ICG LONGBOW

Senior Secured UK Property Debt Investments Ltd

Fact Sheet

As at 31st January 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%

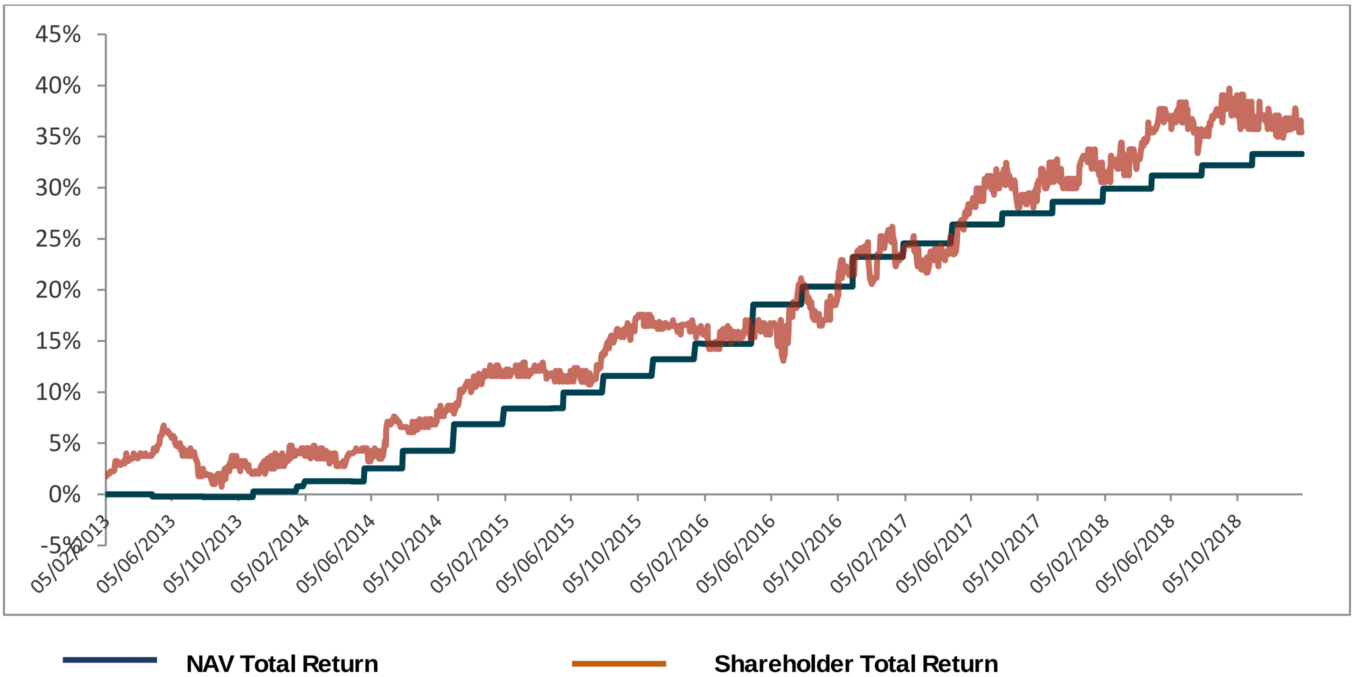
Fund type:	Closed ended investment company
Domicile:	Guernsey
Listing:	London Stock Exchange
ISIN code:	GG00B8C23S81
LSE code:	LBOW
Website:	www.lbow.co.uk

Share price & Estimated NAV at 31 January 2019	
Share price (pence per share):	98.80
NAV (pence per share):	99.16
Premium/(Discount):	(0.36%)
Market capitalisation:	£119.84 million

Key portfolio statistics at 31 January 2019	
Number of investments:	9
Percentage capital invested[(1)]:	90.3%
Weighted avg. investment coupon:	6.23%
Weighted avg. LTV:	63.0%
Weighted avg. ICR:	208%

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

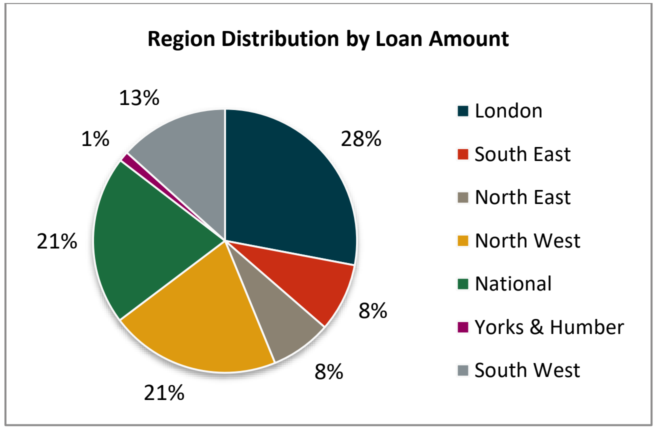
Share Price Total Returns vs NAV Total Return (from IPO to 31 January 2019)

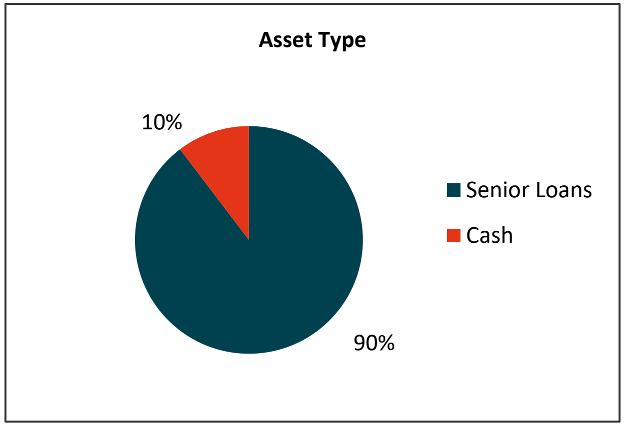


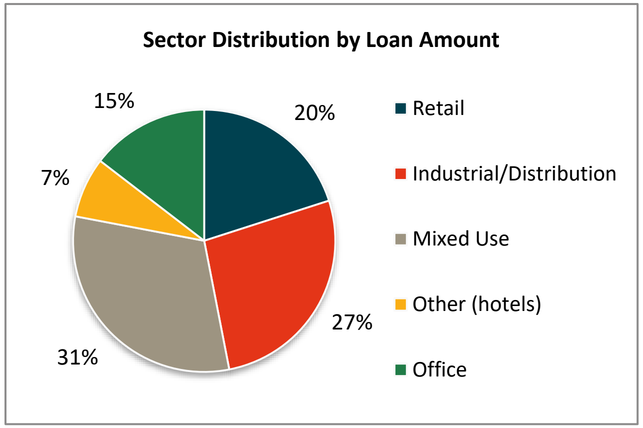
Investment Portfolio as at 31 January 2019

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 (%)	Coupon Protection Maturity
Meadows RE Fund II	London	Retail(1)	Sep-13	2.00	18.07	65.0	150	21.50	74.6	100	Dec-2019
Northlands Portfolio	London	Mixed use	Nov-13	0.07	7.20	61.7	192	8.50	53.5	162	N/A
Halcyon Ground Rents	National	Industrial/distribution	Dec-13	0.85	8.60	64.8	116	6.42	65.2	115	Jan-2019
Carrara Ground Rents	Yorks/Humb	Regional office	Dec-13	0.85	1.30	65.0	113	1.30	65.0	113	Jan-2019
Ramada Gateshead	North East	Other (hotel)	Apr-14	0.24	7.98	64.4	180	7.98	66.0	162	Apr-2019
Commercial Regional Space Ltd	North West	Industrial/distribution	Mar-16	0.20	22.40	64.0	280	22.40	50.9	355	N/A
BMO Real Estate Partners	National	Mixed use	Jan-17	0.20	16.00	55.4	404	15.79	51.5	398	N/A
Quattro	South East	Mixed use	Oct-17	1.95	9.00	83.7	100	9.00	83.7	100	N/A
Affinity	South West	Office	Mar-18	3.29	14.20	67.3	100	14.32	67.3	100	Feb-2020
Total / weighted average				**1.16**	**104.75**	**65.0**	**207**	**107.21**	**63.0**	**208**	

(1) Whilst the existing use of the Meadows secured property is retail, the site is subject to a planning application for residential redevelopment







Investment Adviser's Commentary

Summary

At 31 January 2019 the investment portfolio comprised 9 loans.

- Successful transition to the new investment policy well underway with 40% of the portfolio extended or reinvested and is expected to increase to 74% by May 2019.
- Strong and growing pipeline of new potential investments at enhanced terms to those seen in 2018.
- The par value of the loan portfolio was £107.21 million (31 October 2019: £105.60 million)
- NAV per share fell from 99.63 pence to an estimated 99.16 pence.
- The dividend for the quarter ended 31 January 2019 is maintained at 1.5pence per share (see Dividend commentary below).
- Weighted average interest coupon of 6.23% (31 October 2018: 6.14%)
- Portfolio LTV of 63.0% (31 October 2018: 61.9%) and portfolio ICR now 208% (31 October 2018: 214%)
- Weighted average loan maturity is stable at 1.16 years (31 October 2018: 1.12 years) and expected to extend as maturing loans are replaced in the next quarter.

Group Performance

During the quarter the portfolio remained stable albeit the maturity dates of the Northlands, Halycon and Carrara loans were all extended by the Group, for periods of up to a year, following agreement with the respective borrowers. In the case of the Northlands loan, this is expected to be a precursor to a longer term refinance on terms beneficial to the Group. Additionally, a further advance of £1.5 million was made to the borrower of the Meadow loan, in support of a site acquisition adjoining the property on which the loan is secured.

Retail remains challenging and, although such difficulties always present opportunities, extreme selectivity and caution is warranted. It should be noted that the Group's exposure to retail is low at 20% (the Meadow Loan) which is secured by a site undergoing planning approval for a large residential development. Exposure to true retail is limited to local convenience retail parades (within two of the loans secured by mixed-use portfolios) a submarket which is less exposed to the general travails of the sector.

Following quarter end, the Group arranged a £15.0 million loan commitment to Bliss Hotels Group, of which £12.5 million has been advanced to date. Additionally, a further advance of £1.5 million has been made on the Company's Affinity loan under the capital expenditure tranche in respect of the ongoing refurbishment works.

In making these investments the Company has made a first drawing of £3.5 million on its working capital facility with OakNorth Bank plc.

The portfolio continues to perform in line with expectations and in compliance with all of the Group's investment parameters.

Portfolio

Portfolio statistics	31 January 2019	31 October 2018
Number of loan investments	9	9
Aggregate principal advanced	£107,221,547	£105,599,507
Weighted average LTV	63.0%	61.9%
Weighted average ICR	208%	214%
Weighted average interest coupon	6.23% pa	6.14% pa
Weighted average unexpired loan term	1.16 years	1.12 years
Weighted average unexpired Interest income protection	0.42 years	0.61 years
Cash held	£12,370,129	£14,838,440

Market Commentary

At the time of writing, an extension of the Article 50 deadline to avoid a disruptive “no deal” Brexit is becoming more likely. The vast majority of both Parliament and the Government are strongly against leaving without a deal; the EU also wishes to avoid a no deal scenario and its leadership has made it clear that it is open to an extension. While the end game is still as unclear as ever, in the near term the most likely scenario is a further extension of the status quo, with the odds likely now higher for a softer Brexit or even no Brexit at all.

Despite the uncertainty, the UK economy has been holding up relatively well, with GDP growth trending around 1.5%, unemployment holding near a 40-year low and wage growth on a gradual upward trajectory. Business and consumer sentiment have been weakening, but so far this has not translated into substantial real economy weakness. Markets also appear to have been taking the political turmoil in their stride and will likely continue to do so until the end game becomes clearer.

The real estate occupational markets (outside of retail) remain positive with the strongest regional office performers being Glasgow and Manchester, easily surpassing 2017 take up. Glasgow in particular saw take up 64% above the 10-year average, according to CBRE. Bristol and Birmingham remain strong, albeit are both hampered by lack of available supply. In many markets, Brexit is a lesser determining factor in occupational decisions than (for example) infrastructure projects such as HS2. In the investment market, Lambert Smith Hampton’s regular investment transaction bulletin showed that 2018 was a strong year for volumes, with £16.6 billion of transactions in Q4 taking the annual total to £61.8 billion, modestly ahead of 2017 and the second highest for a decade. This is even more impressive given the continued slump in retail trades, with volumes 28% below the 10-year average. Industrial investment was at a record high with £8.4 billion transacted, and office volumes were 29% above the 10-year average, led by Central London (£16.9 billion) where Brexit does not appear to have deterred overseas purchasers, particularly from the Far East, from making sizeable commitments (albeit some may be taking advantage of the favourable exchange rate).

In the (perhaps now unlikely) event of a no-deal Brexit, we foresee a period of volatility in the property market as it reacts to the increased uncertainty which will provide opportunity. Capital Economics - whose projections proved robust in the immediate aftermath of the unexpected referendum result - is projecting a 5% fall in UK commercial property values in a ‘managed’ no deal and a 9% fall in a disorderly exit scenario.

The latest IPF consensus forecasts show total returns averaging circa 3% during 2019 and 2020, before rising to 4.9% in 2021. In each case the outlook for returns is expected to be driven by income, albeit rental value growth is expected to be subdued, particularly given the ongoing structural weakness in retail. In our view this outlook continues to reinforce the case for debt rather than equity investing at this stage of the cycle.

Outlook

Following quarter end, the Group completed a new £15 million commitment and drew down a further £1.5 million on the committed Affinity loan. A further circa £20 million transaction is expected to complete shortly. In all cases the Investment Adviser has sought - and continues to seek - to stress test the Brexit resiliency of new opportunities, which in certain cases led to a delay in completion of new loans but an improved risk position for the Group. Following these known and expected completions, the weighted average unexpired loan term of the portfolio would increase to 1.7 years and the average LTV of the portfolio would rise to 64.7%. The Group's wider pipeline remains highly encouraging with terms now agreed on 3 new transactions and the Investment Adviser has, from late February onwards, seen a strong pick up in new enquiries.

As certain of the Group's shorter-dated and lower-returning loans reach maturity, with an expectation of repayment in the coming quarter of up to approximately £46 million, the depth of this pipeline (which still includes the opportunity to invest into one of ICG-Longbow's private funds) will allow for the substantial transitioning of the portfolio towards newer, longer-dated and higher returning loans in line with the stated investment objectives. As at 31st January 2019, 40% of the portfolio had transitioned to the new investment policy and based on current expected maturities and redeployments should rise to 74% by May 2019.

The Board continues to progress a potential investment in an ICG-Longbow private fund opportunity as detailed in our last fact sheet. The likely timing for such an investment will be balanced against the pipeline of new direct lending deals and the Group's available funds to ensure the optimum outcome for shareholders from a risk, return and loan diversification perspective.

Dividend

Over the past three quarters, the Company has been supplementing in-quarter earnings with the release of prior period profits in order to maintain its dividend whilst the portfolio is transitioned as legacy, lower yielding loans run-off. The Company's retained profits have now been fully utilised. The last of the low yielding loans, made under the old investment policy, mature in April 2019 and are expected to be replaced by higher returning investments in the near term, which will also serve to materially increase the weighted average loan duration and weighted average coupon of the portfolio.

The Board considers it in the Company's interest to maintain its dividend whilst this transition process is completed, and has therefore declared a dividend of 1.5 pence per share in respect of the quarter ended 31 January 2019 of which 0.47 pence is being paid from capital. Given the positive outlook highlighted above, the Board intends to maintain the Company's dividend, utilising capital if required until these loans have been replaced. The Board remains highly confident of returning to a substantially covered dividend over the next three quarters.

Contacts

Investment Adviser	Administrator, Designated Manager & Company Secretary	Corporate Broker
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