



Senior Secured UK Property Debt Investments Ltd

Fact Sheet

As at 31st July 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	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
Management fee:	1.0%	LSE code:	LBOW
		Website:	www.lbow.co.uk

Share price & Estimated NAV at 31 July 2018

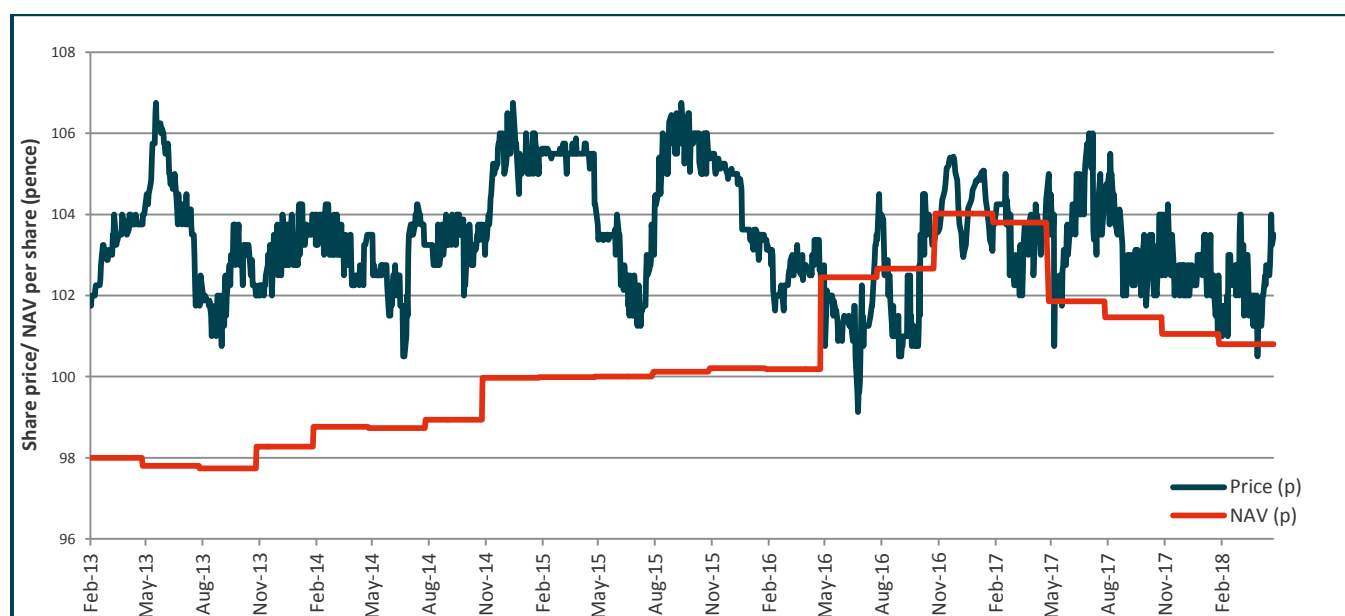
Share price (pence per share):	102.00
Estimated NAV (pence per share):	100.05
Premium:	1.95%
Market capitalisation:	£123.73 million

Key portfolio statistics at 31 July 2018

Number of investments:	10
Percentage capital invested ⁽¹⁾ :	93.47%
Weighted avg. investment coupon:	6.30%
Weighted avg. LTV:	61.2%
Weighted avg. ICR:	216%

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

Share price v NAV (from IPO to 31 July 2018) ⁽²⁾⁽³⁾

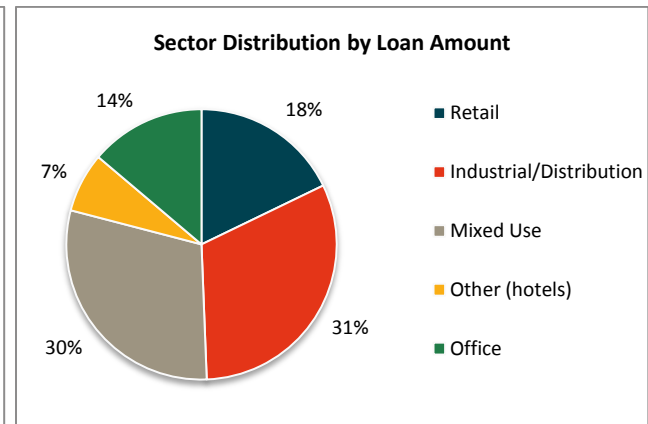
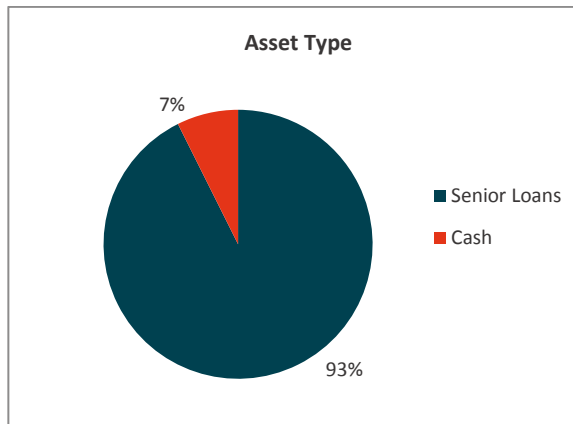
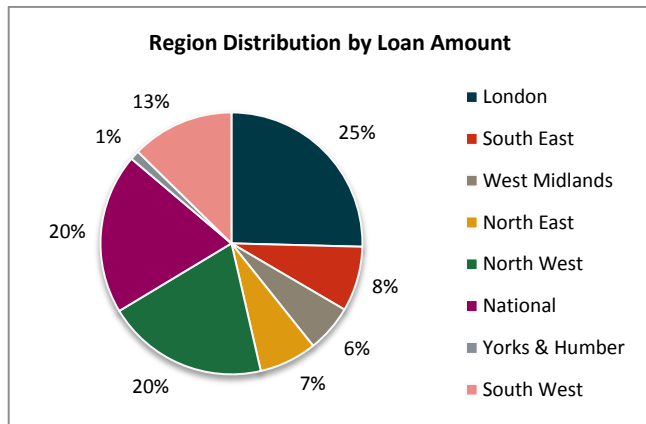


⁽²⁾ Reduction in NAV in April 2017 due to declaration of 2.25 pence per share special dividend

⁽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 31 July 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	1.50	18.07	65.0	150	20.00	69.4	100
Northlands	London	Mixed use	Nov-13	0.32	7.20	61.7	192	8.50	53.5	159
Hulbert	West Midlands	Industrial/distribution	Dec-13	0.34	6.57	65.0	168	6.57	50.4	194
Halcyon	National	Industrial/distribution	Dec-13	0.35	8.60	64.8	116	6.42	65.2	151
Carrara	Yorks & Humber	Office	Dec-13	0.35	1.30	65.0	113	1.30	65.0	113
Ramada	North East	Other (hotel)	Apr-14	0.75	7.98	64.4	180	7.98	66.0	163
Commercial Regional Space	North West	Industrial/distribution	Mar-16	0.71	22.40	64.0	280	22.40	50.9	402
BMO	National	Mixed use	Jan-17	0.71	16.00	55.4	404	15.79	51.1	372
Quattro	South East	Mixed use	Oct-17	2.46	9.00	83.7	100	9.00	83.7	100
Affinity	South West	Office	Mar-18	3.79	14.20	67.3	100	14.20	67.3	100
Total / weighted average				1.31	111.32	65.0	207	112.16	61.2	216



Investment Adviser's Commentary

Summary

At 31 July 2018 the investment portfolio comprised 10 loans.

- The par value of the loan portfolio was £112.16 million (30 April 2018: £114.34 million)
- NAV per share fell from 100.58 pence to an estimated 100.05 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 of 6.30% (30 April 2018: 6.31%)
- Portfolio LTV maintained at 61.2% (30 April 2018: 61.2%) and portfolio ICR now 216% (30 April 2018: 211%)
- Weighted average loan maturity of 1.31 years (30 April 2018: 1.54 years) and weighted average remaining coupon protection of 0.69 years (30 April 2018: 0.80 years)

Group Performance

The Group's loan portfolio was broadly stable during the quarter, whilst the borrowers focused on executing their business plans. The Group received a circa £2.2 million repayment of the Halcyon loan, as the borrower refinanced one of the underlying security properties for future residential development.

As the unexpired loan terms of certain of the Group's original investments continue to shorten, discussions have commenced where appropriate for extensions or refinancing of the relevant loans, with a view to improving the weighted average loan term and coupon protection periods. The portfolio otherwise continues to perform in line with expectations and in compliance with all of the Group's investment parameters.

Portfolio

Portfolio statistics	31 July 2018	30 April 2018
Number of loan investments	10	10
Aggregate principal advanced	£112,164,507	£114,341,227
Weighted average LTV	61.2%	61.2%
Weighted average ICR	216%	211%
Weighted average interest coupon	6.30% pa	6.31% pa
Weighted average unexpired loan term	1.31 years	1.54 years
Weighted average unexpired Interest income protection	0.69 years	0.80 years
Cash held	£8,937,259	£7,455,272

Market Commentary

Q2 2018 saw the UK economy improve from its weak start to the year, with GDP rising by 0.4% in the quarter pushing annualised growth up to 1.3%. Whilst employment growth was slightly weaker than in recent quarters, unemployment again reached lows not seen since 1975. The tight labour market is now beginning to trigger real wage growth, and improved consumer confidence is expected to follow. The Bank of England responded to these potential inflationary pressures by raising interest rates to 0.75% in August. This had been largely priced in by markets, with the benchmark five year swap rate continuing to trade in a tight range around the 1.25% area during the quarter.

The economic environment continues to be generally positive for the occupational markets, with another robust quarter in UK office markets, led by Central London take-up at over 3 million sq ft - the best quarter since Q2 2015. In the regions strong activity was evident in Glasgow, Birmingham and Bristol. According to GVA, take-up in the Big Nine regional cities totalled 2.57m sq ft in Q2, an increase of 12% on the first quarter and 15% higher than a year ago.

Industrial take-up totalled 6.3 million sq ft, down 32% on a strong Q2 last year. However with a lack of 'ready' supply, prime rents remain under upward pressure, as evidenced by the record £30 per sq ft rent secured for an industrial unit in Battersea. JLL are currently forecasting over 5% p.a. rental growth in the sector for 2018 and 2019. The weakness in retail markets identified in previous quarters has become more broad-based, with a number of high-profile retailers announcing CVA's and / or closures, most recently Homebase. Whilst retail and leisure vacancy rates held stable at around 12%, this figure is expected to increase as store rationalisation programmes continue.

The Investment market in Q2 2018 was robust with £13.5bn worth of assets transacted according to Lambert Smith Hampton, closely in line with Q1 volume albeit 8% down on the five-year quarterly average. Central London office deals totalled £4.3bn in Q2 after three quarters of subdued investment; this was underpinned by several large transactions notably CK Asset Holdings' £1.0bn acquisition of 5 Broadgate. Post-quarter end, the largest transaction in the City this year was announced as the Korean Pension Fund agreed the sale and leaseback of the Goldman Sachs HQ for £1.16bn. These transactions provide evidence that overseas interest in UK commercial property has not been deterred by Brexit uncertainty, in particular demand for prime assets.

Appetite for industrial and logistics assets continues to remain strong in Q2 despite strong upward movements in prices over the past two years. In particular, regional industrial deals at £636m were 28% above the quarterly average. The retail investment market meanwhile remains subdued amid the challenges in the occupier markets, with the reported £1.87bn of deals identified by Lambert Smith Hampton flattered by a few large transactions, including Motcomb Estates acquisition of Burlington Arcade for close to £300m, and M&G's purchase of Fort Kinnaird Retail Park, Edinburgh for £167m. These deals are not reflective of the wider market however, and overall sentiment remains weak. In terms of the Company's exposures to retail property, these remain both modest and stable - and should the property securing the Meadow loan receive residential planning consent in the coming months, there will be no substantive exposures. As highlighted in our previous fact sheet, as retail rents and prices continue to rebase, the Investment Adviser may begin to consider new opportunities in the sector on a highly selective basis.

In the finance markets, Q2 was notable for the modest return of CMBS issuance, with BAML and Goldman Sachs both sponsoring new transactions at pricing levels which if sustained would allow the investment banks to compete for deals where they have previously been uncompetitive. It should be noted that these issuances have focused on larger loans, rather than the sub-£25m investments which represents the Company's target market. As such CMBS lenders are not expected to compete with the Company's core business, and the continued lack of activity amongst the UK clearers allows alternative lenders such as LBOW room to grow.

Outlook

The fourth quarter of the year is traditionally one of the busiest periods in UK property markets, and the Investment Adviser is beginning to see a pick-up in its deal pipeline reflecting this, which should allow for growth in the Company's portfolio going forward. Owing to the advanced status of discussions with certain borrowers to extend their loan terms, we are not expecting significant redemptions in the near term, allowing shareholders to continue to benefit from these remunerative and highly performing investments for a longer period. The Company is also making strong progress in securing a working capital facility from a UK bank, which will enable new investments to be made in advance of anticipated redemptions, as well as in anticipation of potential share issuance through the placing programme, in both cases minimising cash drag.

Contacts

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