



Senior Secured UK Property Debt Investments Ltd

Fact Sheet

As at 30th April 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 30 April 2020

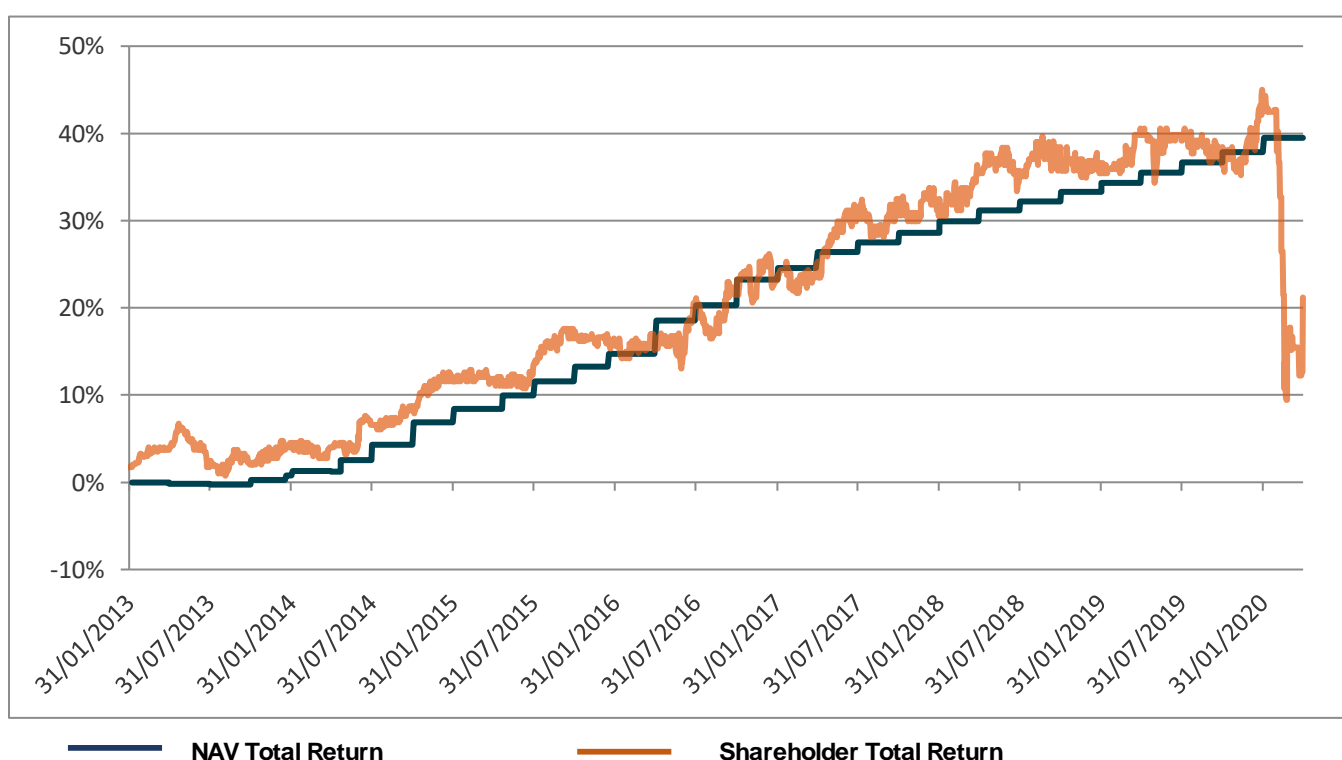
Share price (pence per share):	76.50
NAV (pence per share):	98.37
Premium/(Discount):	(22.2%)
Market capitalisation:	£92.80 million

Key portfolio statistics at 30 April 2020

Number of investments:	10
Percentage capital invested ⁽¹⁾ :	88.9%
Weighted avg. investment coupon:	7.48%
Weighted avg. LTV:	68.2%

⁽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.

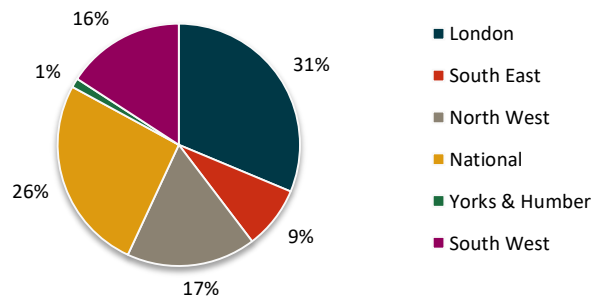
Share Price Total Returns vs NAV Total Return (from IPO to 30 April 2020)



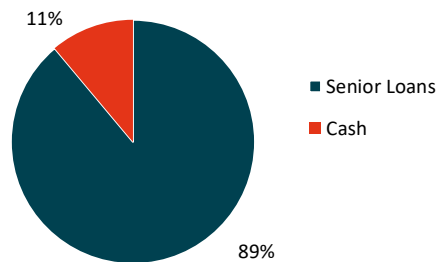
Investment Portfolio as at 30 April 2020

Project	Region	Sector	Term start	Unexp. term (years)	Day 1 balance (£m)	Day 1 LTV (%)	Balance outstanding (£m)	Balance undrawn (£m)	Current LTV (%)
Halcyon	National	Industrial/distribution	Dec-13	0.60	8.60	64.8	5.73		65.2
Carrara	Yorks/Humb	Office	Dec-13	0.60	1.30	65.0	1.30		65.0
BMO	National	Mixed use	Jan-17	0.00	16.00	55.4	15.79		51.5
Quattro	South East	Mixed use	Oct-17	0.71	9.00	83.7	8.83		80.6
Affinity	South West	Office	Mar-18	2.04	14.20	67.3	16.70		66.0
Southport	North West	Hotel	Feb-19	2.96	12.50	59.5	14.69	0.31	70.0
Northlands	London	Mixed use	Aug-19	2.46	9.00	55.3	9.24	3.26	56.8
RoyaleLife	National	Residential	Sept-19	3.47	20.27	74.3	23.75	0.85	80.8
LBS	London	Office	Oct-19	2.46	4.92	69.3	5.91	0.56	72.1
Knowsley	North West	Industrial	Feb-20	2.96	3.50	60.3	3.50	4.25	60.3
Total / weighted average				2.06	99.29	65.8	105.46	9.22	68.2

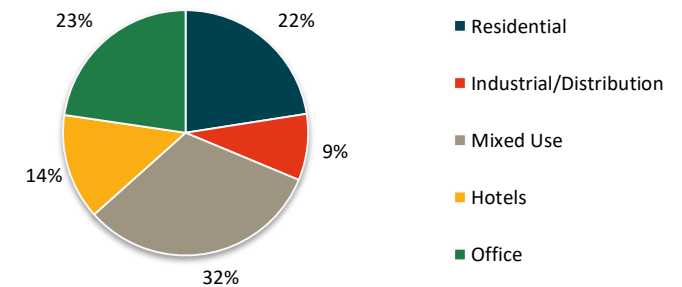
Region Distribution by Loan Amount



Asset Type



Sector Distribution by Loan Amount



Investment Adviser's Commentary

Summary

At 30 April 2020 the investment portfolio comprised ten loans. Principal activity in the quarter included:

- Repayment of the £21.5 million Meadow loan, together with exit and prepayment fees
- Completion of new £7.75 million commitment secured by an industrial property in the North West
- Reduction in the par value of the loan portfolio to £105.46 million (31 January 2020: £120.77 million), with total commitments of £114.85 million
- Repayment of all drawn balances on the working capital facility and increase in cash held to £13.2 million

As at the quarter end:

- Weighted average LTV of 68.2% (31 January 2020: 65.8%) and WA interest coupon of 7.48% (31 January 2020: 7.51%), before recognition of contractual arrangement and exit fees.
- No expectation of any shortfall in either total interest receipts during the term of each loan, or to capital repayments by loan maturity.
- Increase in NAV per share to 98.37 pence (31 January 2020: 98.20 pence)
- Market disruption resulting from the Covid-19 pandemic has caused a significant decline in the share price, to 76.50 pence per share as at 30 April 2020, notwithstanding the increase in NAV during the quarter.

Group Performance

Although most of Q1 2020 was dominated by Covid-19 (see below), earlier in the quarter there were some portfolio changes, with the Group's Meadows loan repaid following a sale of the underlying property, and a new loan committed to refinance an industrial estate in Knowsley in the North West.

Total loans advanced now total £105.5 million, and outstanding commitments total £114.9 million, leaving the Group with a robust cash position of £13.2 million, no debt, and full access to its £25 million revolving credit facility. Portfolio LTV remains robust and defensive at 68.2% at quarter end, all secured by first ranking mortgage investments. The weighted average loan coupon was largely unchanged in the quarter.

The Company's key focus during the period was the close monitoring and management of its existing loan positions in the light of the Covid disruption. As previously announced, seven of the Group's ten investments are secured by properties or portfolios backed by highly diversified cashflows from commercial and residential tenants. Across these investments, the Group's borrowers reported a robust level of rent collection and, as a result, interest payments were made in full.

Three investments are secured by operational assets or are in sectors which have been adversely affected by the ongoing UK lockdown, most notably the Southport hotel asset (which has been required to close) and the RoyaleLife portfolio (where completion of home sales was delayed, but sites have reopened following quarter end). These investments account for approximately 45% of quarterly interest payments in aggregate. In these cases the Company, as a responsible lender, chose to defer or capitalise the interest payments due in order to assist the underlying borrowers with working capital management during the lockdown period.

We would highlight that deferring and capitalising interest due affects only the Company's near term cash receipts – at a time when its cash holdings are robust – and not long term returns. The Company has a satisfactory equity cushion on all of its investments and does not expect any shortfall in either total interest receipts during the term of each loan, or to capital repayments by loan maturity.

Portfolio

Portfolio statistics	30 April 2020	31 January 2020
Number of loan investments	10	10
Aggregate principal advanced	£105,455,198	£120,769,516
Weighted average LTV	68.2%	65.8%
Weighted average interest coupon	7.48%	7.51%
Weighted average unexpired loan term	2.06 years	1.85 years
Weighted average coupon protection period	1.03 years	1.01 years
Cash held	£13,157,675	£3,383,841
Drawings under working capital facility ¹	£nil	£5,200,000

¹ As at the date of this Fact Sheet, drawings under the working capital facility totalled £nil

Market Commentary

The real estate markets in the quarter to 30 April were dominated by the Covid-19 pandemic as occupiers, investors, developers and lenders sought to understand and address the impacts on their businesses and portfolios. The UK lockdown commenced on 23 March, shortly before quarterly rent payments were due, and as a result many businesses either could not or would not make these payments to landlords. This trend was most prevalent in the retail sector where (e.g.) Intu Properties reported that only 29% of rent across its portfolio was collected on time.

There is a widespread view that rent collections in the forthcoming June quarter will be worse still, as the Government has legislated to remove many of the tools commercial landlords have to take action against non-payers. Whilst this was no doubt introduced with the best intentions of protecting vulnerable businesses, the upshot is that cashflow challenges have been passed up the chain to property owners who in many cases are less able to bear the impact than the tenants.

Whilst the already troubled retail sector has borne a disproportionate impact, in our view the most affected sector has been hospitality where all hotels (excepting those accommodating key workers) were mandated to close until further notice. With no source of revenue and costs continuing to accrue, hotel operators such as Travelodge have withheld rent payments, whilst owners have often been forced to rely on Government programmes such as the employee furlough scheme and CBIL lending programme, in addition to the support of their lenders and investors.

Prior to the Covid outbreak, activity in the investment market had returned to somewhat normalised levels following the uncertainty of Brexit and the General Election. Total UK investment volumes for Q1 2020 stood at £12.9bn, according to Lambert Smith Hampton, albeit this figure was hugely flattered by the inclusion of the UK's largest ever single investment deal – Blackstone's acquisition of the iQ student accommodation portfolio for £4.66bn. Discounting this, the quarterly volume was at its lowest level since Q4 2012. The 'beds' sector continued to be popular with investors, with the Ritz Hotel changing hands for £700m, whilst office investment volumes in the period were 43% ahead of Q1 2019.

From March onwards, investment volumes have been thin as buyers re-assessed pricing and risk and availability of finance became scarce. Given this relative lack of trades, valuation impacts have been difficult to assess through up-to-date comparable evidence; the RICS has accordingly recommended its members introduce a 'material uncertainty' clause into valuation reports.

Nonetheless reported valuation data remain useful for assessing market participants' opinions on current pricing, and the most recent figures from CBRE's monthly index showed All Property capital growth falling by 2.1% in April, now down 5.3% in the year to date. These declines were led by the retail sector with shopping centres in particular assessed as being 5.7% lower in April.

Looking forward, Capital Economics' May forecasts estimate capital values falling by 10.6% in 2020, before recovering in 2021 and thereafter. Whilst this will vary materially between property sectors – with retail (where the Company has limited exposure) likely to be most heavily affected – this level of value reduction, if realised, would not be nearly as dramatic as that seen following the 2008/09 global financial crisis. As set out in the Viability Statement in the Company's recent Report and Accounts, having reviewed detailed Covid-19 stress scenarios prepared by the Investment Adviser, the Board is confident the Company is well positioned to withstand economic and valuation impacts of a 2008/09 level of severity.

Outlook

The Company's loan commitments currently total approximately £115 million, of which circa £106 million has been drawn to date. It has £5 million of uncommitted cash and access to its £25 million revolving credit facility, leaving the Company well positioned to pursue opportunistic reinvestment or, if required, support of the existing portfolio.

To this end, since mid-April the Company has seen a significant increase in the level of new enquiries, with several high quality lending opportunities emerging which exceed the high bar we have set for reinvestment in the current market, and which would provide shareholders with attractive risk-adjusted returns in line with the Company's investment objectives. Generally, these involve business plans and income profiles which the Company believes will be highly resilient against the both ongoing near term disruptions and a longer-term economic downturn.

Nonetheless we continue to act prudently; no-one can predict with certainty the overall effects of the outbreak on the UK economy, property and lending markets, and we believe the bar for new investing should be set higher as a result. We believe our longstanding philosophy of supporting properties and sponsors which can deliver income and value growth outside of market cycles and shocks remains the best way to proceed in a period of uncertainty.

Contacts

Investment Adviser	Administrator, Designated Manager & Company Secretary	Corporate Broker
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