most stark in an abrupt or disorderly 'no deal' scenario, however market fundamentals remain strong, outside of the retail sector. Whilst sales volumes are strong, the challenges in the retail occupational markets are likely to continue this year with retailers suffering from a structural shift towards online shopping, higher labour costs and declining footfall. We remain cautious on the sector, albeit in time there may be opportunities to capitalise on this distress.

The MSCI All Property Total Returns Index for 2018 was released in the quarter and showed a return of 5.6%, overall substantially driven by income with capital values having increased by only 0.6%. However, the overall number masks the expected divergence between retail, where capital values declined by 6% and industrial, where they rose by 12%.

In the finance markets, Cass Business School published its annual review of UK property market lending conditions for Y/E 2018 during the quarter, based on a survey of 74 lenders with loan books totalling circa £195 billion. The data show CRE lending volumes of £49.6 billion during the year (a 12% increase from 2017) but total loan books up only 5%, reflecting what Cass describe as a period of extraordinary stability in both loan volumes and market structure since 2014. This reflects our own experience where, outside of retail, there is reasonable liquidity in the debt markets for most LTVs and asset classes, but without the depth of competition seen prior to the GFC which pushed pricing and lending covenants to nonsensical levels. In our view, conditions are neither too hot nor too cold with lenders continuing to invest prudently.

## Outlook

The substantial transitioning of the portfolio highlighted in our Annual Report and Accounts accelerated last quarter, as evidenced by the increase in weighted average coupon to 7.19% through investment activity on £53 million or 44% of the portfolio. Whilst certain pipeline deals have progressed more slowly than expected as we and our borrower clients adopt a cautious investment approach, in recent weeks the Group has approved over £46 million (gross) of new investments, all of which are now in solicitors' hands for anticipated execution over the next three months. Following completion of these transactions, and net of £8.0 million of expected imminent repayments (from the Ramada Gateshead loan), the working capital line is expected to be substantially utilised.

We believe all of the pipeline investments are defensively positioned against any volatility from an adverse Brexit outcome, and should these deals and repayments complete as expected, the Board believes the transitioning of the Company's portfolio will be substantially complete, with all investments having been originated, extended or repriced in the past two years. The resultant portfolio will show a further improvement in weighted average coupon and loan duration, in line with the Company's targets.

We continue to see a robust level of new direct lending opportunities offering the prospect of future growth, which would likely require a level of new share issuance. Moreover, the Board has recently finalised its due diligence on a potential investment of up to £25 million into the most recent ICG-Longbow private fund. This would bring greater diversification to the portfolio in addition to the prospect of improved shareholder returns. With diligence now complete, we hope to make an announcement in this regard over the coming months.

In the medium term, and as detailed in our annual report, the benefit of the prospective pipeline transactions should restore full dividend cover on an annualised basis, and, with one of the new transactions benefitting from a material profit participation component, the possibility of outperformance and capital appreciation in line with the Company's stated objectives.

## Contacts


| Investment Adviser | Administrator, Designated Manager & Company Secretary | Corporate Broker |
|---|---|---|
| Intermediate Capital Managers Ltd<br>42 Wigmore Street<br>London, W1U 2RY<br>info@longbowrec.com | Estera International Fund Managers (Guernsey) Ltd<br>PO Box 286, Floor 2, Trafalgar Court<br>Les Banques, St. Peter Port, Guernsey<br>GY1 4LY<br>ICGLongbow-gg@estera.com | Cenkos Securities plc<br>6.7.8 Tokenhouse Yard,<br>London EC2R 7AS<br>wrogers@cenkos.com<br>acollins@cenkos.com |

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