



Listed European real estate

Market overview

March 2024

Established in 2008

Listed real estate sector Specialist

A sector with high return dispersion

Sector Specialist

We cover only listed real estate

Our objective is to cover only one large sector better than anyone else in order to generate value for our investors

Multiple strategies

One underlying investment universe, multiple strategies

Including our two long/short funds targeting both the real estate equity and debt markets

\$800m total AUM

Proven investment process

Proprietary investment and valuation process

Developed over many years, focused on total return relative to cost of capital

Highly experienced specialist team

Spanning equity and credit markets

Team of 23, including 15 investment professionals

Why European REITs?



Long-term returns generated from recurring free cash flows and capital value appreciation



Predictable long-term cash income streams

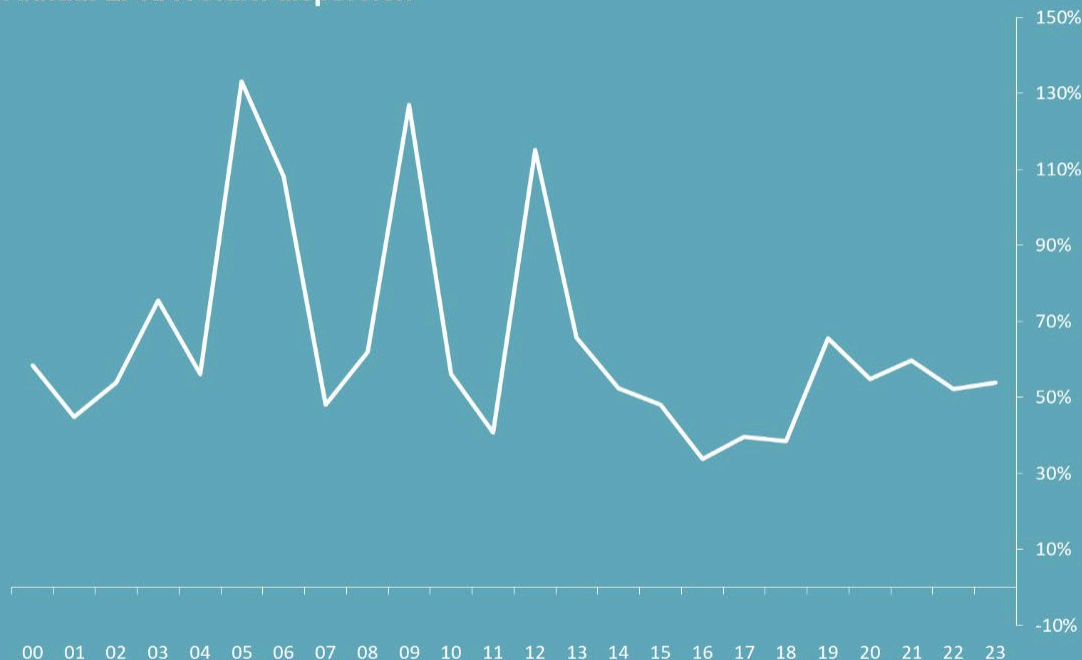


Highest quality assets in Western Europe

Low beta sector with high forecastability of cash flows underpinned by tangible valuation benchmarks

High return dispersion creates alpha opportunity

Annual EPRA return dispersion *



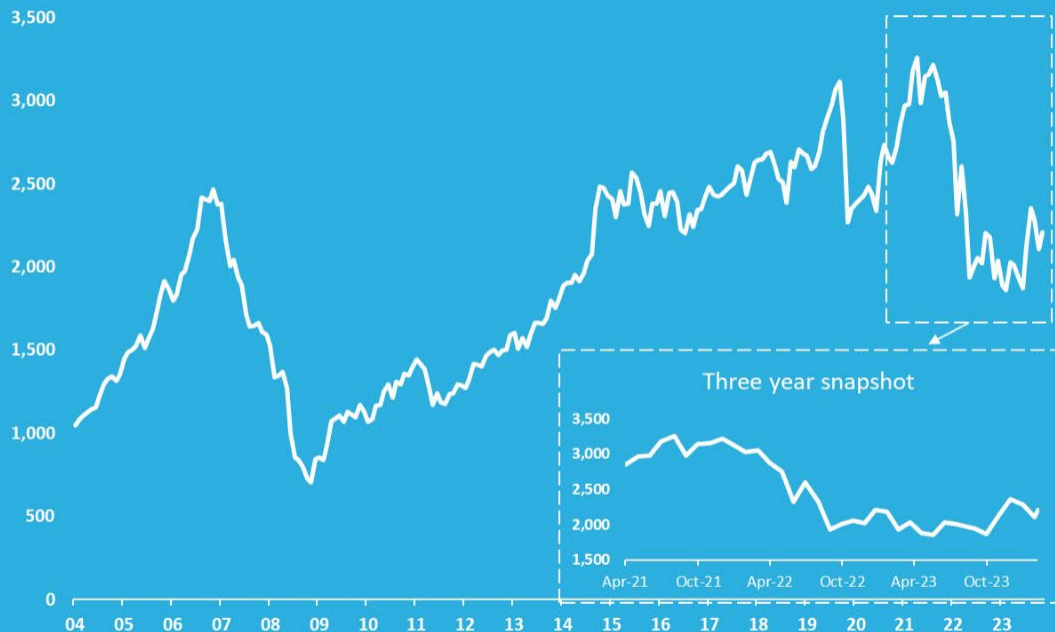
* Average annual share price performance of the top quartile of EPRA less the average share price performance of the bottom quartile. EPRA is the FTSE EPRA NAREIT Developed Europe Total Return Index (107 constituents)

Dispersion drivers

- 1 **Leverage**
- 2 **Asset quality**
- 3 **Growth**
- 4 **Country & regional factors**
- 5 **Asset class**
- 6 **Liquidity**
- 7 **Structural shifts incl. e-commerce, work from home**
- 8 **Environmental factors**

What is happening?

EPRA: The European REIT Index



FTSE EPRA NAREIT Developed Europe Net Total Return Index

Source: Bloomberg

Note: While we refer to listed real estate companies in this document as "REITs", many of them are not Real Estate Investment Trusts

With a 45% decline from EPRA's peak in August 2021, nearly a decade of total returns (share price performance plus dividends) have been wiped out.

The index also suffered 4 of the ten worst monthly drawdowns on record in the last 18 months, as property valuations adjust to higher interest rates



**Capital value =
Income /
capitalisation rate**

Not an income problem

Most leases are indexed to
inflation

Robust occupier markets, no over-
supply. A deep recession is a risk

Rather, a valuation problem

Real estate capital values are
falling

Driven by the cost of capital

Cap rates moving higher

**The incremental
buyer needs a
higher income
yield to cover their
cost of capital**



What is the opportunity?

Deep correction to real estate capital values

Capitalisation rates move from cyclical lows to historic high levels (as implied by the REIT equity market)

Discounts to trough net asset values

Driven by valuation risk and balance sheet uncertainty, many REITs trade below expected trough net asset values

Recapitalization opportunities

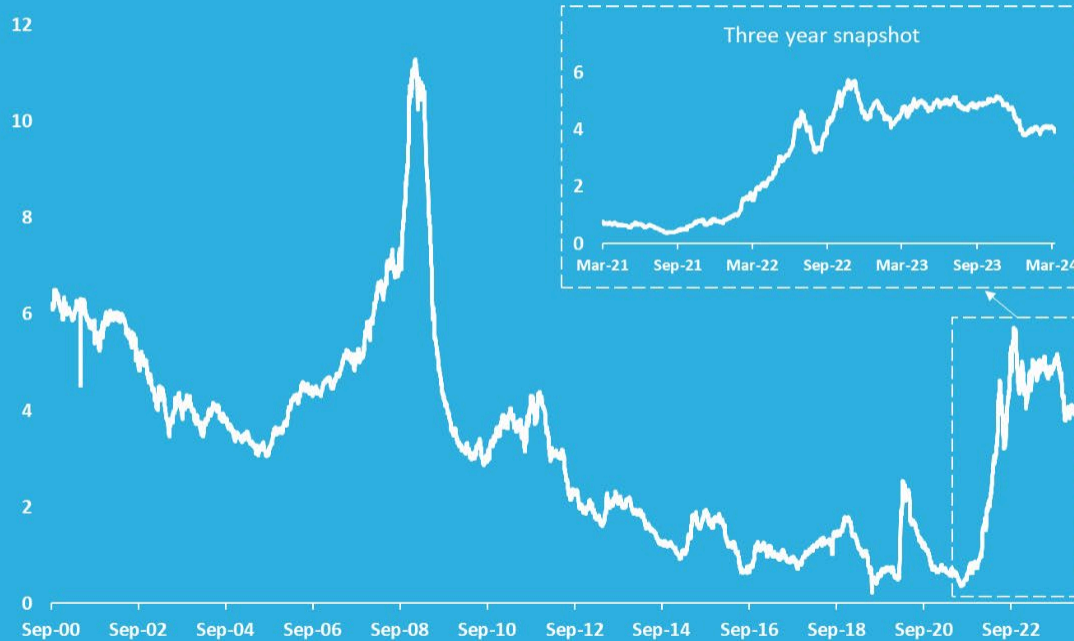
Some REITs are over-levered and will need to recapitalize, creating compelling opportunities

Deep value entry point

Discounts to trough NAV will become premiums as valuations stabilise into a recovery cycle and balance sheets are repaired

Cost of debt has risen dramatically

Yield to maturity of the European real estate corporate bond index



Source: Bloomberg

- REITs are capital-intensive and sensitive to the availability and cost of credit
- Yield to maturity on REIT bond index increased from < 0.5% to > 5%
- Average in-place cost of debt is 1.9% with average unexpired debt term of 5.8 years
- While real estate values will take time to correct, the REIT market will dynamically assume cyclical low values
- While cost of debt > property yields, external growth is gone

European rates outlook

5 Year swap rates

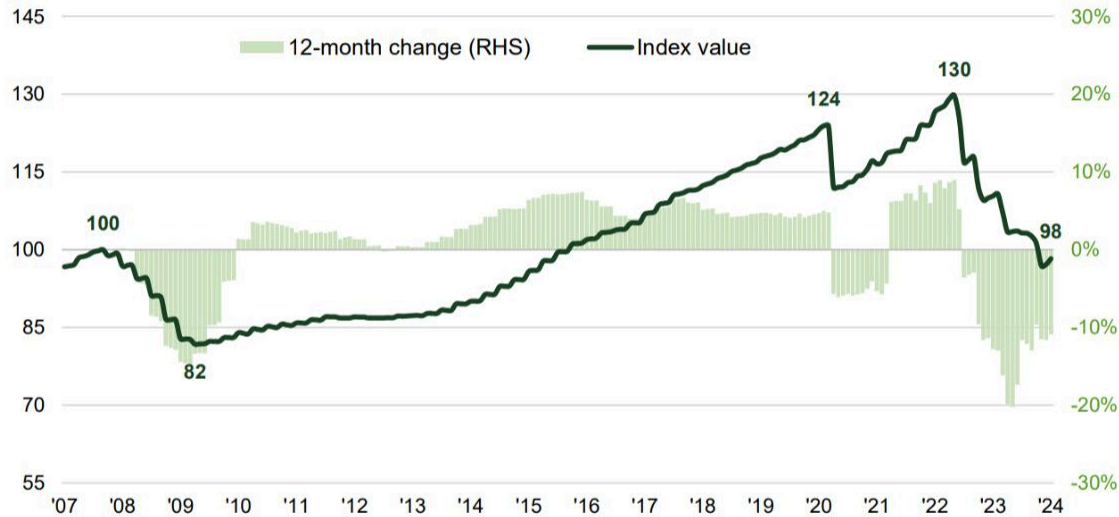


- Disinflation process likely to continue in EUR and UK
- Sticky wage inflation a concern but slack building up in labour markets
- Issuance absorption challenges might keep yields elevated
- Money markets price in 75bp of rate cuts in the UK and EUR in 2024 and 150bp of cuts between June 2024 and June 2025

Source: Bloomberg

By how much have capital values already fallen?

Green Street Commercial Property Price index



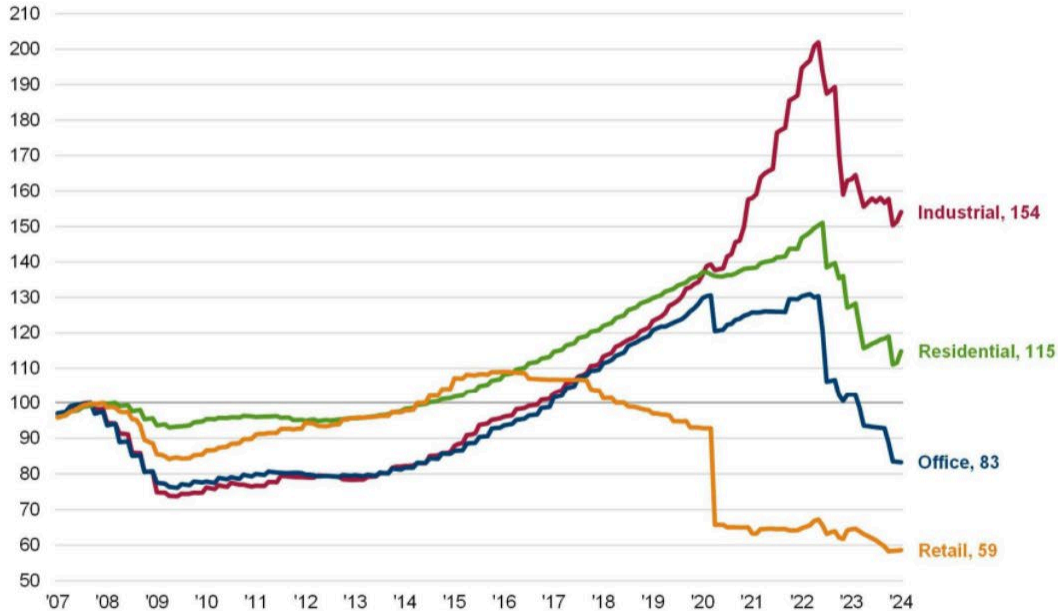
Source: Green Street Advisors

The Green Street Commercial Property Price Index is a time series of unleveraged Pan-European commercial property values at which transactions are currently being negotiated and contracted.

- **Very little transactional activity. Wide bid:offer spreads**
- **Occupier fundamentals remain strong**
- **Index-linked leases will see valuation support as cap rates rise mechanically**
- **Spot values have already fallen by 25% since June 2022, compared to an 18% decline during the GFC**
- **REITs will continue to report falling values through 2023**

By how much have capital values already fallen?

Green Street Commercial Property Price Index



Source: Green Street Advisors

The Green Street Commercial Property Price Index is a time series of unleveraged Pan-European commercial property values at which transactions are currently being negotiated and contracted.

- **Industrial/logistics underperformed from the lowest starting cap rates, but with the best fundamental outlook will recover quickest**
- **Multi-family residential market highly sensitive to interest rates**
- **Retail, on the highest starting cap rates, performed best as values already re-set post CV-19**
- **Offices most challenged**

Near a bottom?

Continental European prime capital values

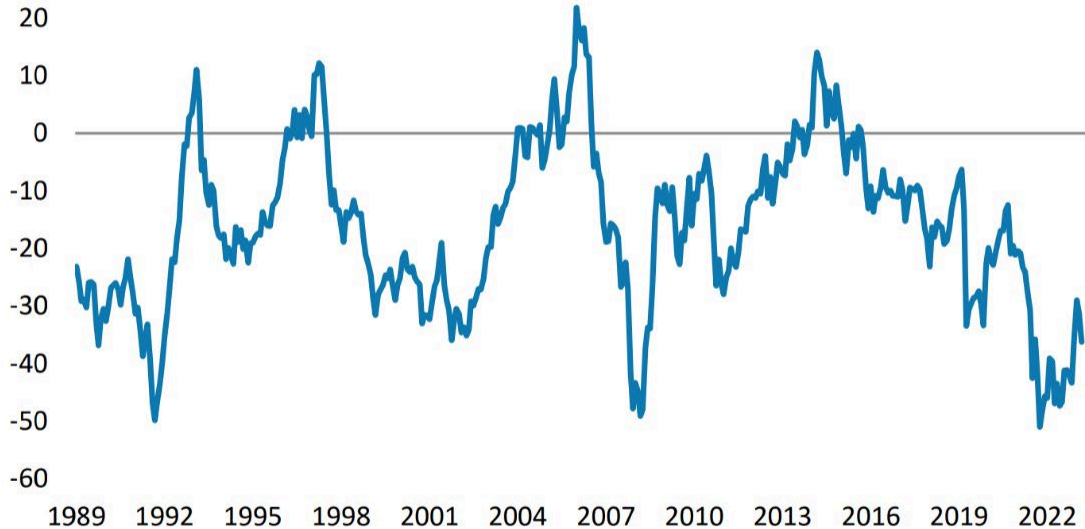


Source: CBRE

- **Transactional activity remains well below historic averages, but activity picks up where clearing prices are reached**
- **M&A activity also picking up e.g. TPG bidding for Intervest Office & Industrial at 52% premium to undisturbed price**
- **At record discounts to net asset values, the REIT equity market implies material further valuation declines**

What is the market implying?

**Near-record discounts to net asset value
anticipate steep declines in property values**



Source: Morgan Stanley

**Net asset discounts
reflect market
expectations that total
returns (income plus
capital return) will be
below the cost of capital**

- ⊖ **Total returns will be negative as property values fall**
- ⊖ **The equity market will try to pre-empt trough net asset values**

What is the market implying?

Equity market implies up to 200bp yield expansion



Source: Morgan Stanley (21 March 2024)

While it takes time for property values to adjust, the REIT market dynamically re-prices the underlying real estate every day:

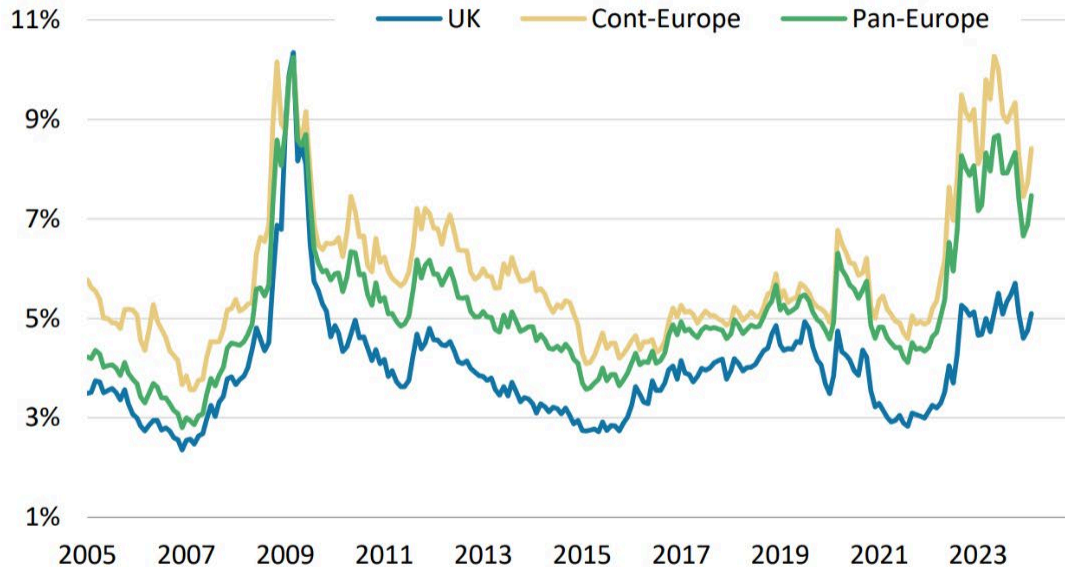
REITs implied a c. 33% decline in real estate values.

This implied pricing suggests a c. 190bp outward yield shift (160bp in the UK), all else equal.

Underlying income levels will grow to the extent leases are indexed to inflation, pushing yields higher.

What is the market implying?

Trailing earnings yield



Source: Company data, Morgan Stanley

Earnings will decline as interest rates rise

But earnings will also benefit from inflation

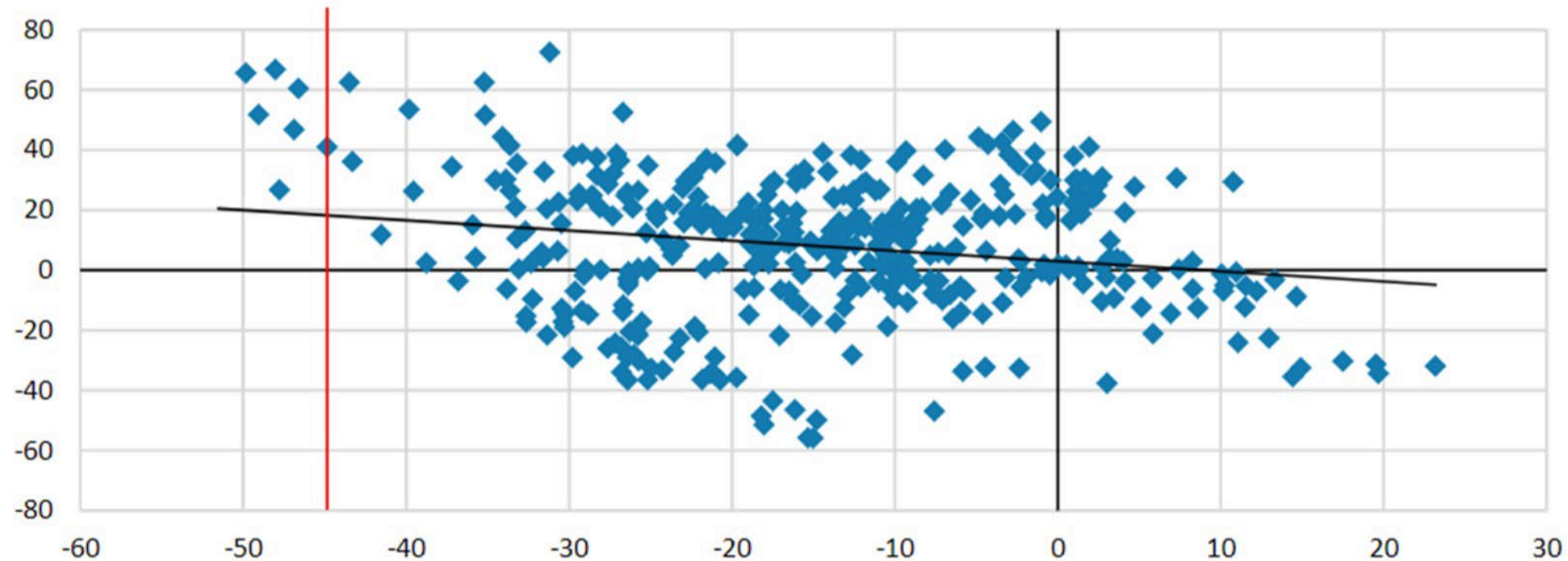
Weighted average debt maturity is 5.8 years

A REIT with 40% LTV and an average interest cost of 2% today, will need 3.6% compounded NOI growth over 6 years to fully offset a 300bp increase in cost of debt

When NAV discounts widen, future returns increase

Pan-European NAV valuation (horizontal axis) vs. next 12 months share price total return (vertical)

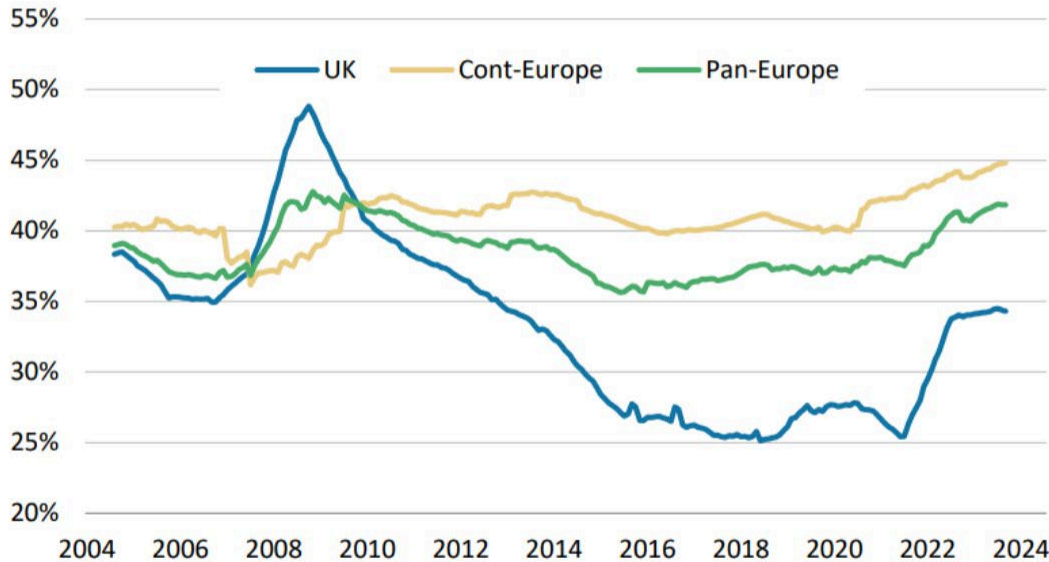
Monthly, since 1990



Source: Morgan Stanley

Leverage likely to be a problem

Net debt to gross assets (LTV proxy)



Source: Company data, Morgan Stanley

Income yield may be an illusion where leverage is too high and equity recapitalisation is likely.

Dividend cuts normally come first.

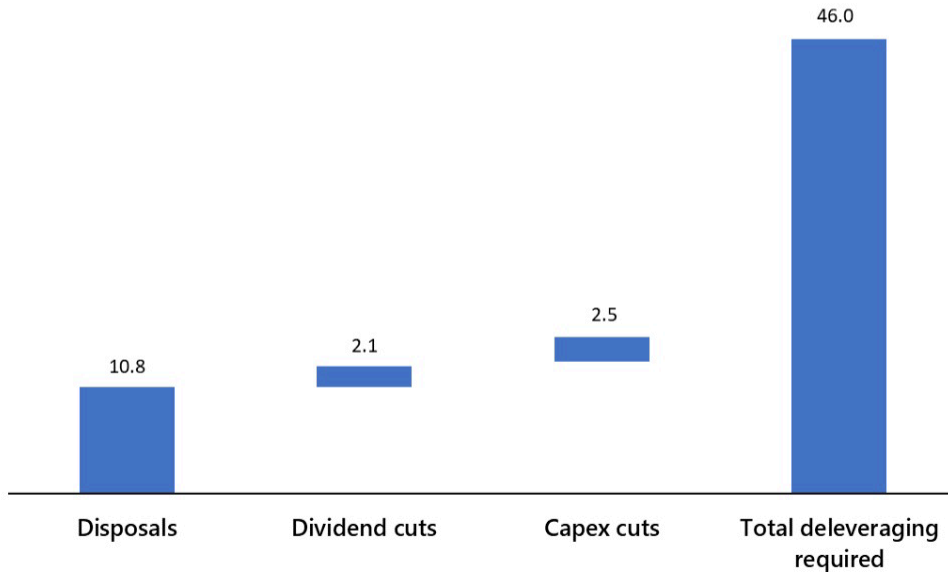
The Nordics and German residential most at risk.

Most REITs will act to protect their ratings.

Deleveraging through self-help measures

2023 self-help deleveraging

Euro bln



- Assuming cost of debt for every European REIT rises to 4.5% and they need to maintain a minimum 2.4x interest cover ratio, €46bln of additional capital will be required
- Year-to-date, about a third of that has been raised from disposals, dividend cuts and capex reductions
- Self-help measures will continue before dilutive capital increases are considered
- Various front-foot and stop-gap equity recapitalizations completed: €3.8bln of fresh equity raised in 2023

Key issues for 2024

- **Price discovery in the direct markets**

Meaningful capital on the sideline. With cost of capital headwinds easing the transactional market should come back to life. Offices?

- **External growth opportunities return**

Capital markets re-open to the sector as property yields again exceed cost of debt

- **Balance sheet repair**

Many REITs hold too much leverage against portfolios that are still overvalued

- **Will occupier market resilience hold against a weaker macro backdrop**

At a time when structural headwinds remain (WFH, energy performance regulations)

A new cycle

1 Equity market starts pricing in a recovery

Rates become a tailwind rather than headwind

Concern shifts to income fragility into a weaker economic backdrop

M&A activity in the listed market as cost of capital reduces

3 Balance sheets are repaired into a recovering market

Equity and debt capital becomes available

Challenges remain for many REITs and private players, where leverage ratios are now too high, interest cover too low, ratings come under pressure and unsecured debt cannot be refinanced

2 Direct market stabilises

Market finds a clearing level and transactional activity increases

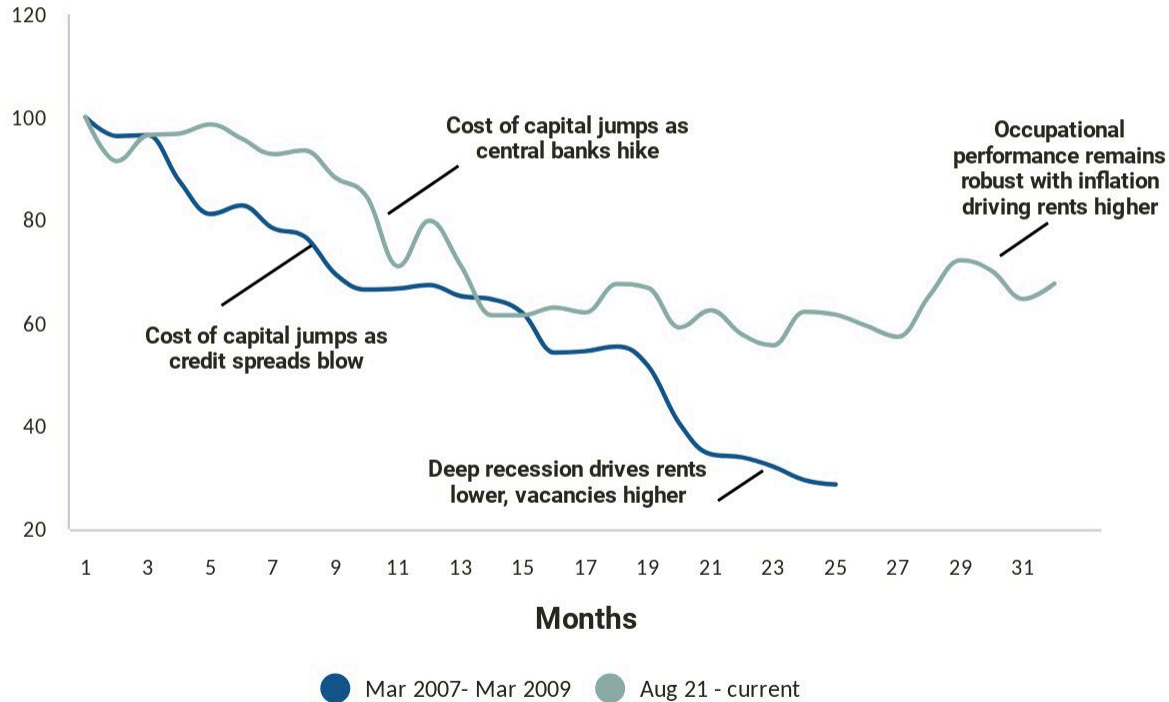
Opportunistic capital normally comes in first (hundreds of billions of firepower in the hands of private equity)

4 High total return potential from the listed market

As capital values stabilise, NAV discounts narrow, adding capital value returns to high starting income yields

With declining cost of capital, external growth opportunities can again be pursued

Two downturns compared



EPRA declined by 71% over a 25-month period between Mar 07 and Mar 09

Initially driven by a spike in the cost of debt as credit markets froze. A second leg followed as the European economy entered a deep recession post Lehman Brothers and the onset of the European sovereign debt crisis.

In the current drawdown, REITs reached -45% over a 27-month period

The drawdown has been driven by the jump in the cost of debt. A deep recession causing income uncertainty could drive another leg down



Clearance Camino Fund

Liquid, diversified portfolio of best opportunities in the European listed real estate market

Liquid

Weekly subscription and redemption
Subscribe and redeem at NAV, no fees or penalties
Available on most platform

Diversified

Maximum position limit of 10%
Typically 30-40 holdings
Diversified across geography and sub-sector

Experienced, specialist team

European listed real estate specialist, London based
Team of 22, including 15 investment professionals
managing \$730m

Multiple currency options

Available in EUR, GBP and USD
Exposure not hedged back to subscription currency

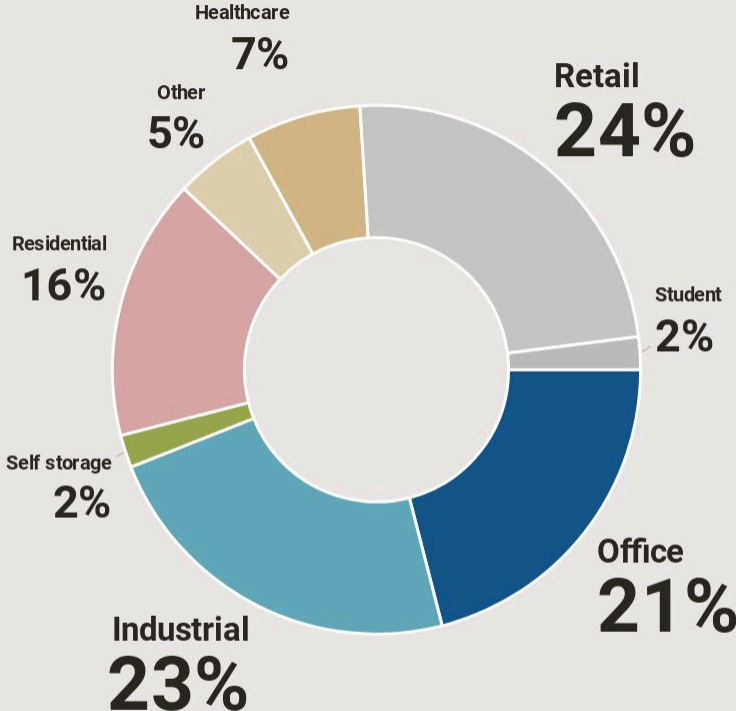
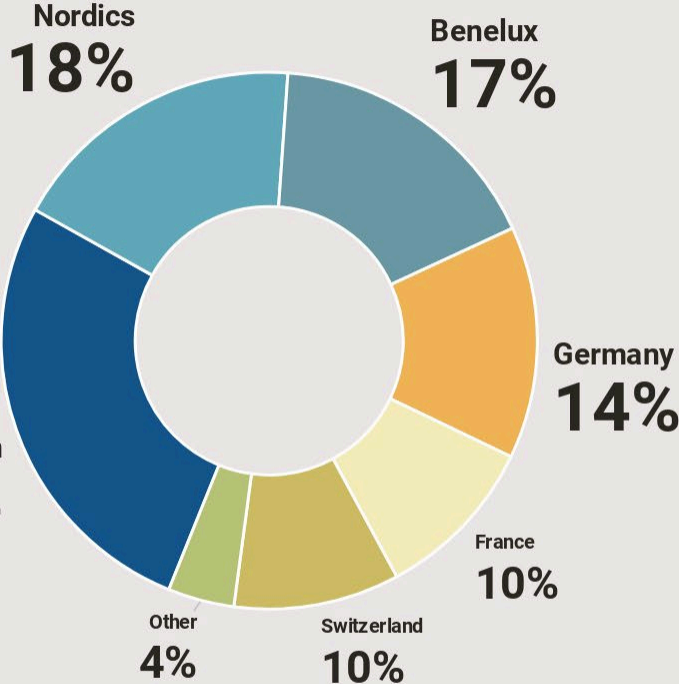
Strong long-term track record

Recent returns impacted by current market drawdown

+117% cumulative net return since inception in 2013 vs. +40% for EPRA on a net total return basis



Portfolio construction



34 Holdings ○ Top ten holdings 54.8% ○ Average holding 2.9%

Top ten holdings

4.0%
dividend
yield

8.0% cash
earnings
yield

41% loan-
to-value

5.5yr debt
maturity

26%
discount to
NAV

VONOVIA

Cibus

Converting food into yield

TAG

Immobilien AG



TRITAX BIG BOX

LONDONMETRIC
PROPERTY PLC



Diös

p | S | p

Swiss Property



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Summary

- 1** The market is already pricing in trough NAVs
- 2** Returns will be driven by income returns and discounts to trough NAV closing
- 3** More inflation shocks could add volatility and a deep recession will be very damaging
- 4** Avoid dilutive recapitalisation
- 5** Any recovery in property values will add incremental returns, but shouldn't be assumed



Fund Terms

- ☆ **Listing**
International Stock Exchange
- ☆ **Share Classes**
EUR, GBP and USD
- ☆ **Minimum investment**
Platform minimums apply
- ☆ **Administrator**
Northern Trust
- ☆ **Auditor**
KPMG
- ☆ **Custodian**
BNP Paribas
- ☆ **Subscription and redemption**
Weekly
- ☆ **Dividends**
None
- ☆ **Annual Management Fee**
1% (0.7% for qualifying investors)
- ☆ **Incentive Fee**
15% of performance over benchmark, subject to positive performance
- ☆ **Benchmark**
FTSE EPRA NAREIT Developed Europe Net Total Return



The fund is distributed by Global Capital Solutions.

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www.globalcap.co.za/clearance-camino-fund

Available on the following platforms:

- **Allan Gray Offshore**
- **Capital International Group**
- **Cidel**
- **Credo**
- **DMA**
- **Glacier International**
- **Investec Securities**
- **Julius Baer**
- **Lombard Odier / Stonehage**
- **Nedbank Private Wealth (asset swap)**
- **Momentum Wealth International**
- **Momentum Wealth (asset swap)**
- **Old Mutual International**
- **Ramsey Crookall**

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