Senior Secured UK Property Debt Investments Ltd

Fact Sheet

As at 31st October 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
Investment Adviser:	ICG-Longbow
Base currency:	GBP
Issued shares:	121.30 million
Management fee:	1.0%

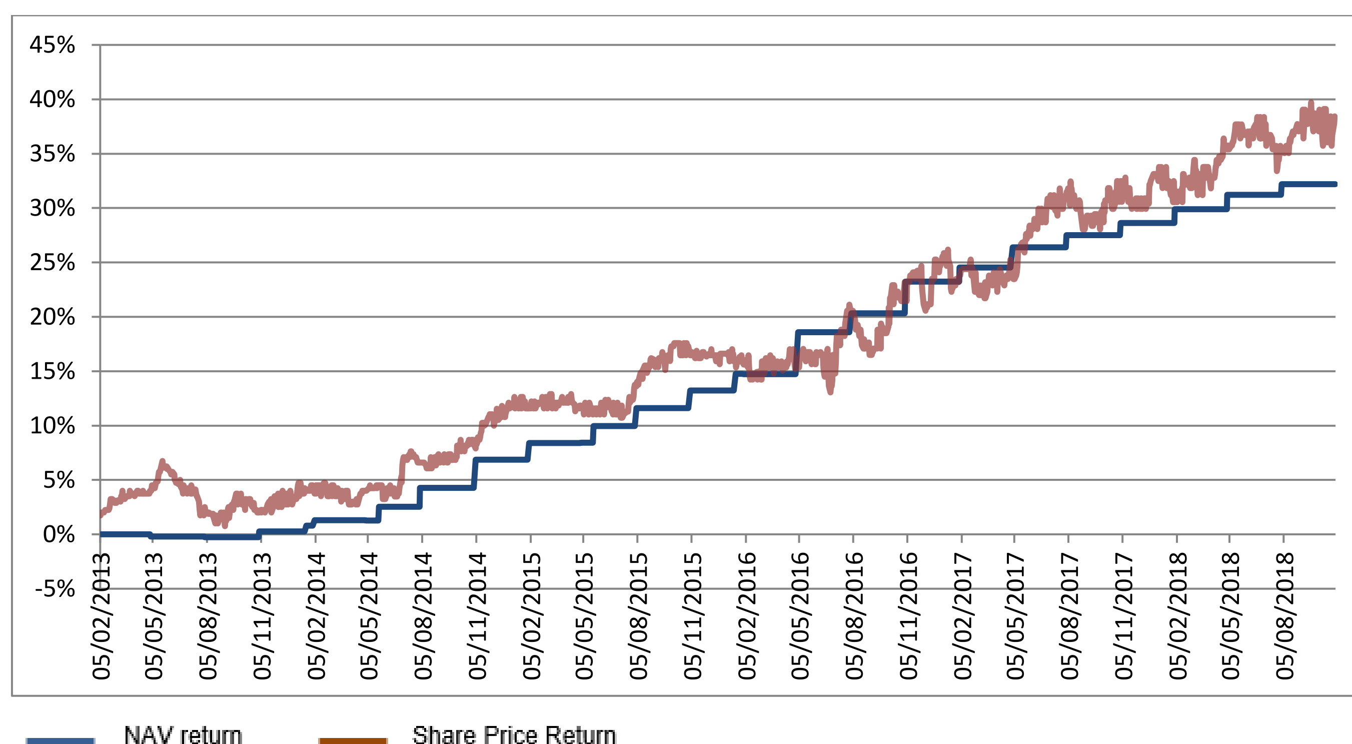
Fund type:	Closed ended investment company
Domicile:	Guernsey
Listing:	London Stock Exchange
ISIN code:	GG00B8C23S81
LSE code:	LBOW
Website:	www.lbow.co.uk

Share price & Estimated NAV at 31 October 2018	
Share price (pence per share):	102.50
Estimated NAV (pence per share):	99.63
Premium:	2.80%
Market capitalisation:	£124.33 million

Key portfolio statistics at 31 October 2018	
Number of investments:	9
Percentage capital invested[(1)]:	88.4%
Weighted avg. investment coupon:	6.14%
Weighted avg. LTV:	61.9%
Weighted avg. ICR:	214%

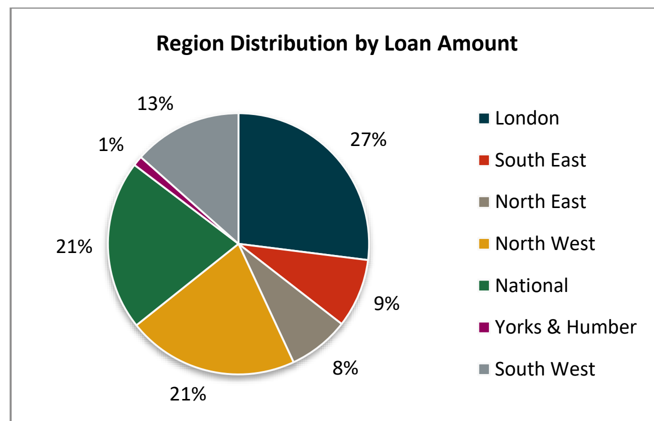
[(1)] Loans advanced at amortised cost / Total equity attributable to the owners of the Company

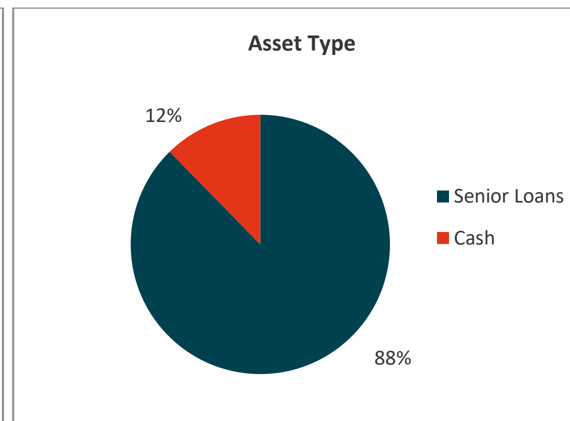
Share price return versus NAV return (from IPO to 31 October 2018)

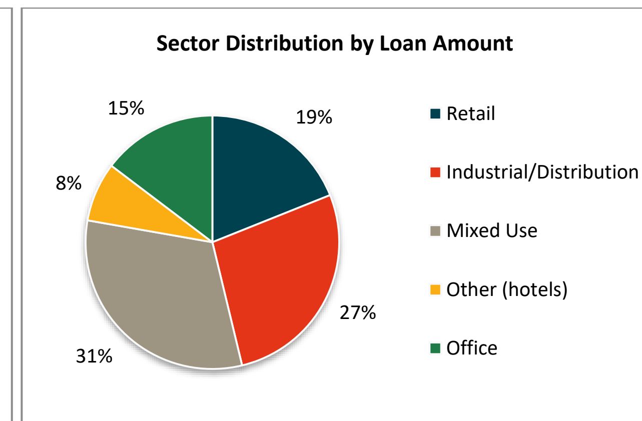


Investment Portfolio as at 31 October 2018

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	1.25	18.07	65.0	150	20.00	69.4	100
Northlands	London	Mixed use	Nov-13	0.07	7.20	61.7	192	8.50	53.5	162
Halcyon	National	Industrial/distribution	Dec-13	0.10	8.60	64.8	116	6.42	65.2	113
Carrara	Yorks & Humber	Office	Dec-13	0.10	1.30	65.0	113	1.30	65.0	113
Ramada	North East	Other (hotel)	Apr-14	0.50	7.98	64.4	180	7.98	66.0	164
Commercial Regional Space	North West	Industrial/distribution	Mar-16	0.45	22.40	64.0	280	22.40	50.9	351
BMO	National	Mixed use	Jan-17	0.45	16.00	55.4	404	15.79	51.1	432
Quattro	South East	Mixed use	Oct-17	2.21	9.00	83.7	100	9.00	83.7	100
Affinity	South West	Office	Mar-18	3.54	14.20	67.3	100	14.20	67.3	100
Total / weighted average				**1.12**	**104.75**	**65.0**	**207**	**105.60**	**61.9**	**214**







Investment Adviser's Commentary

Summary

At 31 October 2018 the investment portfolio comprised 9 loans.

- The par value of the loan portfolio was £105.60 million (31 July 2018: £112.16 million)
- NAV per share fell from 100.58 pence to an estimated 99.63 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 6.14% (31 July 2018: 6.30%)
- Portfolio LTV of 61.9% (31 July 2018: 61.2%) and portfolio ICR now 214% (31 July 2018: 216%)
- Weighted average loan maturity of 1.12 years (31 July 2018: 1.31 years) and weighted average remaining coupon protection of 0.61 years (31 July 2018: 0.69 years)

During the quarter, the Group signed a £25 million funding line with OakNorth Bank, to allow it to invest in new loan opportunities, and manage redemptions and working capital requirements whilst minimising cash drag.

Group Performance

As expected the Group saw the Hulbert loan repay during the quarter, as it approached its contractual maturity date. Subsequently, but after quarter-end, the maturities of the Halycon and Carrara loans were extended by the Group, initially for periods of up to a year, following agreement with the respective borrowers.

The Group remains in discussions with all of its borrowers, and is actively seeking to secure longer term refinancing of certain of its original investments, where it is appropriate and remunerative to do so. Any such refinancing will be accompanied by new fees 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 October 2018	31 July 2018
Number of loan investments	9	10
Aggregate principal advanced	£105,599,507	£112,164,507
Weighted average LTV	61.9%	61.2%
Weighted average ICR	214%	216%
Weighted average interest coupon	6.14% pa	6.30% pa
Weighted average unexpired loan term	1.12 years	1.31 years
Weighted average unexpired Interest income protection	0.61 years	0.69 years
Cash held	£14,838,440	£8,937,259

To date, approximately £62m of the Company's original £107m loan portfolio has now been repaid and reinvested, reflecting an annualised average of c.£20m since the first (Mansion) loan was repaid in Q1 2016. Put another way, around 17% of the Company's average NAV has been repaid each year, within the broad 15% to 25% range we would expect to continue in the medium term, and a level which can be managed from a liquidity perspective from the Group's bank line.

Market Commentary

The UK has now seen 33 quarters of economic recovery, although the strength of this recovery has been moderate by historical standards, with the trend line of real GDP growth since 2009 below that seen in 1975-79, 1980-88 and 1991 to 2007. In Q3, the UK saw growth of 0.6%, up from 0.4% in Q2, comfortably ahead of the Eurozone (0.2%), where Italy showed nil growth and Germany a contraction.

Economic conditions continue to provide a relatively buoyant backdrop for occupational markets (at least outside of the retail sector). In the 'Big Six' regional office markets, take up of 4.7 million sq ft in the year to date has been comfortably ahead of both the prior year take up and the 10-year annual average, according to JLL. A similar picture has emerged in Central London with 8.3 million sq ft of take up since January 2018, and with 3 million sq ft under offer the full year figures should again exceed the 10 year average for what will be the sixth year in a row. Looking forward, rental growth is forecast by JLL across the Big Six markets, notably Bristol and Glasgow, with demand buoyant and vacancy rates falling.

In the retail markets, the UK continues to suffer from an oversupply of stores as more and more shopping is done online, which is now responsible for around one in every five pounds of retail spending, according to the ONS. Although many retailers have adapted their business models to reflect this, reduced in-store sales volumes and rising costs through rents, business rates and wages means that even for well-run retailers, previously profitable stores are now marginal at best. With the latter two costs unlikely to change materially, the remaining variable is rental levels and we have heard anecdotal suggestions that a market-wide 30% rent drop would be required to fully stabilise the occupational markets. Nervousness around this rental outlook is what is driving the drop off in capital values we are seeing currently (see below).

According to Lambert Smith Hampton's regular investment transactions bulletin, Q3 sales volumes of £17.0bn were the highest in three years. Although two £1bn+ deals helped the volume total, including the £1.46bn of Network Rail's 'Arches' portfolio by a Blackstone JV, LSH report that the total number of deals overall was the highest ever recorded in the third quarter, and up 28% on the prior year. Overseas investment – although largely focused on Central London offices – was reported at 20% higher than the 5-year average, and (interestingly) European inward investment was at the highest level for 11 years. Overall volumes for the year are forecast at £60bn, broadly in line with 2017 and comfortably above the 10 year average.

As reported last quarter, demand for industrial properties remains strong, driven by positive rental growth forecasts, with Q3 volumes being the third-highest recorded driven by strong volumes in the UK regions. Office markets showed a slight pick up on Q2, in particular outside London, whilst retail markets continued to show soft volumes, with the £1.5bn of transactions reported being the lowest since 2012. The shopping centre market is essentially frozen (with less than £40m transacted in Q3, across four deals), with sellers seemingly unwilling or unable to accept the level of bids received for assets, and valuers wary of marking down valuations to a true market clearing price given lack of transactional evidence. There are however numerous centres available to buy (whether formally on the market or not) and as valuations begin to catch up with market reality, we expect to see a greater volume of transactions in 2019. At those properties where rental levels have already been re-based, some of these could prove to be attractive opportunities.

In the debt markets, lending activity appears to be relatively stable, reflected in the latest Cass Business School lending survey. Lending margins on prime London offices have notably compressed, but outside London and in the Company's preferred mid-market space have remained largely stable. Both property and debt market conditions remain supportive of the Company's activities.

Looking forward, IPF consensus forecasts suggest capital values may show slight declines in the period to 2022 (driven by the retail slowdown), with total returns projected at 4.5% per annum. With the Company forecasting higher returns from its first mortgage loan portfolio, with a significant equity buffer to avoid losses, the case for debt investment compared to equity appears compelling at this stage of the cycle.

Outlook

As highlighted in our last report, the fourth quarter is traditionally a busy period, and the Investment Adviser has capitalised on the strength of its current pipeline to place two new transactions in solicitors' hands, with terms agreed on two further opportunities. If completed, these will allow the Company to fully draw its debt line and go into 2019 well positioned for growth.

Additionally, the opportunity has arisen for the Company to make an investment into one of ICG-Longbow's successful private funds, which is currently raising capital. Several shareholders have indicated they would welcome the opportunity to gain exposure to private credit of this nature, with the expected benefit of greater loan diversity and the prospect of enhanced returns. The Board is minded, subject to raising new capital, to make a subscription of up to £25 million in the ICG-Longbow fund in the first few months of 2019.

The Company's original investments continue to perform well, and although the residual terms of these loans are relatively short, we do not expect any material near term redemptions. As highlighted previously we have successfully invested £62 million of capital since the first repayment in Q1 2016, and with the benefit of a working capital line to manage liquidity, we anticipate continuing to progress reinvestment during 2019, transitioning the Company's portfolio away from the majority of these legacy investments, towards a stabilised pool of new three to five year loans under the current investment parameters.

Contacts

Investment Adviser	Administrator, Designated Manager & Company Secretary	Corporate Broker
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