



Senior Secured UK Property Debt Investments Ltd

Fact Sheet

As at 31st July 2022

Investment Objective

On 3rd November 2020, the Board announced that it had decided to recommend to shareholders that the investment objective and policy of the Company are amended so that the Board can pursue a strategy of orderly realisation and the return of capital over time to shareholders. This recommendation was approved by shareholders at an Extraordinary General Meeting held on 14th January 2021.

The Company's investment objective is now to conduct an orderly realisation of the assets of the Group.

Summary

Fund facts

Fund launch:	5 February 2013	Fund type:	Closed ended investment company
Investment Manager:	ICG Alternative Investment Ltd	Domicile:	Guernsey
Base currency:	GBP	Listing:	London Stock Exchange
Issued shares:	121.30 million	ISIN code:	GG00B8C23S81
Investment Management fee:	1.0%	LSE code:	LBOW
		Website:	www.lbow.co.uk

Share price & Estimated NAV at 31 July 2022

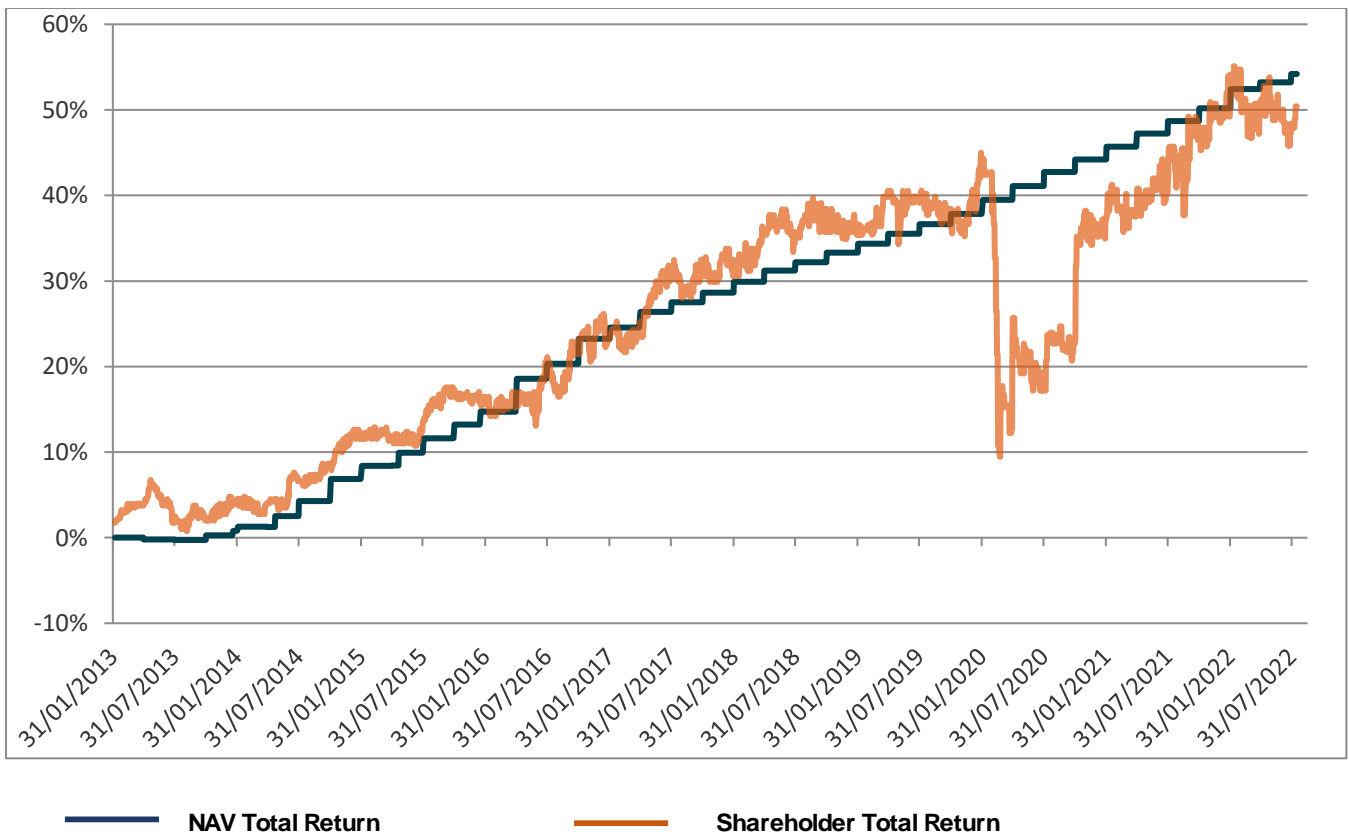
Share price (pence per share):	57.50
NAV (pence per share):	66.41
Premium/(Discount):	(15.5%)
Market capitalisation:	£69.75 million

Key portfolio statistics at 31 July 2022

Number of investments:	5
Percentage capital invested ⁽¹⁾ :	92.8%
Weighted avg. investment coupon:	7.34%
Weighted avg. LTV:	67.4%

⁽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 July 2022)

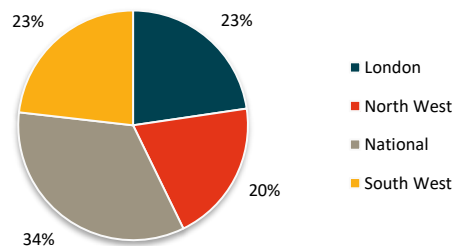


Investment Portfolio as at 31 July 2022

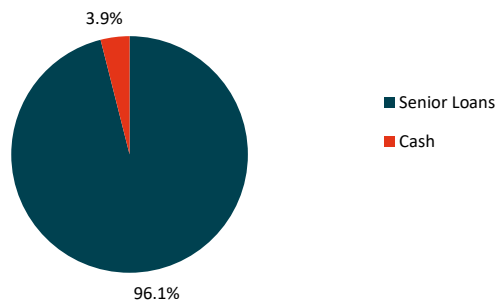
Project	Region	Sector	Term start	Unexp. term (years)	Day 1 balance (£m)	Day 1 LTV (%)	Balance outstanding ⁽¹⁾ (£m)	Balance undrawn (£m)	Current LTV (%)
Affinity	South West	Office	Mar-18	0.00	14.20	67.3	17.30	0.00	68.4
Southport	North West	Hotel	Feb-19	0.71	12.50	59.5	15.00	0.00	85.7
Northlands	London	Mixed use	Aug-19	0.21	9.00	55.3	10.59	0.00	55.3
RoyaleLife	National	Residential	Sept-19	1.21	20.27	74.3	25.38	0.00	61.5
LBS	London	Office	Oct-19	0.21	4.92	69.3	6.47	0.00	58.5
Total / weighted average				0.60	60.89	66.4	74.75	0.00	67.4

⁽¹⁾ For the RoyaleLife facility, Balance outstanding includes capitalised interest

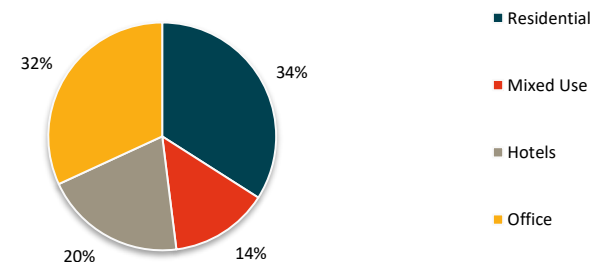
Region Distribution by Loan Amount



Asset Type



Sector Distribution by Loan Amount



Investment Manager's Commentary

Summary

At 31 July 2022 the investment portfolio comprised five loans. As at Quarter end or during the period:

- No material change in the par value of the loan portfolio at £74.7 million (30 April 2022: £74.7 million)
- Capital distribution of £7.3 million (6.0 pence per ordinary share) made in May 2022
- Total capital returned to date of £38.8 million (32.0 pence per ordinary share)
- NAV per share of 66.4 pence (30 April 2022: 72.5 pence), reflecting the capital distribution
- Weighted average LTV of 67.4% (30 April 2022: 67.3%)
- The Company's share price of 57.50 pence per share showed a 15.5% discount to NAV at period end.

The Company's performance was largely stable during the quarter.

Investment Overview

As previously disclosed, several of the properties securing the Company's remaining investments have been placed on the market for sale. In common with other sales in the market in recent months, these processes have been protracted given the increasing uncertainty in the investment market resulting from rising inflation and interest rates, and the deteriorating macroeconomic outlook. As a result, certain of the Company's borrowers are also pursuing refinancing solutions as they work towards repayment of the loan positions.

During the period the property securing the Southport hotel loan was placed on the market for sale. More recently Sefton Borough Council has progressed plans for the redevelopment of the events centre adjoining the hotel, including the announcement of a leading operating partner. As highlighted previously we consider this development, if progressed, will be transformational for the hotel in the medium term, albeit an earlier exit is required given the loan maturity in early 2023.

All the Company's borrowers are aware that their lender is winding down and as such are all working towards exiting the loans. Certain of these processes are well advanced although there is no doubt that transactions, whether sales or refinancings, are taking longer to complete in the current market.

Portfolio

Portfolio statistics	31 July 2022	30 April 2022
Number of loan investments	5	5
Aggregate principal advanced ¹	£74,749,557	£74,684,723
Weighted average LTV	67.4%	67.3%
Weighted average interest coupon	7.34%	7.34%
Weighted average unexpired loan term	0.60 years	0.80 years
Cash held	£3,068,278	£11,144,601

¹ Includes capitalised interest

Market Commentary

The UK economic outlook has deteriorated since issuance of our April fact sheet, driven by the rapid and sustained rise in inflation rates. While the issue is global, the UK has been particularly affected with headline CPI reaching 10.1% in July, a 40-year high. As shareholders will be aware the key contributor is rising energy prices, with wholesale gas prices approaching 700 pence per therm in late August, more than 13 times the average for the decade before the Ukraine crisis. The impact on household expenditure and disposable income has led to a rise in industrial action in the hope of securing improved pay settlements, but this will likely have a knock on effect on economic output.

As a result, the latest Bank of England forecasts for the UK economy make for bleak reading, with five quarters of economic contraction from Q4 2022 before a period of stagnant to weak growth in the medium term. Rate setters are thus having to weigh the need to get inflation down with the impact on wider economic conditions.

In the real estate markets the most notable impact has been a slowdown in monthly volumes. While May 2022 showed all-time high investment sales of £9.0bn, according to Lambert Smith Hampton, this was skewed by the £3.3bn acquisition of the Student Roost portfolio by GIC and Greystar. In June levels fell to £2.2bn, the lowest level since the height of the pandemic. While completions are still occurring, agents advise us that many sales processes are stalling, across all sectors and geographies, with the markets in a period of price discovery.

Occupational market conditions and fundamentals remain strong in many sectors, and as a result vendors are in some cases withdrawing from sales to capitalise on what in many cases are improving rents. In the office sector, JLL report the 'Big 6' centres saw 5.6% rental growth in the year to June 2022, with Bristol leading the way with 13.3% growth. Industrial market rents also continue to grow, driven by sub-2% vacancy rates in some markets. In the residential sector, rents are rising at their fastest pace since the ONS began tracking data in 2016. Data from Rightmove in July 2022 suggest that London asking rents were c.16% higher than the prior year, with Manchester seeing a 23% increase.

In the finance markets, we are seeing increasing evidence of finance processes becoming fractured, particularly for larger transactions. HSBC was reported to have pulled a potential £380m CMBS issuance in May as a result of market conditions; the recovery in CMBS seen in 2021 appears largely to have stalled. The interest rate environment and ongoing price discovery of credit spreads means large institutions are disincentivised from originating loans to distribute, and anecdotally we are hearing that many bank balance sheets are near full for 2022 lending.

That said and notwithstanding the undoubted challenges in the market, there is by no means a credit crunch and debt still remains widely available, particularly for smaller and mid-market transactions. The annual financing property presentation by Savills, held in June 2022, identified over 400 active lenders to the market, against 240 in 2018, with a continued evolution in the diversity of funding sources.

Outlook

The Company's loan portfolio totalled approximately £75 million at period end, across five loans maturing in H2 2022 and into 2023.

As highlighted above formal sales processes have been launched for the properties securing the Affinity, LBS and Southport loans, although in each case there can be no assurance that any sale will complete or what the timing of repayment may be. We are aware that certain of our sponsors have also been pursuing refinancing options as an alternative exit route. Despite the slowdown in transactional and finance market activity, the fourth quarter (in particular) tends to be the busiest in the property calendar and as such we remain optimistic on the prospects for further repayments in H2 2022, and the resulting opportunity to return capital to shareholders.

Contacts

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