Senior Secured UK Property Debt Investments Ltd

Fact Sheet

As at 31st July 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
Investment Advisory 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 July 2019

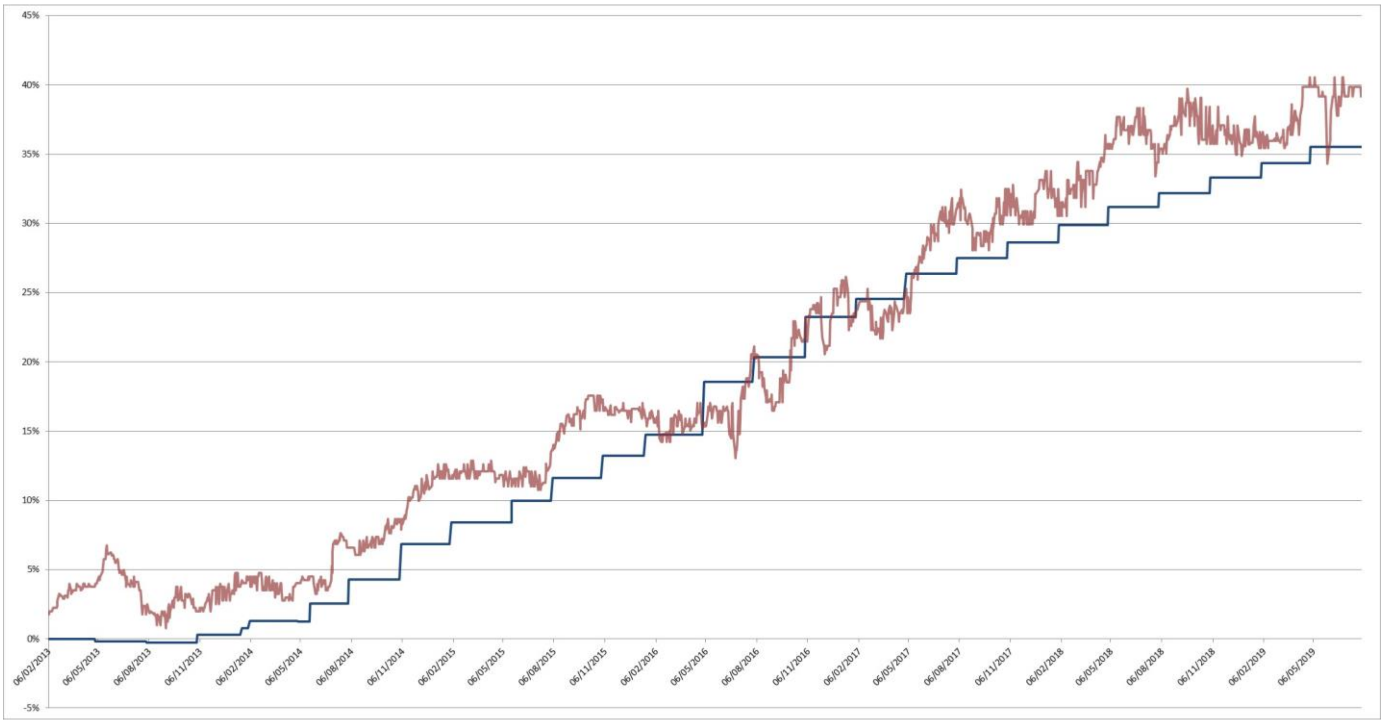
Share price (pence per share):	98.50
NAV (pence per share):	98.41
Premium/(Discount):	0.09%
Market capitalisation:	£119.48 million

Key portfolio statistics at 31 July 2019

Number of investments:	8
Percentage capital invested[(1)]:	77.2%
Weighted avg. investment coupon:	6.91%
Weighted avg. LTV:	59.4%

[(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.

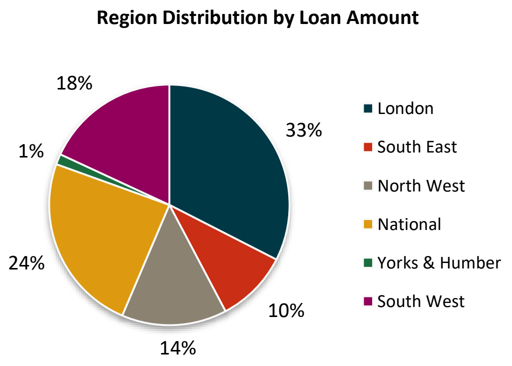
Share Price Total Returns vs NAV Total Return (from IPO to 31 July 2019)

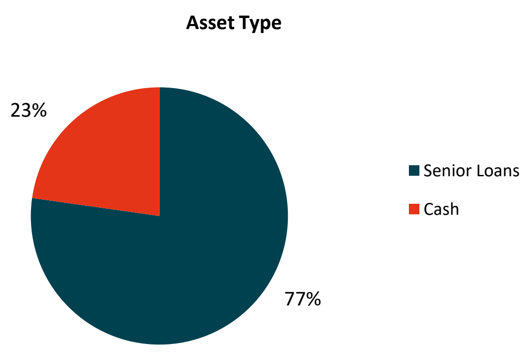


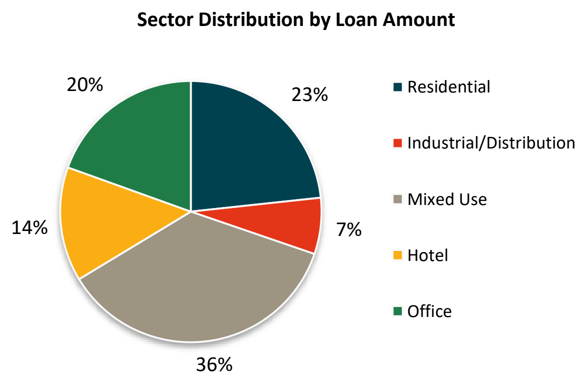
NAV Total Return **Shareholder Total Return**

Investment Portfolio as at 31 July 2019

Project	Region	Sector	Term start	Unexp. term (years)	Day 1 balance (£m)	Day 1 LTV (%)	Balance outstanding (£m)	Current LTV (%)
Meadows RE Fund II	London	Residential (1)	Sep-13	0.51	18.07	65.0	21.50	45.9
Northlands Portfolio	London	Mixed use (2)	Nov-13	0.00	7.20	61.7	8.50	53.5
Halcyon Ground Rents	National	Industrial/distribution	Dec-13	0.35	8.60	64.8	6.42	65.2
Carrara Ground Rents	Yorks/Humb	Office	Dec-13	0.35	1.30	65.0	1.30	65.0
BMO Real Estate Partners	National	Mixed use	Jan-17	0.21	16.00	55.4	15.79	51.5
Quattro	South East	Mixed use	Oct-17	1.46	9.00	83.7	9.00	80.6
Affinity	South West	Office	Mar-18	2.79	14.20	67.3	16.70	70.8
Southport Hotel	North West	Hotel	Feb-19	3.71	12.50	59.5	13.06	62.2
Total / weighted average				1.36	89.57	64.3	92.28	59.4







(1) The Meadows site was previously classified as Retail, but during the period received planning consent for residential redevelopment
(2) Following quarter end, the Northlands loan was renewed and extended on a new three-year term

Investment Adviser's Commentary

Summary

At 31 July 2019 the investment portfolio comprised eight loans. Principal activity comprised the following:

- Repayment of the low yielding Commercial Regional Space portfolio (£22.4 million) and the Ramada Gateshead loan (£8.0 million), taking the par value of the loan portfolio to £92.28 million (30 April 2019: £121.41 million).
- Post-quarter end commitment of three new transactions taking the par value of the portfolio to £118.35 million, with total capital committed of £129.32 million
- Changes to the composition of the loan portfolio reduced the weighted average interest coupon to 6.91% at quarter end (30 April 2019: 7.19%), rising to 7.03% following post-quarter end investment
- NAV per share fell from 98.82 pence to an estimated 98.41 pence
- Average LTV of 59.4% (30 April 2019: 63.1%) following the portfolio changes and aided by the reduction in LTV of the Meadows loan following the grant of residential planning permission

Group Performance

The period saw the anticipated repayment of two legacy loans and no new loans drawn down, however the Group has since signed loan commitments to two new borrowers (circa £31 million) and renewed one existing loan (£12.5 million), as further detailed below.

Further advances were made on the Affinity and Southport loans in support of the respective borrowers' capital expenditure programmes, totalling circa £1.9 million in aggregate. The BMO Partners loan was extended through to October 2019, at an improved interest coupon.

During the period, positive valuation increases were seen on the Meadows loan, as a result of the grant of planning consent for residential redevelopment, and the Affinity loan, as a result of the borrower's ongoing business plan. A modest increase in value was reported for one of the Quattro portfolio properties.

Post quarter-end activity and pipeline

Following the quarter end, the Company entered into three new funding commitments:

- A £24.6 million, four-year commitment to an affiliate of RoyaleLife, to refinance a portfolio of 10 assets in the residential bungalow homes sector. The loan carries an initial LTV ratio of 78.9%.
- A £12.5 million commitment to the Company's Northlands borrower, refinancing the Company's existing loan onto a new three-year term in support of the borrower's ongoing business plan. The initial LTV ratio is 55.3%.
- A £6.5 million, three-year commitment to a fund managed by LBS Properties, in support of its acquisition of a Central London office property. The loan carries an initial LTV ratio of 69.0%.

As previously highlighted, the Company is also documenting a circa £15.3 million commitment secured by a regional hotel portfolio. The transaction is expected to complete in the coming weeks by which stage the Company will have fully committed its available capital and substantially drawn its revolving credit facility.

Including the pipeline hotel transaction, this circa £50 million of aggregate net new investment carries a weighted average coupon of over 7.4% (excluding arrangement and exit fees), with an average LTV of approximately 70% and average loan term of over 3.5 years. On completion, the Company will have committed all its equity capital and substantially drawn or committed the funds available under its revolving credit facility. The RCF will be repaid following scheduled loan repayments or the proceeds of any equity issuance, allowing for further reinvestment in the Company's strong pipeline of new opportunities.

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

Portfolio

Portfolio statistics	31 July 2019	30 April 2019
Number of loan investments	8	10
Aggregate principal advanced	£92,277,958	£121,412,881
Weighted average LTV	59.4%	63.1%
Weighted average interest coupon	6.91% pa	7.19% pa
Weighted average unexpired loan term	1.36 years	1.15 years
Weighted average coupon protection period	0.80 years	0.51 years
Cash held	£27,200,525	£2,339,913
Drawings under working capital facility	£0	£3,500,000

Market Commentary

UK GDP fell by 0.2% in Q2 – the first fall in six and a half years – following a 0.5% increase in Q1. Whilst service sector growth (which comprises circa 80% of the economy) was nominally positive at 0.1%, this was insufficient to offset weakness in production and manufacturing, which contracted by 1.4% as the Brexit stockpiling seen during Q1 was essentially reversed. With the new Boris Johnson-led Government explicitly committed to leaving the EU with or without a deal on 31st October; the prospect of weaker growth has been reflected in interest rates where the benchmark 10-year gilt fell markedly and currently stands around 0.5%.

On the positive side, the labour market continues to go from strength to strength and the public finances are entering this period of uncertainty from a position of relative health, with the budget deficit modest at circa 1.2% of GDP and the debt-to-GDP ratio below all other advanced economies save for Germany. The new Chancellor, Sajid Javid, has publicly stated that he is looking at taking advantage of low borrowing rates to fund investment, and that in the event of a no-deal Brexit, a Government-led “significant economic package” would be the likely response.

Weakening economic sentiment and political uncertainty has contributed to a slowdown in real estate transactions during the last two quarters. Investment volumes were circa £19 billion during H1 2019, down 32% compared to H1 2018. The negative sentiment towards the retail investment market has deepened with annual transactions down circa 50% on the five-year average.

Average all-property equivalent yields have begun to drift upwards - to 5.9% in June 2019, compared to 5.8% a year ago. Average yields have increased the most in the retail sector, by over 0.3% according to the MSCI Monthly Index. Annualised average capital value growth for all-property also turned negative (-1.2%) in the year to June 2019. This is predominantly driven by the sharp falls in the retail sector (-9.5%) as growth remains positive for the industrial and office sectors at 5.8% and 1% respectively. The latest (August 2019) IPF consensus forecasts suggest a capital value fall of 3.6% in calendar 2019, and a further 1.8% in 2020, again largely driven by retail.

With Brexit risks looming, we do not anticipate any recovery in investment volumes in the second half, but equally we do not foresee any heavy selling of property investments following October, even in a disruptive no-deal scenario, with a wait-and-see approach more likely. Given the strong labour market fundamentals underpinning occupational markets, a relative lack of supply, and the strong yield premium (currently) over gilts, the challenge for real estate will likely be dealing with thin transaction volumes and consequently a degree of valuation uncertainty.

Outlook

As highlighted last quarter, the refreshing of the Company's loan book has continued with a number of the identified pipeline loans now committed. As a result, the portfolio transition is substantially complete with all of the Company's loans having been originated, extended or repriced within the last two years. The result of this activity is the restoration of full dividend cover, and the prospect of some medium term NAV accretion in line with the Company's investment objectives.

The encouraging momentum generated by the new transactions outlined above is continuing. In addition to the new hotel portfolio loan being documented, terms have been agreed for an extension of the Company's £21.5 million Meadows loan, following the improved risk profile resulting from the grant of planning permission at the property for a large-scale residential-led redevelopment. Equally, we are seeing continuing demand from prospective borrowers for capital at terms that are attractive to the Company. This lays the foundations now for progressive, consistent growth in the Company.

Of paramount importance though is the quality of the existing portfolio. We face a period of political and economic uncertainty, and the robust, defensive characteristics of the loan portfolio mean that the Company is well placed to weather any turbulence. Further, with 10-year gilt yields now yielding substantially less than 1% per annum., the attraction of the Company's fully covered 6.0 pence annual dividend is ever more compelling.

Contacts

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