ICG-Longbow SSUP

Initiation of coverage

Exploiting a niche in UK real estate debt

Investment companies

ICG-Longbow Senior Secured UK Property Debt Investments (LBOW) offers investors exposure to the UK real estate debt market, mainly through investments in senior secured whole loans. LBOW's investment strategy is supported by the team's deep expertise in both debt and UK real estate, enabling it to continue to pay a high stable dividend by investing in higher LTV loans, while controlling the risk through extensive analysis of the underlying properties' cash flow generation potential, as well as the borrower's business plan. The investment strategy should be assisted by the relatively favourable rental growth prospects in parts of the regional UK real estate market.

12 months ending	Share price (%)	NAV (%)	S&P Euro Lev Loan (%)	Credit Suisse Lev Loan (%)	Credit Suisse W European HY (%)
31/07/14	4.8	4.1	(1.5)	5.9	10.4
31/07/15	6.5	7.4	(5.0)	3.8	2.6
31/07/16	6.0	8.8	21.0	2.7	3.9
31/07/17	9.0	7.1	11.3	5.6	8.8
31/07/18	3.6	4.6	2.0	2.2	1.3

Source: Thomson Datastream. Note: All % on a total return basis in pounds sterling.

Investment strategy: UK senior real estate debt

LBOW targets and has consistently delivered an annual dividend of 6p per share (which we believe corresponds with a gross IRR of c 7.5% at portfolio level), as well as capital preservation and a modest level of capital gains in the long term. This is achieved through investing in a portfolio consisting mainly of fixed-rate senior secured whole loans across the broad UK real estate spectrum, taking advantage of the structural market opportunity that persists from the continued retrenchment in bank lending. The fund is particularly focused on regional markets, which seem to be behind London markets in the cycle, offering better rental and value growth prospects.

Market outlook: Attractive returns at higher LTVs

Since becoming fully invested, LBOW has delivered a consistent quarterly dividend of 1.5p per share, with favourable conditions in the UK real estate debt markets initially supporting an IRR of c 8.0% pa on individual loans with an LTV not exceeding 65%. Latterly, LBOW has adapted to changing market conditions, with the entry of new players and an overall decline in swap rates. In order to remain close to historical returns while retaining its focus on prudent risk management, it has refined its investment parameters. Under its revised investment policy, it is seeking loan opportunities at LTVs in excess of 65% (though capped at 75% at portfolio level). LBOW has not experienced any defaults or loan losses to date.

Valuation: Trading at a single-digit premium to NAV

At 15 November 2018, LBOW shares traded at a 2.4% premium to its last reported NAV (as at end-July 2018). The shares currently offer a 5.9% trailing dividend yield, in line with the fund's target of paying out 6p on an annual basis. The fund recently paid an interim dividend of 1.5p for the quarter ending July 2018.

19 November 2018

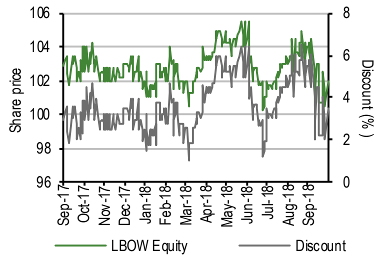
Price	**102.50p**
Market cap	**£124.3m**
AUM	**£121.4m**

NAV*	100.05p
Premium to NAV	2.4%
NAV**	100.05p
Premium to NAV	2.4%

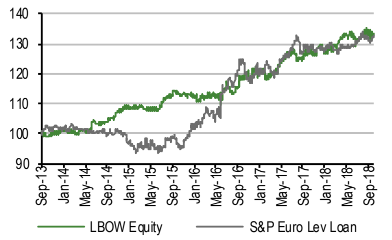
*Excluding income. **Including income. As at 31 July 2018.

Yield	5.9%
Ordinary shares in issue	121.3m
Code	LBOW
Primary exchange	LSE
AIC sector	Specialist Debt
Benchmark	N/A

Share price/discount performance



Five-year performance vs index



52-week high/low	105.50p	100.25p
NAV** high/low	101.46p	100.05p

**Including income.

Gearing

Gross*	0.0%
Net*	0.0%

*As at 31 July 2018.

Analysts

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Edison profile page

ICG-Longbow SSUP is a research client of Edison Investment Research Limited

Exhibit 1: ICG-Longbow Senior Secured UK Property Debt Investments at a glance

Investment objective and fund background

ICG-Longbow SSUP focuses on constructing a portfolio of UK real estate debt-related instruments, mainly comprising whole loans secured by first ranking fixed charges against commercial property investments. It aims at providing attractive, quarterly dividends totalling 6p annually, capital preservation and a degree of capital gains in the long term. LBOW was launched in February 2013 and its investing strategy was revised in March 2017 allowing for higher LTV loan investments.

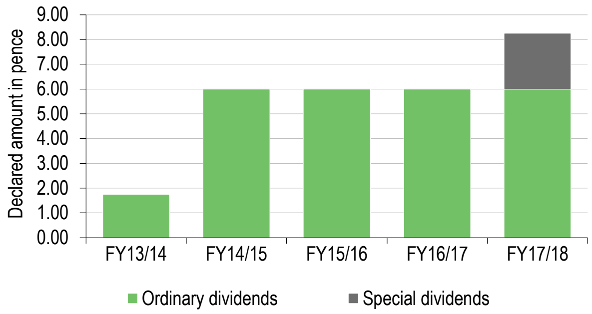
Recent developments

- 15 October 2018: The £6.6m Hulbert loan has been repaid in full.
- 2 October 2018: Interim dividend declared at 1.50 per share.
- 2 October 2018: Half-year report – NAV at £121.36m as at end-July 2018; a £25m working capital facility arranged with OakNorth Bank.
- 28 June 2018: Interim dividend declared at 1.50p per share.
- 24 May 2018: Publication of prospectus in relation to the issue of up to 100m ordinary and/or C shares and estimated NAV as at end-April 2018 at 100.58p.

Forthcoming		Capital structure		Fund details	
AGM	2019	Ongoing charges	1.00% (FY ended Jan 2018)	Group	ICG
Interim results	N/A	Gearing	0% (as at end-Jan 2018)	Manager	Intermediate Capital Managers Ltd
Year end	31 January	Annual mgmt fee	1.0% of NAV	Address	42 Wigmore Street, W1U 2RY London
Dividend paid	N/A	Performance fee	None		
Launch date	February 2013	Trust life	Indefinite	Phone	+44 (0) 20 3201 7500
Continuation vote	2022	Loan facilities	£25m working capital facility	Website	www.lbow.co.uk

Dividend policy and history (2014-18)

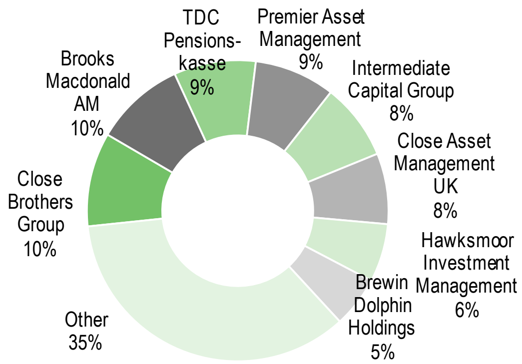
LBOW aims at quarterly dividend distributions at an annual rate of 6p per ordinary share. The company was able to maintain this rate since it was fully invested in April 2014. Dividend declarations usually occur in April, June, September and December and the payments are made in the subsequent month. LBOW may also pay special dividends in respect of prepayment fees received (so far there has been one payment in June 2017 at 2.25p per share).



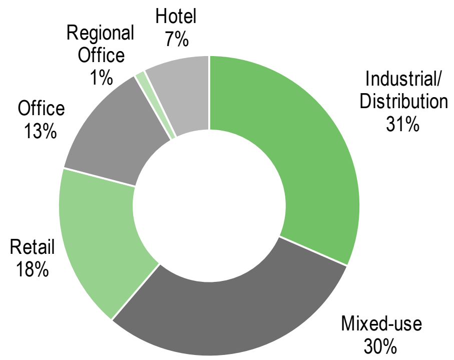
Share buyback policy

The company has not executed any buyback programme since launch. A special resolution was passed during the 2018 AGM, granting the board the authority to repurchase up to 18,183,287 ordinary shares over a period of 15 months following the AGM.

Shareholder base (as at 12 September 2018)



Portfolio exposure by sector (as at 31 July 2018)



Top 10 holdings (as at 31 July 2018)

			Portfolio weight % (incl. cash)	
Project	**Region**	**Sector**	**31 July 2018**	**31 July 2017***
Commercial Regional Space	North West	Industrial/distribution	18%	20%
Meadows RE Fund II	London	Retail	17%	16%
BMO	National	Mixed use	13%	14%
Affinity	South West	Office	12%	N/A
Quattro	South East	Mixed use	7%	N/A
Northlands Portfolio	London	Mixed use	7%	7%
Gateshead Ramada	North East	Hotel	7%	7%
Hulbert**	West Midlands	Industrial/distribution	5%	6%
Halcyon Ground Rents	National	Industrial/distribution	5%	8%
Carrara Ground Rents	North West	Regional office	1%	1%
Top 10	**-**	**-**	**93%**	**91%**

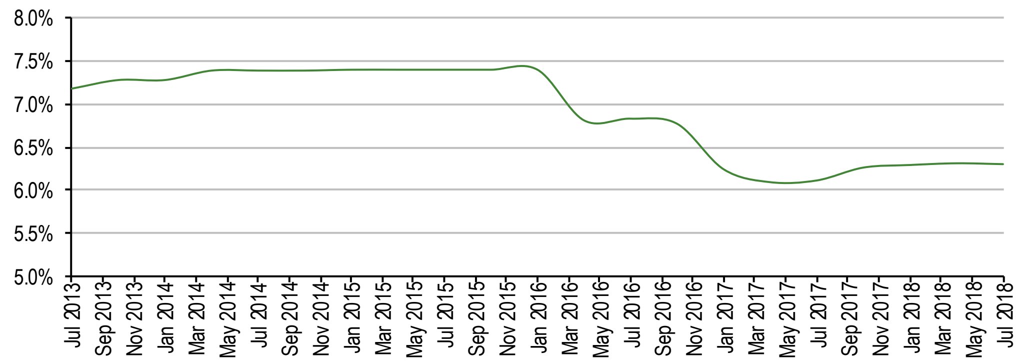
Source: LBOW, Edison Investment Research. Note: *N/A where not in July 2017 top10. **Fully repaid as per LBOW's release on 15 October.

Fund profile

LBOW is an investment fund domiciled in Guernsey that was launched in February 2013, with the objective of producing an attractive level of dividend of 6p per share from investing in a diversified portfolio of good-quality, defensive and predominantly fixed-rate senior secured UK real estate loans. The fund completed its initial portfolio ramp-up phase and became fully invested in April 2014. The market conditions prevailing at the time the trust was launched were characterised by attractive interest rates that could be achieved on senior secured loans at relatively low LTVs. Consequently, LBOW was able to invest in loans offering an average return in excess of 8% pa (the fund thus targeted a gross IRR of 8.0%) at initial LTV ratios no higher than 65%, which was also the upper ceiling at portfolio level according to LBOW's initial investment policy. As a result, LBOW's weighted average coupon rate at portfolio level at end-April 2014 stood at 7.39% pa, while the weighted average LTV was 60.4%. Furthermore, the loan conditions included arrangement and exit fees that usually amounted to 2% each, further enhancing LBOW's return (weighted average projected total return as at end-April 2014 equalled 8.41% pa).

However, in 2014 the market started to change, with the activity of banks gradually increasing (after the more cautious approach in the aftermath of the global financial crisis) which, along with new entrants, has put downward pressure on spreads of senior debt loans secured by investment property (on top of declining five-year swap rates). Similar loans that previously yielded an IRR of 8.0% pa now offer a modest 4.0–5.0% pa, according to LBOW's investment adviser. As repayment proceeds were reinvested at these return levels, this resulted in a decline in the weighted average coupon rate to 6.30% as at end July 2018 (see Exhibit 2), mostly on the back of lower-coupon loans related to the Commercial Regional Space and BMO projects. However, it must be noted that, given LBOW received prepayment fees on the reinvested capital, the overall outcome was still accretive to returns (despite the decline in coupon rates). LBOW's investment manager responded by conducting two rounds of shareholder consultations, offering several options to shareholders in terms of investment parameters revision. This has led to approval of a revision of the fund's investment policy, a positive outcome of the initial continuation vote and authorisation to issue up to 40 million new ordinary shares during the EGM held on 1 March 2017. As a result, the current shareholder base is aligned with the revised investment approach. At the 2018 AGM, shareholders approved the issuance of up to 100m new shares.

Exhibit 2: LBOW's weighted average coupon rate at portfolio level



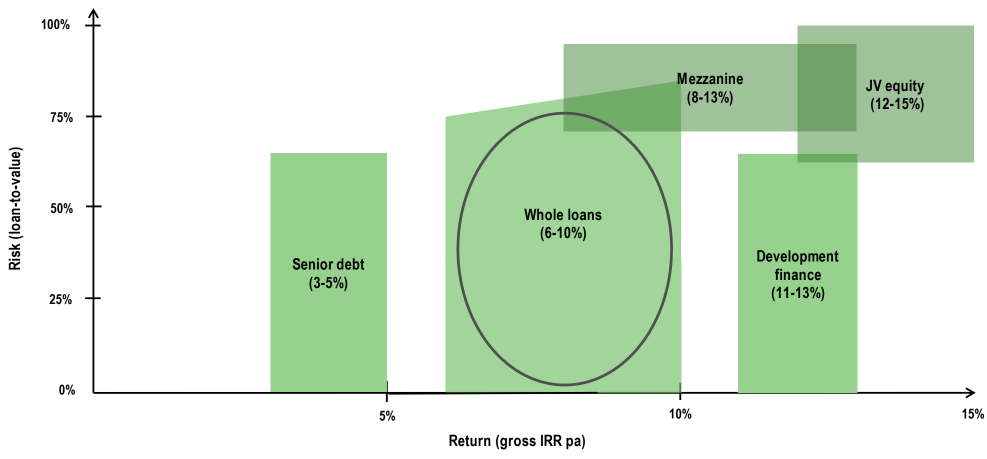
Source: LBOW, Edison Investment Research

Under the current investment policy, LBOW continues to target annualised dividend payments of 6p per ordinary share and, to achieve this, has broadened its commercial real estate debt investment spectrum (although retaining the focus on senior secured whole loans in the UK mid-market space). In particular, the upper LTV limit at portfolio level was raised from 65% to 75%, with the LTV limit at individual loan level at 85%, on condition that loans with an LTV greater than 80% may not constitute more than 20% of gross asset value (GAV). While this results in an increased overall risk profile of the fund, LBOW is putting much emphasis on the potential for asset management initiatives such as refurbishment, expansion or conversion of the property when selecting its debt investments, which could enhance the income streams generated by the respective property and result in improving financial metrics (LTV, and interest coverage ratio (ICR)) throughout the lending period – see Investment process section for details. In terms of individual loan size, LBOW's primary focus will be the range of £10m–25m, as it considers this an attractive market niche that is out of reach for small private lenders (which tend to focus on the £5–10m range), but is too small for banks and larger debt funds.

Moreover, LBOW may invest up to 30% of its portfolio in private real estate debt funds managed or advised by LBOW's investment Adviser (ICG-Longbow) or its associates (although not more than 20% may be invested in any single fund). These ICG-Longbow Private Funds in turn have to invest at least 60% in loans secured by first ranking security over commercial property, which means that a maximum of up to 12% of LBOW's portfolio may now be exposed to loans that are not secured by first ranking fixed charges against the underlying property. The rationale behind including this option under the revised investing policy is to provide LBOW's investors greater diversity, together with access to other debt market segments, including, among others, larger size and higher return loans. Importantly, in the case of LBOW's investments in ICG-Longbow Private Funds, it will be a passive investor with very limited control over the structure of the end-portfolio. There are also several other exposure limits embedded in LBOW's current investment policy related to, among others, single loan and borrower exposure, sector and regional allocation.

LBOW's revised investment policy does not explicitly include the IRR target of 8.0%, which was part of the prior policy. However, the investment adviser expects that the wider investment universe available under the new policy will allow LBOW to invest in senior secured whole loans positioned on the LTV/IRR map (IRR of c 6.0–10.0% pa, see Exhibit 3), which are typically higher LTV loans but still secured by a first ranking mortgage on the underlying properties. Arrangement and prepayment/exit fees will continue to be standard components of the loan agreements, although rates at 1% each seem to be more achievable (compared to 2% before). The investments may also include profit participation clauses (this is, for instance, the case with the Quattro loan), although these will be added on an exceptional basis only, generally on higher LTV loans. Call protection arrangements are likely to be based on a predefined exit multiple applied to the amount outstanding rather than make-whole clauses.

Exhibit 3: LBOW's positioning in ICG-Longbow's risk/reward universe



Source: ICG-Longbow

LBOW may invest in loans with maturities up to 10 years, although terms beyond five years are rather unlikely, as the horizon of borrowers' asset management initiatives does not normally go beyond a few years. Consequently, investors should in the medium term expect an average maturity of 3–5 years at portfolio level and an average unexpired term of around 2–3 years. LBOW is seeking a well-balanced maturity profile at the portfolio level, which will reflect the long-term evergreen concept, as opposed to the approach applied at the time the fund was launched back in 2013. Initially, the fund was created with a plan to operate over a period of around five years. As the maturities of the respective loans, as well as the time of advancing them, were quite similar, a significant part of LBOW's portfolio currently approaches maturity (55% have an unexpired loan term below 12 months or have just been repaid). The investment adviser intends to avoid a similar 'maturity cliff' in the future through diversifying the maturity of the new or extended loans. Importantly, if LBOW invests in one of ICG-Longbow's Private Funds, the investment will be held to maturity (these funds usually have an investment horizon of around seven years).

The fund manager: Intermediate Capital Managers

LBOW is managed by Intermediate Capital Managers (ICM), which is part of Intermediate Capital Group, an LSE-listed specialist asset manager with 29 years of experience in private debt, credit and equity and €32.9bn in AUM as at end-June 2018 (invested both on behalf of third-party investors and on its own balance sheet). The group operates in four distinct areas, including private market corporate (AUM of €17.3bn as at end-June 2018), capital markets (€8.3bn), real assets (€3.5bn) and private equity (€1.5bn). Intermediate Capital Group's UK real estate debt investments are managed by ICG-Longbow (ICGL), which was established in 2006 and operates through ICM. Since 2002, ICGL advanced more than £4.7bn in connection with 113 senior debt transactions and over £2.5bn through 124 whole loan and mezzanine transactions. ICGL's AUM is spread across senior debt, partnership capital including whole loans, mezzanine and equity investments to assist the repositioning of retail, office space and industrial properties, and development finance in the form of senior debt and whole loans for UK multi-family residential and student housing projects. ICGL's track record is shown in Exhibit 4. Please note that senior debt investments normally yield a lower return in comparison to mezzanine/whole loan investments, as illustrated in Exhibit 3.

Exhibit 4: ICGL track record

Investment Area	Investment Period	Total lending Volume £m	Total number of deals	Realised Lending volume £m	Realized deals	Unrealised Lending volume £m	Unrealized deals	Net IRR
GMAC senior loans	2002 - 2006	3,644	55	3,644	55	-	-	n/a*
Mezzanine/Whole Loans	2002 - 2009	537	36	537	36	-	-	n/a*
Fund II (Mezzanine/Whole Loans)	2011 - 2012	288	19	288	19	-	-	12.6%
Fund III (Mezzanine/Whole Loan)	2012 - 2014	794	33	400	16	394	17	8.9%
Fund IV (Mezzanine/Whole Loans)	2015 - 2018	849	31	107	3	742	28	8.1%
Fund V (Mezzanine/Whole Loans)	2018 - 2021	287	6	-	-	287	6	7.5%
ICG-Longbow Senior Debt Programme Vintage I	2014 - 2015	348	15	67	3	281	12	4.6%
ICG-Longbow Senior Debt Programme Vintage II	2015 - 2016	354	17	-	-	354	17	4.2%
ICG-Longbow Senior Debt Programme Vintage III	2016 - 2017	344	15	-	-	344	15	4.0%
Residential Development	2015 - 2018	634	6	-	-	634	6	16.4%
TOTAL		**8,079**	**233**	**5,043**	**132**	**3,036**	**101**	

Source: ICG-Longbow as at 30 September 2018. Note: The returns specified were achieved by ICG-Longbow on investment funds with a different strategy to LBOW, and thus these returns are not illustrative of those expected by LBOW. * Net IRRs for GMAC Senior Loans and Mezzanine/Whole Loans are not applicable as these were balance sheet investments. Gross IRRs were 7.5% and 11.2%, respectively.

As at end-March 2018, ICGL's team consisted of 31 members, including 20 investment professionals and eight members responsible for credit risk management, portfolio monitoring and fund operations. ICGL's seven investment directors have an average experience of 24 years in direct property, financing or investment management. ICGL has a dedicated senior debt investment team, consisting of four members including two qualified accountants and a chartered surveyor. It is important to note that ICGL's expertise covers both solid understanding of the debt markets as well as the UK property markets. The investment advisory agreement may be terminated at any time by either the investment adviser or LBOW with a notice period of at least 12 months.

Manager's view: Opportunities in the UK mid-market

The structural undersupply of debt capital to parts of the UK real estate market has endured since LBOW's IPO, notwithstanding improved occupational and investment market conditions in most real estate sectors. Regulatory headwinds and memories of past losses continue to impact upon the lending appetite of the UK clearing banks, while international capital is principally focused on lending in London and in large ticket sizes.

David Mortimer, head of senior debt at ICG-Longbow, believes that focusing on the UK regional markets, which remain relatively undersupplied with debt capital, will provide greater opportunities for LBOW than in the crowded London market where credit spreads have compressed to levels not seen after the financial crisis. He cites the company's Spectrum loan – secured by a Bristol office property in one of the strongest occupational markets in the country – as a good example of exploiting this market inefficiency. The manager also notes that LBOW's current portfolio has very little exposure to the troubled retail sector and is thus well placed to selectively consider investments in that space when valuations become sufficiently attractive.

The manager acknowledges that real estate markets appear late in the cycle, with valuations at historic highs in some sectors, but Mortimer highlights that LBOW is defensively positioned in the event of any downturn. Its focus on senior secured debt offers strong capital protection, with its investments largely backed by properties that have business plan growth prospects - such as renovation and planning enhancements - which are deliverable independent of market conditions.

ICG-Longbow continues to see a strong level of demand for the range of debt solutions the company can now offer its borrower clients and the manager notes that with its newly-secured RCF it is well placed to act quickly to capitalise on these opportunities.

UK property market solid but with varying dynamics

The UK property market is currently supported by a relatively positive macroeconomic environment, with annualised Q218 GDP growth in the UK at 1.3% following a weaker Q118. The current Bank of England (BoE) GBP forecasts stand at 1.4% and 1.8% y-o-y for 2018 and 2019, respectively. However, the BoE has indicated that it is concerned about the low level of slack in the economy, including record-low unemployment. Consequently, the central bank raised its interest rates by 25bp to 0.75% in August to curb inflationary pressures, although it acknowledges the potential impact of the UK's withdrawal from the EU process.

Even though the overall trend in the UK real estate market remains positive, with the Investment Property Forum's (IPF) UK All Property rental value growth forecasts for 2018 and 2019 at 0.9% and 0.4%, respectively, there are some divergences evident. Firstly, rental growth differs across sectors, with current IPF consensus growth estimates for industrial rates in 2019 at 2.5% y-o-y, compared to office rates at only -0.4%, standard retail at -0.3% and shopping centres at -0.9% (see Exhibit 5). In its spring 2018 Industrial Market Tracker, JLL forecast that the industrial market will outperform (from an investment perspective) other UK property sectors over the next four years. JLL suggests that supply is constraining demand in the industrial market and as a result there is continued demand for new speculative development. From the perspective of the logistics market, it is worth noting that most export-oriented businesses are located in the regions. The demand for UK retail properties is currently negatively influenced by the shift to online retail from traditional retail, as the former is expected to significantly outgrow physical sales in the coming years.

Secondly, regional markets are behind London in the cycle, as the latter began its recovery in early 2009 but it took time for the positive tendency to spread into the regions, and from prime to secondary locations. This is particularly visible in the office market, where central London take-up remained solid in Q218 (c 9% higher than the 10-year average, according to JLL), but demand and leasing terms have begun to soften a bit. ICGL believes that, in the past, a softening of lease terms usually heralded a fall in rental values. This seems to be confirmed by the current IPF UK consensus forecasts (see Exhibit 5).

Exhibit 5: UK CRE consensus expectations

	Rental value growth (%)			Capital value growth (%)			Total return (%)		
	2018	2019	2020	2018	2019	2020	2018	2019	2020
Office	0.3	-0.4	0.5	0.5	-2.6	-1.4	4.7	1.7	3.0
West End office	*-0.4*	*-0.9*	*0.5*	*-0.5*	*-2.9*	*-1.1*	*2.7*	*0.8*	*2.7*
City office	*-0.3*	*-1.3*	*0.1*	*0.2*	*-2.8*	*-1.3*	*3.8*	*1.2*	*2.8*
Industrial	3.9	2.5	2.1	8.7	1.6	0.1	13.6	6.4	4.9
Standard Retail	-0.2	-0.3	0.1	-1.3	-2.4	-1.5	3.0	1.9	3.1
Shopping Centre	-0.6	-0.9	-0.4	-5.6	-4.5	-2.7	-0.9	0.5	2.5
Retail Warehouse	-0.5	-0.6	-0.1	-2.6	-2.9	-2.0	2.9	2.7	3.8
All Property	**0.9**	**0.4**	**0.7**	**1.0**	**-1.6**	**-0.9**	**5.8**	**3.2**	**4.0**

Source: Investment Property Forum UK Consensus Forecasts (summer 2018)

It is worth noting that regional office markets should be more immune to potential Brexit-driven job relocations than London, and also face limited supply as a consequence of low development over several years and conversion of empty offices to residential properties. Moreover, there is a trend of businesses migrating out of London and into the regions. The strength of regional markets is confirmed by ICGL's examination of cities such as Leeds and Manchester.

Asset allocation

Deal sourcing: Aligned with prospective de-risking

LBOW's deal origination process is focused on investments in bilateral whole loans secured by first ranking fixed charges against UK commercial property investments. It does not invest in mezzanine loans, syndicated loan facilities or construction loans.

In addition to the senior debt investment team mentioned earlier, LBOW benefits from the deal flow generated by the wider origination network of ICG-Longbow. In most cases, ICG-Longbow sources its investment opportunities directly from borrowers through an extensive contact base established by the investment directors throughout their careers, covering property investors, investment agents, asset managers and other property professionals. Furthermore, it also relies on its relationships with UK financial advisers and brokers representing potential borrowers. ICGL investment directors are based in London and Leeds, which allows them to develop and maintain their contact base in LBOW's target markets and obtain local market insights. Moreover, in that way ICGL can often finalise transactions without having to price them in a bid process or invest through a syndication process. It is also worth noting that LBOW may benefit from the fact that banks continue the process of balance sheet 'clean up' to comply with the new regulatory requirements. This should provide LBOW with a stable flow of new investment opportunities in loans which are too risky for banks to retain on their balance sheets, but which could prove attractive for LBOW. Between March 2017 and March 2018 the investment manager reviewed more than 50 potential investment targets under the revised investment parameters, representing a total value of more than £600m.

The evaluation of potential investments and pricing of risk follows a well-defined process, covering the assessment of the underlying properties, the borrower's track record (including asset management capabilities), the business plan related to asset management initiatives, cash flow and credit analysis, as well as the borrower's environmental, social and governance (ESG) practices and policies. Sponsors quite often include funds or SPVs established by institutional real estate investors and asset managers. Importantly, ICM's approach to property lending is driven by future cash flow expectations instead of being backward looking. Having said that, it is worth noting that LBOW does not invest in construction loans and requires that the project is already generating rental income. Key parameters taken into consideration by the investment adviser include the true net operating income, net effective estimated rental values (ERVs) and capital value per sq ft exposures.

The investment team puts much emphasis on risk mitigation and conducting a thorough stress test of the borrower's business plan to ensure capital protection and resilience of income. This is particularly critical given LBOW's hold-to-maturity approach and investment strategy, which allow the fund to invest in loans with higher LTV ratios on condition that the underlying properties have good cash-generation prospects. In line with the above approach, a key element of the subsequent investment monitoring process constitutes the verification of progress made in the asset management initiatives, which is aligned with the performance milestones embedded in the loan agreements (on top of the standard financial covenants typically based on ICR and LTV level).

A good example of the above approach of investment de-risking is the £10.0m Lanos (York) loan advanced in March 2014 to a borrower being part of a specialist hotel development and management group. The loan was secured by a first and only charge on the 99-room Best Western York Monkbar Hotel located close to the city centre of York. Day 1 LTV stood at 64.9% (close to LBOW's upper limit back then) and Day 1 ICR was 1.22. The property was characterised by the potential for income growth associated with the planned refurbishment and addition of 27 rooms, which was to be funded using a ring-fenced element of LBOW's loan facility amounting to £2.5m. The sponsor also sold a neighbouring restaurant and used the proceeds to provide additional funding the hotel refurbishment. Renovation works related to the hotel extension began in August 2014 and were completed in early 2015 (new rooms were handed over for letting at end-February 2015), leading to a temporary decline in ICR to 1.05 in Q414/15. Even though the renovation had a more pronounced impact on the occupancy rate than originally anticipated, the latter gradually picked up subsequently, leading to a decline in LTV to 50% and improvement in ICR to 1.16 at end-January 2016, with a further increase in ICR to 1.81 at end-January 2017. The loan was repaid in full in March 2017 ahead of the original maturity (end-December 2018), generating £1.1m of accrued interest, exit and prepayment fees. Other de-risking cases include the IRAF loan in 2014, Mansion loan in 2014-15 and Hulbert loan in 2015.

One example where business plan delivery has been slower than initially expected (although the project is gradually progressing) is the Meadow loan, where the underlying retail park became vacant following lease contract expiries. However, it must be noted that the loan continues to be serviced from a pre-funded account and LBOW has a position at c 69% LTV, allowing the fund to withstand a certain level of underperformance. In 2018, LBOW advanced a further £1.93m to the borrower and simultaneously the loan was extended for a further period of up to two years. The Meadows borrower submitted an application to the local authorities for a planning consent covering a build-to-rent residential scheme comprising 717 units on the site. The London Borough of Barnet turned down the application on the first instance. However, the London mayor has recently called in the scheme for his own determination (which implies that the Barnet decision could be overturned).

Deal approval and subsequent monitoring/risk management

The investment approval process starts with an overall review of the investment opportunity in the context of LBOW's investment criteria, followed by the issue of indicative terms. Subsequently, ICG-Longbow's investment committee will issue (or refrain from issuing) a provisional recommendation of the investment. Should this recommendation be accepted in principle, the ICG-Longbow team continues with negotiations and finalisation of the binding documentation. Any material changes are shared with the investment committee for final consideration as to whether to recommend proceeding. ICG-Longbow's investment committee comprises six members representing the senior management, credit and risk functions of ICGL (divided into A, B and C members), each of whom has an average of 24 years of investment experience (see Exhibit 6). Approving an investment recommendation requires a quorum of three members (excluding the originator responsible for the transaction), which must include at least two A members and Graeme Troll or Steve Machin, and requires an overall majority with no more than one A member dissenting. Projects approved by the investment committee are recommended to the board of LBOW's Luxembourg subsidiary, which makes the final decision whether to proceed. It is worth highlighting that LBOW is an internally managed Alternative Investment Fund, with ICG-Longbow as its appointed investment adviser. ICG-Longbow thus makes recommendations (rather than decisions) on investments in line with the process outlined above.

Exhibit 6: LBOW's investment committee

Member	Current position at ICGL/ICG Group	Membership	Years with ICG/ICGL	Investment experience
Graeme Troll	Director and CFO (ICGL)	A	10	11
Kevin Cooper	Director and joint head (ICGL)	A	10	28
Martin Wheeler	Director and joint head (ICGL)	A	10	26
Steve Machin	Director and chief credit officer (ICGL)	A	2	26
David Hunter	Non-executive chairman (ICGL)	B	5	36
David Mortimer	Director and head of senior debt (ICGL)	C	2	15

Source: LBOW's issue prospectus

Subsequently, the investments are monitored by an asset management committee (consisting of A and B members of the investment committee), which meets on a quarterly basis. During these meetings, LBOW's portfolio investments are reviewed for factors that may affect the value of the underlying property collateral and result in impairment of investment. These include credit/risk migration, covenant compliance, progress with business plan, as well as relevant macro- and micro-level market conditions. ICG-Longbow also conducts regular borrower meetings as well as re-inspections of the key underlying properties. Apart from asset management committee meetings, investment monitoring, risk management and day-to-day fund operations are undertaken by Graeme Troll and Steve Machin, supported by a five-member portfolio management team. Following the revision of the investment policy (with the resulting increase in investment activity and change in risk profile), LBOW's board established an investment risk committee to manage risk proactively at fund level. As a result, the investment risk review function was separated from the operational risk review function (which is performed by the audit and operational risk committee).

The prospective performance of loan investments in LBOW's portfolio will be dependent on future conditions in the UK real estate markets. A potential market downturn might lead to a decline in rental income and capital value of the underlying properties and result in loan covenant breaches/default. This is particularly important given that LBOW's new investments are likely to involve higher LTV and lower ICR levels, as well as the fact that the fund's portfolio is quite concentrated (only 10 loan investments as at end-July 2018). However, it is important to note that each individual investment is generally secured by multiple tenants and therefore is characterized by underlying diversification. In cases where a business plan realization does not meet initial expectations, LBOW's investments generally include cash flow lock-up mechanisms, which allow LBOW to control surplus property income and formal financial covenants embedded in a loan agreement. Should these covenants be breached, the sponsors have the right to cure any such breaches through additional equity injections, but are generally not obliged to do so. If a default is not cured, ICGL may appoint a receiver or administrator to take control of the asset. It is worth noting that ICGL has in-house restructuring expertise led by Steve Machin (chief credit officer) and James Scott (a director with direct property asset management experience). Whilst ICG-Longbow has appointed receivers and administrators to manage the underlying assets and recover debt in its private funds, so far there have been no such instances within LBOW's portfolio.

Current portfolio positioning

As at end-July 2018, LBOW's portfolio was relatively concentrated and comprised 10 loans with an aggregate principal balance outstanding at £112.2m, and a weighted average LTV ratio and interest coverage ratio (ICR) at 61.2% and 2.16, respectively (see Exhibit 7). This compares with 57.9% and 2.22 as at end-July 2017, respectively. On 15 October, one of LBOW's investments (the £6.6m Hulbert loan) was repaid in full, with accrued interest, exit and prepayment fees reaching c £0.26m.

As at end-July 2018, 7% of the portfolio is invested in one loan (Quattro), with an LTV in excess of 80% (compared with the upper limit under the current investing policy of 20%). The weighted average coupon rate on LBOW's existing portfolio stands at 6.30% and is slightly above last year (6.11%), assisted by the Affinity and Quattro loan advancements (see below). Importantly, the unexpired interest income protection period has also increased to 0.72 years from 0.36 years as at end-July 2017 (adjusted for the recent Halcyon and Carrara loan extensions).

The largest position by value constitutes a £22.4m loan secured by two multi-let industrial estates located in Lancashire provided to Commercial Regional Space, which represents 18.5% of LBOW's GAV including cash (in line with the 20% limit for loans benefiting from a diversified tenant base). The second-largest position is a £20.0m loan secured by a predominantly vacant retail park in north London (Meadows). The loan is being serviced from a pre-funded reserve account (topped up on a quarterly basis), which explains the quite low ICR at 1.00. The same applies to the more recently advanced loans (Affinity and Quattro), where tenants currently benefit from a rent-free period.

The fund is nearly fully invested (93% as at end-July 2018), with very limited cash drag. However, it is worth highlighting that 55% of the portfolio has an unexpired loan term below 12 months or has just been repaid, which means that prospective fund performance will largely depend on the ability to reinvest the proceeds from expiring loans (on top of investments aimed at portfolio expansion). Recently, LBOW's investment adviser demonstrated its capabilities in this respect, with the immediate reinvestment of proceeds from the expiring £11.94m IRAF loan (and the accompanying accrued interest and exit fees of £0.43m) in a new £16.2m loan facility secured by a first charge over a multi-let office property in Bristol (the Affinity loan), of which £14.2m has already been drawn, as well as an £0.9m additional commitment to the borrower of the Northlands loan. Overall, LBOW has reinvested, increased or extended loans representing £90m since the first repayment on the original portfolio in Q116. Moreover, the recently secured loan facility from OakNorth Bank (discussed in more detail in the 'Capital structure and fees' section below) should help LBOW to reconcile loan maturities with new investment opportunities.

Exhibit 7: LBOW's portfolio summary as at end-July 2018

Project	Underlying assets	Balance outstanding (£m)	Weighted average maturity	Current LTV	Current ICR	Day 1 LTV	Day 1 ICR
Commercial Regional Space	Two multi-let industrial estates located in Lancashire providing a highly diversified income stream from lettings to 160 tenants.	22.4	Apr 19	50.9%	4.02	64.0%	2.80
Meadows RE Fund II	Retail park in north London; currently vacant save for some temporary occupancy of part of the site.	20.0	Jan 20	69.4%	1.00	65.0%	1.50
BMO	Portfolio of 17 properties located across the UK, principally in the high street retail and industrial sectors.	15.8	Apr 19	51.1%	3.72	55.4%	4.04
Affinity	Multi-let office property in Bristol, with committed capital expenditure facility.	14.2	May 22	67.3%	1.00	67.3%	1.00
Quattro	Three mixed-use assets in and round the London Borough of Kingston.	9.0	Jan 21	83.7%	1.00	83.7%	1.00
Northlands Portfolio	Mixed-use portfolio of high street retail and tenanted residential units located predominantly in London and the South East.	8.5	Nov 18	53.5%	1.59	61.7%	1.92
Gateshead Ramada	First and only charge over the Ramada Encore hotel in Gateshead, a modern 200-bedroom hotel that was built in 2012. The property is operated by Wyndham Hotel Group.	8.0	Apr 19	66.0%	1.63	64.4%	1.80
Hulbert**	Portfolio of industrial units predominantly located in Dudley in the West Midlands, with 80% by value being the 270,000 sq ft Grazebrook Industrial Estate.	6.6	Dec 18	50.4%	1.94	65.0%	1.68
Halcyon Ground Rents	A portfolio of 21 freehold ground rent investments, of which 72% are industrial with leasehold rents receivable based on 22% to 25% of market rent, with the balance being leisure uses at ground rents of 50%.	6.4	Dec 19*	65.2%	1.51	64.8%	1.16
Carrara Ground Rents	A single-ground rent investment located in Leeds, subject to a ground rent of 25% of market rent. The property is a modern office building on an established business park accessed from the M1 motorway, which is fully let to a strong covenant.	1.3	Dec 19*	65.0%	1.13	65.0%	1.13
Total	**-**	**112.2**	**-**	**61.2%**	**2.16**	**-**	**-**

Source: LBOW, Edison Investment Research; Note: *Loan extensions completed after reporting date. **On 15 October, LBOW announced that the loan has been repaid in full.

Around 25% of GAV (excluding cash) was invested in London (two loans), while 55% was allocated to investments in selected regional markets, including the South East, West Midlands, North East, North West, South West and a minor amount in Yorkshire & the Humber. The remaining 20% was invested in two loans secured by diversified property portfolios located across UK. LBOW's current geographic exposures remain within the maximum limits defined in its investment policy (up to 60% in London and 30% in any of the regional markets). Moreover, the portfolio has become more diversified regionally in comparison to July 2017 through the addition of investments located in the South East (Quattro loan) and South West (Affinity loan). The share of the North West region declined as a result of full early repayment of the £11.94m outstanding amount on the IRAF loan following the sale of the underlying properties. The proceeds were reinvested in the Affinity loan (as discussed above).

Exhibit 8: Portfolio geographic exposure by region (% unless stated, excluding cash)

	Portfolio end-July 2018	Portfolio end-July 2017	Change (pp)
London	25.4	25.6	-0.2
South East	8.0	0.0	8.0
West Midlands	5.9	6.6	-0.7
North East	7.1	8.0	-0.8
North West	20.0	34.3	-14.3
National	19.8	24.3	-4.5
Yorks & Humber	1.2	1.3	-0.1
South West	12.7	0.0	12.7
Total	**100.0**	**100.0**	**-**

Source: LBOW, Edison Investment Research

In terms of the respective commercial property sectors, major exposures include the industrial/distribution and mixed-use sectors with c 32% and 30% of GAV (excluding cash) allocated, respectively (compared with the maximum exposure to any given mainstream or mixed-use sector at 50%). The remaining 38% of the portfolio is invested in the retail, office and hotel sectors, with a minor exposure to the regional office segment as well. Diversification has improved in this respect as well, as the industrial/distribution and mixed-use sectors constituted around 73% of GAV as at end-July 2017.

Exhibit 9: Portfolio sector exposure (% unless stated, excluding cash)

	Portfolio end-July 2018	Portfolio end-July 2017	Change (pp)
Industrial/distribution	31.6	49.4	-17.8
Mixed-use	29.7	23.3	6.4
Retail	17.8	18.0	-0.2
Office	12.7	0.0	12.7
Regional office	1.2	1.3	-0.1
Hotel	7.1	8.0	-0.8
Total	**100.0**	**100.0**	**-**

Source: LBOW, Edison Investment Research

Encouraging deal pipeline

ICG-Longbow has highlighted that LBOW's deal pipeline is encouraging. Currently, there is one transaction in excess of £20m at an advanced stage, which involves the refinancing of a purpose-built student residential scheme, as well as two mixed-use properties. Additionally, LBOW's advanced pipeline includes other projects with an aggregate loan amount in excess of £100m (close to LBOW's current portfolio value) with loan coupons in the 6.5% to 8.0% range, and returns supplemented by exit and arrangement fees. The investment adviser has noted that these loans generally carry LTVs in the 70-80% range. This compares with the current LTV at portfolio level of 61.2% and illustrates the shift in the fund's focus towards higher LTV transactions. As the debt market enters its peak season in Q4, ICGL expects a pick-up in deal activity with a greater proportion of new loans vs refinancing deals entering the pipeline. This could prove favourable for LBOW from a cash availability/proceeds reinvesting perspective, given that the Northlands Portfolio matures in November this year and the Hulbert loan has just been repaid (as per LBOW's announcement on 15 October). Simultaneously, LBOW is in regular discussions with existing borrowers over loan extensions, which could potentially lead to fresh fees and repricing opportunities.

Importantly, each of the loans included in the pipeline would be accretive to LBOW's current weighted average coupon rate at portfolio level (6.5–8.0% compared with 6.3% as at end-July 2018, respectively), which (together with the recent Affinity deal) illustrates that the investment adviser is able to identify new investments with a coupon rate comparable to levels achieved a few years back at c 7–8%. In terms of prospective portfolio-level ICR, it is likely to decline as higher LTV loans are obviously characterised by lower coverage ratios. Moreover, the current weighted average ICR of 2.11 is inflated by the Commercial Regional Space and BMO loans. Going forward, ICGL expects the ICR to remain in line with the level seen in the initial years following LBOW's launch, ie in the range of between 1.2 and 1.8.

Performance: IRR close to historical, still achievable

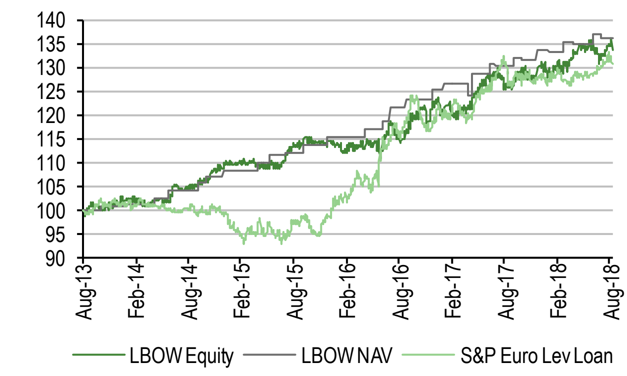
Under the prior investment strategy (ie until March 2017), LBOW targeted a gross IRR at 8.0%, including a coupon rate of 7–8%, and arrangement and exit fees at 2.0% each. LBOW does not follow any particular benchmark. Still, we have decided to compare LBOW's returns with a broader European debt index for informative purpose. Over the past five years, LBOW was able to slightly outperform the S&P European Leveraged Loan index we have selected, with annualised total NAV return at 6.4% (as at-end July 2018) compared with 5.2%, respectively. LBOW's share price performance was also slightly ahead of the benchmark at 5.9% pa. Importantly, this period includes LBOW's initial portfolio ramp-up phase (the fund became fully invested in April 2014), which translates into an understated performance figure. We estimate that between April 2014 and July 2018, LBOW was able to deliver a total NAV return of 7.3% pa compared with 6.2% for our benchmark. In conjunction with average ongoing charges at c 0.6% pa and advisory fees at 1.0% pa, reported historically by LBOW, this translates into a gross return of c 8.5–9.0% pa.

As discussed earlier in the report, it is important to note that conditions in the UK real estate debt market have changed considerably since the fund was launched, which resulted in the investment policy revision approved at the EGM in March 2017. However, even though the official gross IRR target of 8.0% was not included in the current strategy, ICGL continues to aim for dividend distributions at 6p pa, which implies a dividend yield of c 6.0% (assuming NAV remains close to 100p, with all excess profits from arrangement and prepayment/exit fees paid out in special dividends). In conjunction with the fact that LBOW's total expense ratio (including both the advisory fee and other ongoing expenses) should be close to 1.5% of NAV going forward (as discussed below), this translates into a required gross IRR at portfolio level of at least 7.5%. If LBOW can secure loans with a coupon rate around 7.0–8.0% and arrangement/prepayment fees of 1.0% (as highlighted earlier), the gross IRR on the respective loans should be in the range of 7.5–9.0% pa. We estimate that for the ICR to remain in line with the historical range of 1.2–1.8 at LTVs of 65–85%, the underlying properties should be characterized by initial yields between 6% and 11%, with the midpoint at 8.5%. This seems to be broadly in line with initial net yields currently achievable on the market. For instance, the weighted average net yield on H118 property acquisitions reported by Regional REIT (also covered by Edison Investment Research) stands at c 8.4%

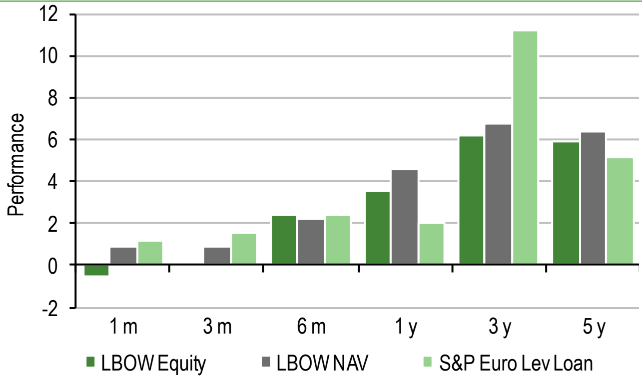
LBOW remains confident that it should be able to deliver a result close to historical returns going forward. The recent Affinity deal seems to support this stance. Based on the reported weighted average coupon rate at portfolio level in January and April 2018, we estimate that this loan has a coupon rate slightly in excess of 7.0% pa (which obviously does not take into account any arrangement/exit fees). On being fully drawn, it will represent an LTV of 77% (assuming no changes to property value), which is ahead of the LTV ceiling under the prior investment policy (65%), but within the limits set out in the revised strategy.

Exhibit 10: ICG-Longbow SSUP performance to 31 July 2018

Price, NAV and benchmark total return performance, one-year rebased



Price, NAV and benchmark total return performance (%)

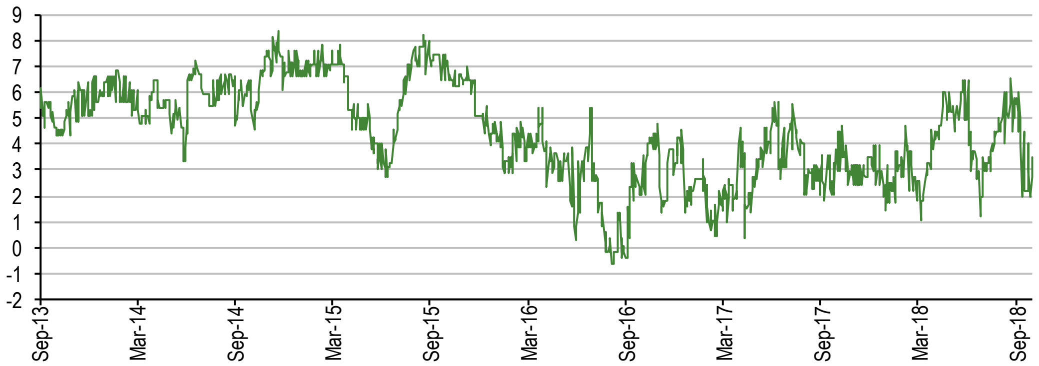


Source: Thomson Datastream, Edison Investment Research. Note: Three- and five- year performance figures annualised.

Discount: Trading at a slight premium to NAV

In the first three years since launch, LBOW's shares traded at a c 2–6% premium to NAV. As the weighted average coupon rate at portfolio level became more moderate and the company initiated shareholder discussions around the revision of LBOW's investment policy, the premium diminished and the shares started trading around NAV within a ±3% range. Following the adoption of the revised strategy, the shares have traded at a minor low- to mid-single-digit premium to NAV, which currently stands at c 2.4%.

Exhibit 11: Share price premium/discount to NAV (including income) over five years (%)



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

ICM receives a management fee at 1.0% of NAV pa, which is paid quarterly in arrears. On top of this, the investment manager is entitled to reimbursement of expenses incurred while carrying out its portfolio management responsibilities directly related to LBOW's business, such as legal, accounting, consultancy, and other professional fees and expenses. In the case of LBOW's investments in ICGL Private Funds, a mechanism to avoid double charging was introduced, whereby LBOW is not obliged to pay the management fee applicable to the amount invested in ICG-Longbow Private Funds if the management/advisory fee of the underlying fund is 1.0% of the private fund's NAV pa or more. If the fee is lower than 1.0% pa, the management fee paid by LBOW to the investment advisor is reduced by the percentage of NAV invested in the private fund. Importantly, there is no performance fee arrangement in place between LBOW and the fund manager (although ICGL may be entitled to receive a performance fee in the case of investments in ICGL Private Funds).

On 24 May 2018, LBOW launched a new placing programme covering up to 100m ordinary shares and/or C shares (compared with 121.3m of shares outstanding at that time), which will be open for a period of 12 months (unless terminated earlier by the company), during which time LBOW will have the flexibility to conduct a round of share issues. The aim of this programme is: 1) to allow LBOW to raise additional capital quickly to fund current and prospective investment opportunities; 2) to increase the market capitalisation to reach a wider investor base; 3) to improve stock liquidity; and 4) to spread the fixed ongoing charges across a wider shareholder base (current ratio of 1.00% as at end-January 2018 vs peer ratios at c 1.2–3.4%) The ordinary shares would be placed at a premium to NAV to cover the issue costs, while the C shares would be placed at a price of 100p.

LBOW launched a similar programme in March 2017 following the investment policy revision, authorising the board to place up to 40m ordinary shares over a 12-month period to fund new investment opportunities. In this placing programme, the company issued 8.82m new shares in October 2017 and a further 4.26m in March 2018 (which represent an aggregate c 33% of the placement limit), raising £9.0m and £4.3m in gross proceeds, respectively. The lower volume issued during the second round seems to be at least partially a function of the overall short-term deterioration in sentiment in the financial markets at that time. This led to LBOW missing some investment opportunities in the short term.

At the 2018 AGM, the board was also authorised to allot and issue up to 12,118,148 ordinary shares (ie 10% of the current share capital) for cash on a non-pre-emptive basis. The company did not introduce any predefined discount management scheme utilising share buybacks, but a special resolution was passed during the 2018 AGM granting the board the authority to repurchase up to 18,183,287 ordinary shares over a period of 15 months following the AGM (the company has not sought and does not intend to seek the authority to repurchase C shares).

New debt facility provides additional flexibility

LBOW's maximum leverage level under the current investment policy is 20% of NAV. LBOW will use its available debt facilities to minimise the return-dilutive effects of uninvested cash without meaningfully increasing its risk profile. The fund has recently secured a working capital facility with OakNorth Bank, which will enable it to incur debt up to 20% of the portfolio, subject to a cap of £25m. This is an important step which provides LBOW with some degree of flexibility with respect to the timing of new loan investments and reinvesting proceeds from maturing loans, helping to minimize potential cash drag and stabilize income streams.

Dividend policy and record

LBOW pays dividends to holders of ordinary shares on a quarterly basis, with dividend declarations usually occurring in April, June, September and December and the payments made in the subsequent month (although the fourth interim dividend paid in April 2018 was an exception to this rule). The company targets quarterly dividend payments at 1.5p per share, translating into an annualised dividend yield of c 6% (assuming NAV remains at around 100p). The company has been able to sustain those payments since H214, ie approximately since being fully invested. Moreover, LBOW has paid a special dividend in respect of prepayment fees received at 2.25p per share in June 2017.

Going forward, despite the process of portfolio repositioning (see Asset allocation section for details), the company intends to maintain its dividend policy. It is instructive to examine the potential loss of interest income as a result of loans with the lowest unexpired term reaching maturity. Currently, there is only one loan investment maturing until the end of 2018 (Northlands Portfolio) and another one was recently repaid (Hulbert loan), which together represent an outstanding balance of £15.1m and most likely have a coupon rate higher than the current portfolio average (given that they were advanced under more favourable market conditions). We estimate that they represent c £0.3m of quarterly interest income out of the total £1.8m earned on the current portfolio (which is also roughly the amount of quarterly dividend payments paid by the fund). However, LBOW has the possibility of supplementing its recurring income stream with retained earnings from prepayment fees. As at end-July 2018, LBOW's retained earnings stood at £2.3m, and are more than covered by cash held by the fund (£8.9m as at end-July 2018). This seems to constitute a fair amount of breathing space until the next maturity cliff in April 2019 (loans representing £46.2m maturing). Importantly, this would result in a modest reduction in NAV until the portfolio repositioning is completed. The company expects returning to full dividend cover by Q219.

It is important to note that dividends to C shares may only be paid if the underlying assets generate material income, but even then the board has no obligation to declare any dividends. Moreover, the board may decide to offer a scrip dividend as an alternative to a cash dividend, but will refrain from doing so if the shares trade at a material discount to NAV.

Peer group comparison

LBOW is part of the AIC Specialist Debt sector, which contains funds with a wide variety of investment strategies, including a few funds focused on commercial and/or residential real estate debt investments in the UK and continental Europe. These include TOC Property Backed Lending, Real Estate Credit Investments, Starwood European Real Estate Finance and UK Mortgages. Moreover, we have decided to include two funds investing in the broader space of asset-backed loans (Hadrian's Wall Secured Investments and RM Secured Direct Lending), as well as GCP Asset Backed Income Fund, which is investing predominantly in UK-based fixed and floating rate loans secured against cash flows and/or physical assets. In Exhibit 12, we show a comparison of the investment policies of the four most relevant peers vs LBOW.

Exhibit 12: Comparison of LBOW's investment policy vs peers

Company	Investment universe	Last reported LTV at portfolio level	LTV range	Property type	Typical term	Return target pa	Holding company leverage
ICG-Longbow SSUP	Predominantly fixed-rate senior secured UK real estate loans	61.2% (as at end-July 2018)	Up to 85% at loan level, up to 75% at portfolio level	Commercial, primarily regional	3-5 years	6p dividend pa and some capital gains	Up to 20% of NAV
TOC Property Backed Lending	Fixed rate loans secured by first or second charge over UK property. Typical transaction includes a 25.1% free equity stake	88.1% (as at end-February 2018)	40-100%	Residential, commercial, sale and leaseback, Primarily regional (target share at 75%)	1-3 years	8-9% NAV total return, 7% target yield	Max 30% of NAV
Starwood European Real Estate Finance	Senior loans, subordinated and mezzanine loans, bridge loans, selected loan-to-loan financings and other debt instruments in UK and wider EU markets	64.9% (as at end-June 2018)	Up to 85% at loan level, up to 75% at portfolio level; typically 60-80%	Commercial	3-7 years	N/A. Invested loan portfolio unlevered annualised total return at 7.4% as at end-June 2018	Up to 30% of NAV, with long-term borrowings limited to 20% of NAV
Real Estate Credit Investments	Secured debt; listed debt securities and securitised tranches of real estate related debt securities; other direct or indirect opportunities, incl. equity participations in real estate	65.5% (as at end-August 2018)	Up to 85% for secured debt	Commercial and residential in UK and Western Europe	0.5-15 years	N/A	Up to 40% of NAV
UK Mortgages	UK residential mortgages	64.2% (as at end-June 2018)*	N/A	Residential	N/A**	7-10% net total return	None

Source: Company filings, Edison Investment Research. Note: *Edison estimates based on company factsheet. **We estimate that the weighted average remaining term as at end-June 2018 stood at c 16.7 years.

LBOW was launched in February 2013 and there are no 10-year NAV total return performance data available. Consequently, we present the fund's one-, three- and five-year performance in Exhibit 13. LBOW's one-year NAV performance up to end-July 2018 of 4.6% was moderately below the peer average of 5.9%. However, over a three-year and five-year period, the fund is ahead of the peer average, although it must be noted that there are several peers for which these performance numbers are not available. Again, it is worth keeping in mind that the fund was not yet fully invested at the beginning of the five-year period, with a meaningful cash drag in the initial months of this period.

Interestingly, LBOW's ongoing charges ratio of 1.0% is the lowest among the peer group, despite the relatively small size of the fund and one-time costs, which inflated the ratio for the last reported period, in particular the expenses associated with the EGM and capital increase. Historically, LBOW's expense ratio was even lower at 0.55–0.65% of average NAV and, according to the company, fixed ongoing charges currently represent c 0.50% of NAV (with a potential for the ratio to decline slightly if NAV grows over time). Moreover, LBOW's current premium to NAV at 3.8% is closer to the lower bound of the peer range. Finally, at present the shares offer a dividend yield of 5.8%, which looks quite attractive in comparison to the peer average at 4.9%.

Exhibit 13: Selected peer group as at 31 July 2018

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	Discount (ex-par)	Ongoing charge (%)	Perf. fee	Net gearing	Dividend yield (%)
ICG-Longbow SSUP	**120.0**	**4.6**	**21.8**	**36.2**	**3.8**	**1.0**	**No**	**100**	**5.8**
GCP Asset Backed Income	336.9	7.6	N/A	N/A	4.9	1.5	No	100	5.7
Hadrian's Wall Secured Investments Ord	128.2	6.5	N/A	N/A	4.3	1.2	No	100	3.9
Real Estate Credit Investments Ord	239.7	8.1	25.5	56.2	7.6	1.8	Yes	114	6.8
RM Secured Direct Lending	101.2	4.0	N/A	N/A	6.3	2.1	No	100	2.1
Starwood European Real Estate Finance	410.6	6.7	22.5	32.6	8.2	1.2	No	100	4.5
TOC Property Backed Lending Ord	27.9	4.6	N/A	N/A	7.8	2.4	No	100	3.4
UK Mortgages	240.3	4.6	3.4	N/A	2.7	3.4	No	100	6.8
Average	**200.6**	**5.9**	**18.3**	**41.7**	**5.7**	**1.8**	**-**	**102**	**4.9**
Trust rank in sector	**6**	**6**	**3**	**2**	**7**	**8**	**-**	**2**	**3**

Source: Morningstar, Edison Investment Research. Note: TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

The board

LBOW's board consists of five non-executive members (including the chairman), all of which have held their positions since the fund's launch in 2013. They are all independent of the company's investment adviser. John (Jack) Perry, CBE (chairman) is pursuing the career of a portfolio non-executive director, being also chairman of European Assets Trust NV (an equity fund investing in small- and mid-cap public companies in Europe ex-UK) and a non-executive director of Witan Investment Trust (a global fund investing primarily in equities using an active multi-manager approach). Previously, he was CEO of Scottish Enterprise, and managing partner and regional industry leader for Ernst & Young. Stuart Beevor is a chartered surveyor with over 30 years of experience and an independent consultant with various advisory roles in real estate fund management, investment, development and asset management. At present, he is a senior independent director of Metropolitan Housing Trust (one of the UK's leading providers of affordable housing, as well as care and support services) and a non-executive director of Empiric Student Property (an internally managed UK REIT providing and operating direct-let, nominated or leased student accommodation). Patrick Firth is a non-executive director of a number of investment funds and management companies, such as Riverstone Energy (a closed-end energy investment company), JZ Capital Partners (investing in US and EU micro-cap companies and US real estate) and NextEnergy Solar Fund (active in the photovoltaic industry). He was also a non-executive director at DW Catalyst Fund, a fund that was recently liquidated. Paul Meader as acts as an independent director of investment companies, insurers and investment funds with over 30 years of experience in financial markets in London, Dublin and Guernsey, holding senior positions in portfolio management and trading. Previously, he was head of portfolio management for Collins Stewart and CEO of Corazon Capital. Mark Huntley has more than 40 years of experience in the fund and fiduciary sector, holding a number of positions in listed and private funds and property advisory boards. He has been actively involved in real estate investment in the UK and internationally, and has experience in private and listed debt structures.

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