Listed European real estate

November 2023

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

$730m 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 22, including 15 investment professionals

Why European REITs?

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

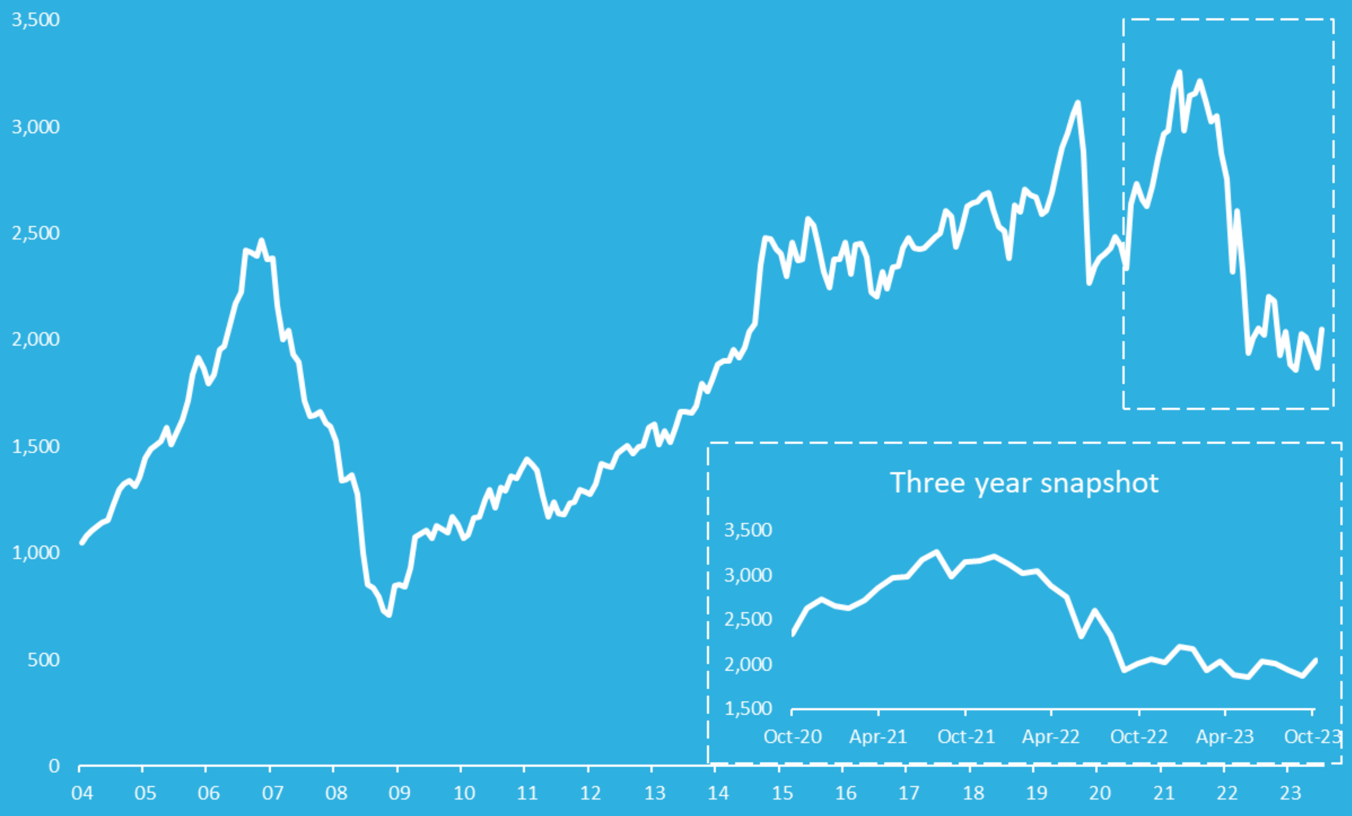
Predictable long-term cash income stream

Highest quality assets in Western Europe

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

What happened?

EPRA: The European REIT Index



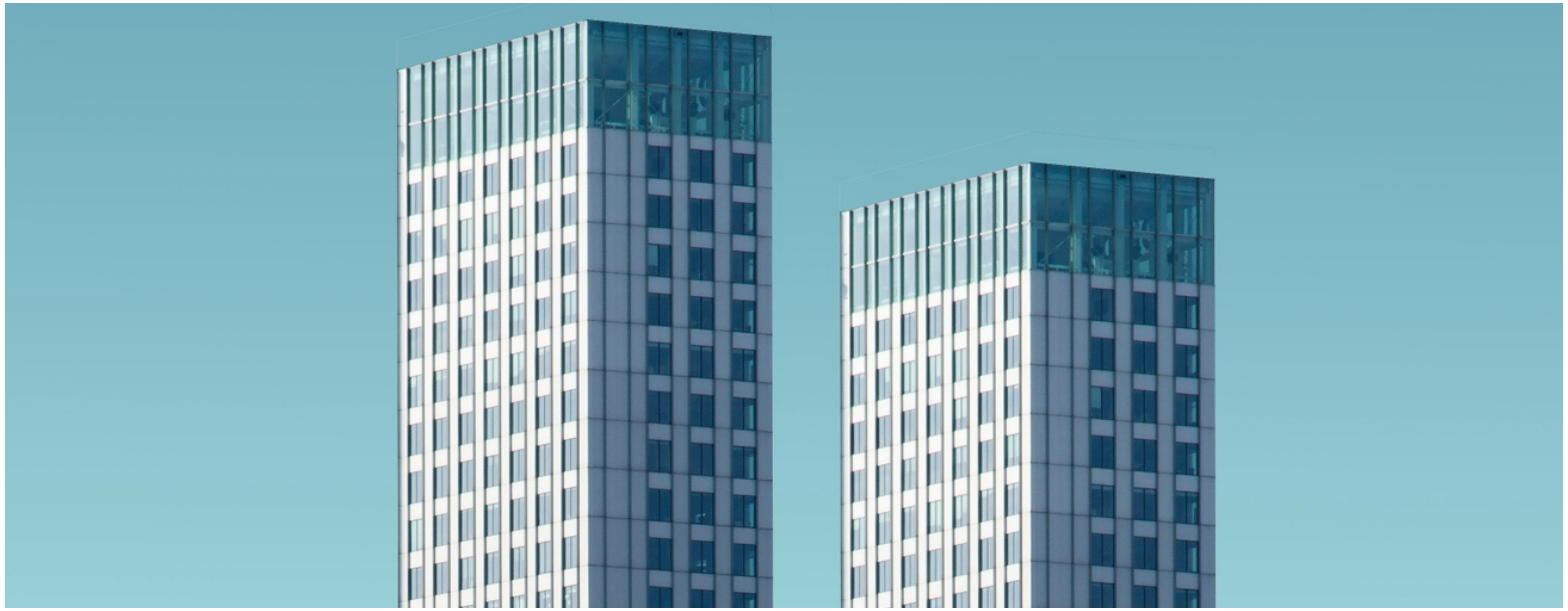
FTSE EPRA NAREIT Developed Europe Net Total Return Index

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

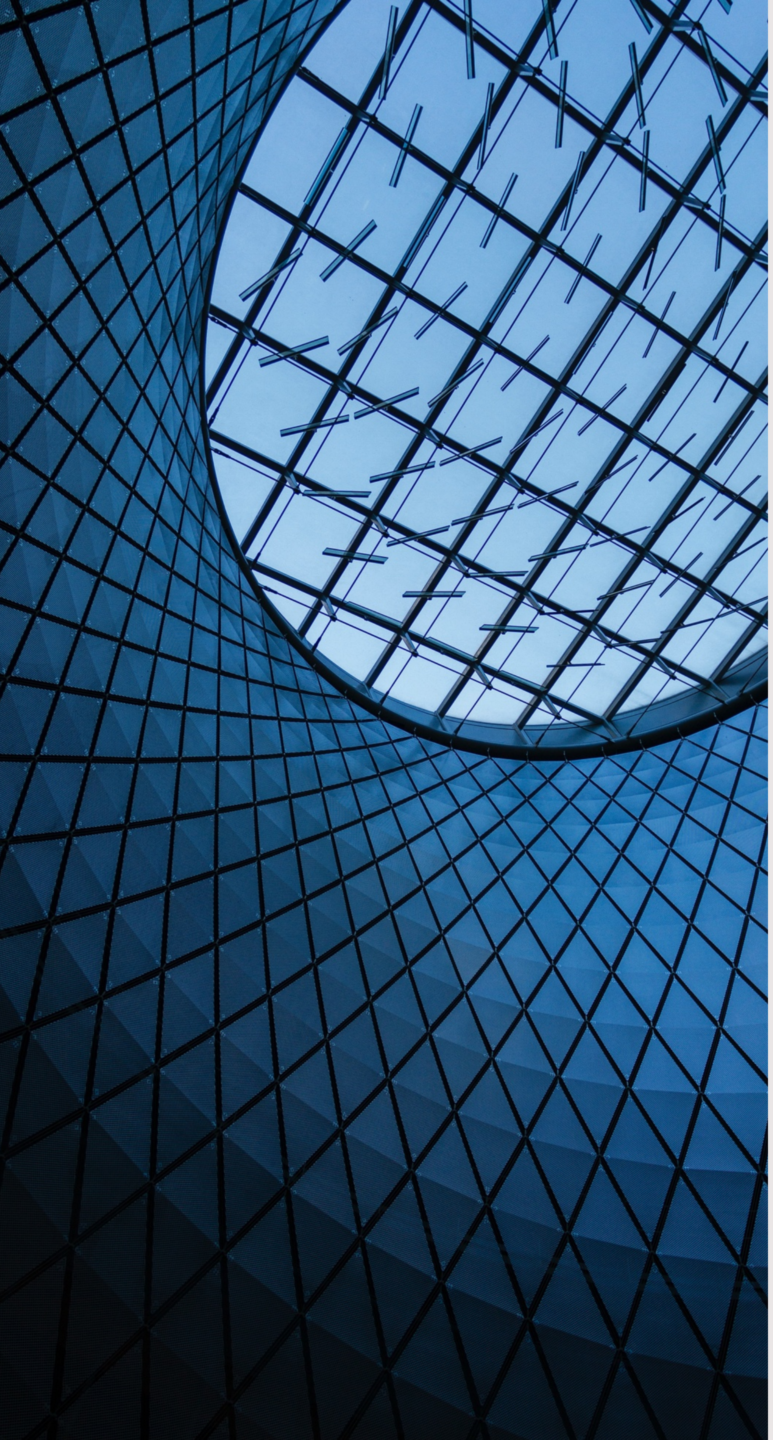
The incremental buyer needs a higher income yield to cover their cost of capital

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 1.8% with average unexpired debt term of 6.1 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**



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 opportunites

Deep value entry point

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

What comes next?

1 | How far are we from terminal rates and when do central banks pivot?

2 | General economic outlook: cost of living crisis, economic recession?

3 | Another banking crisis?

4 | How much have property values already fallen, how much to come?

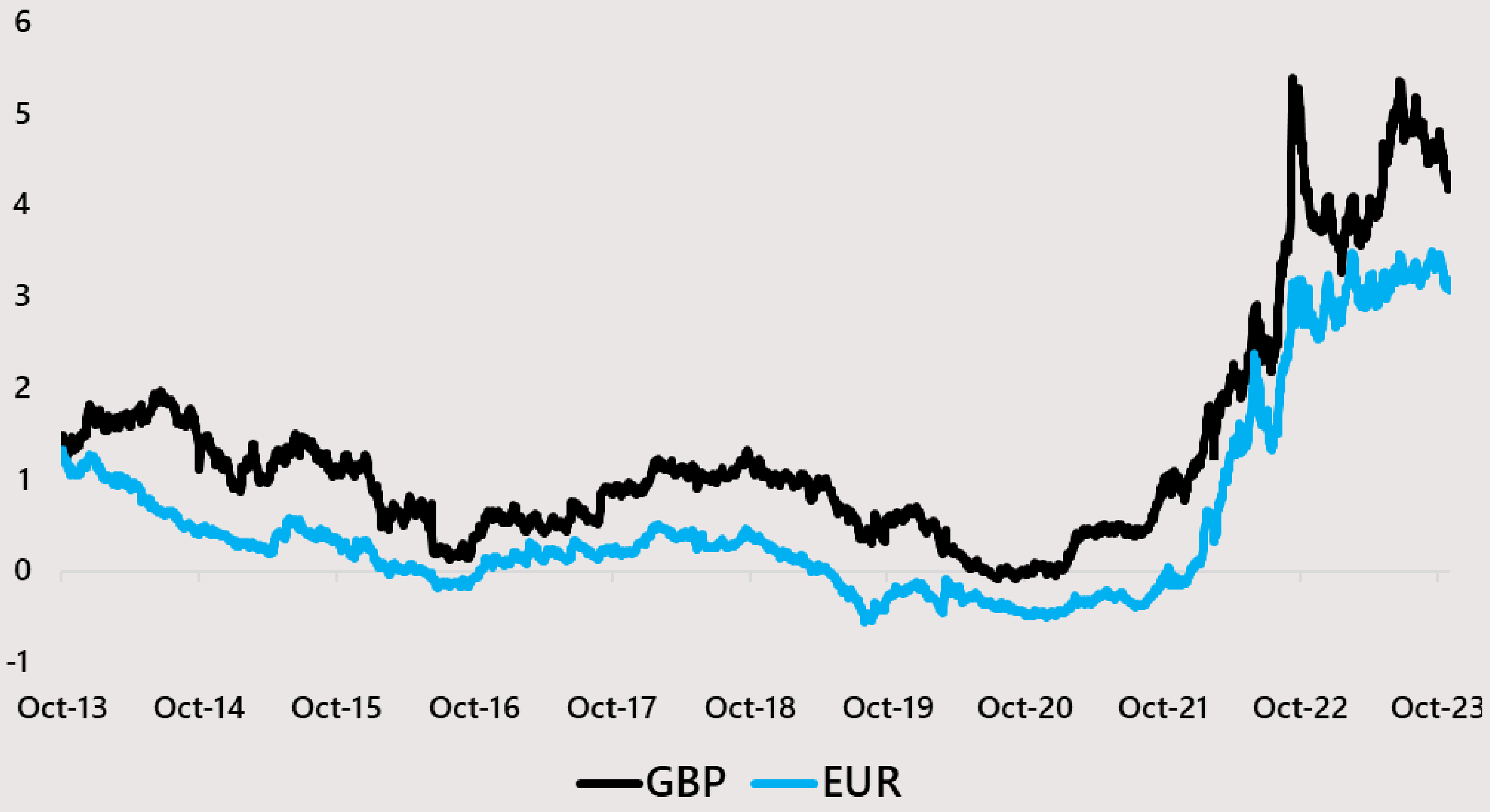
5 | What are REITs currently implying?

6 | Is leverage a problem?

7 | What are the triggers for a cyclical recovery?

European rates outlook

5 Year swap rates

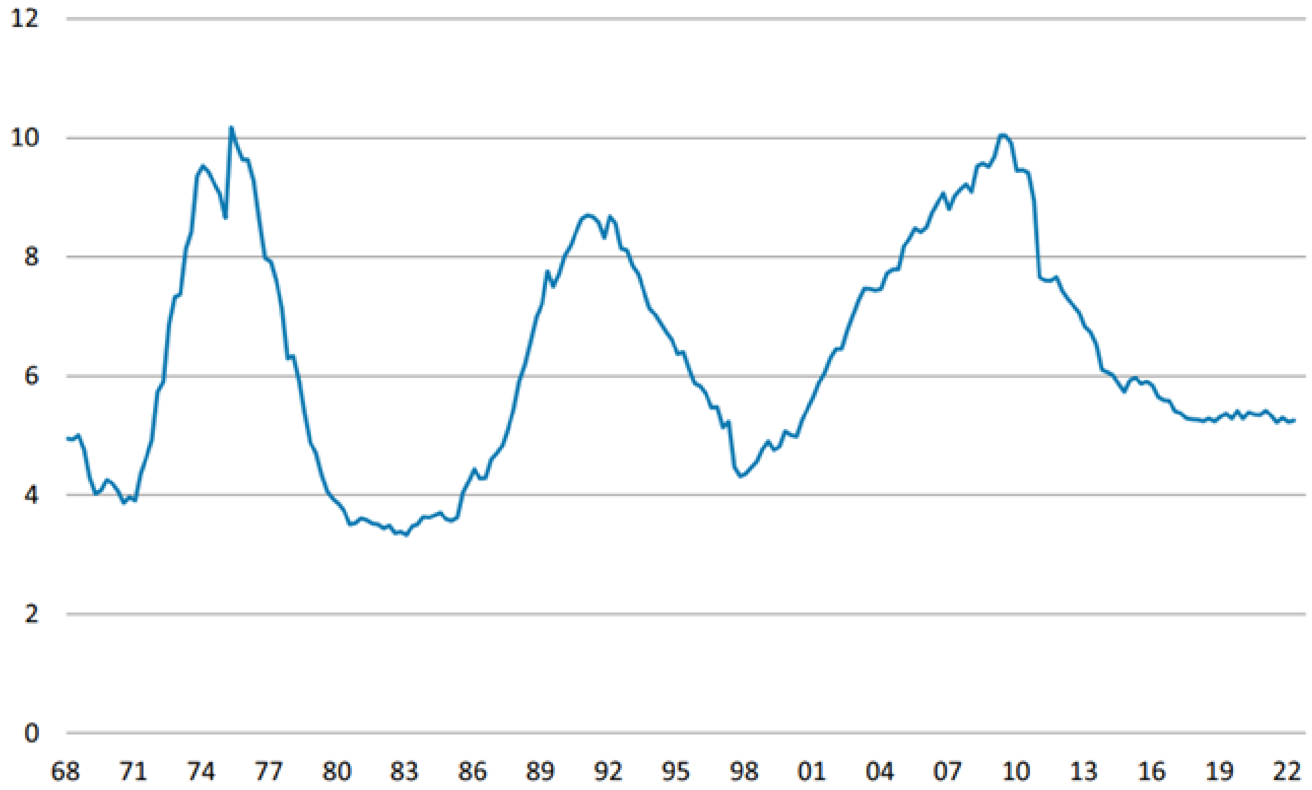


Source: Bloomberg

- **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 175bp of cuts between June 2024 and June 2025**

Another banking crisis?

UK Bank lending to commercial property as % of total lending

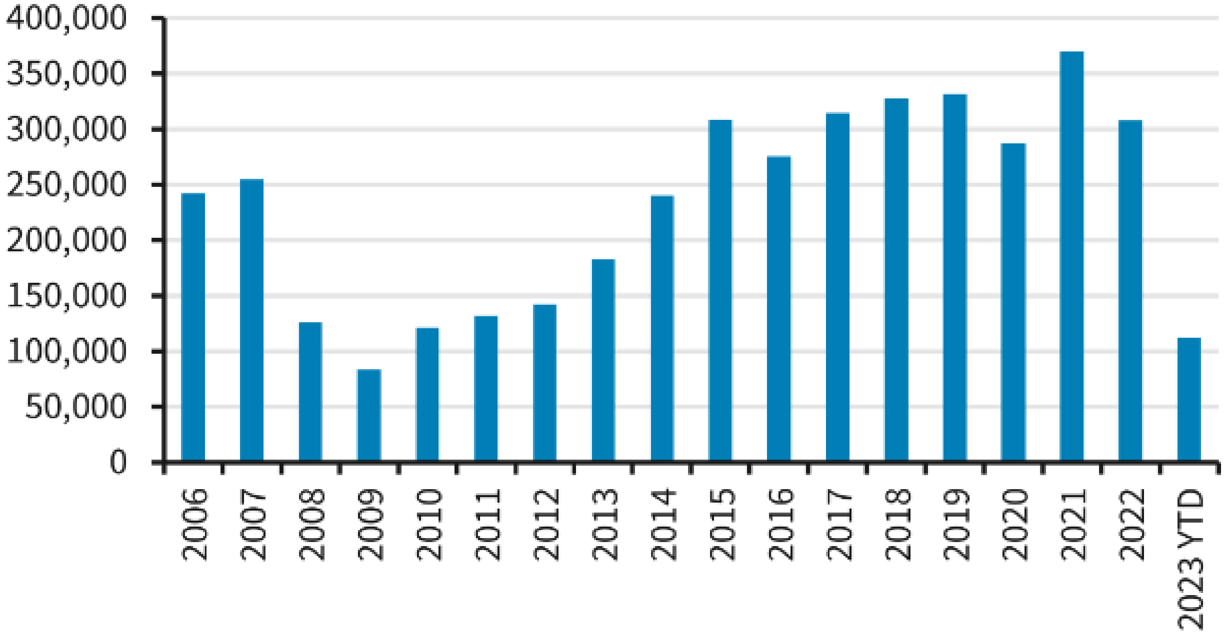


Source: Bloomberg

- European banks are not over-levered like 2007
- They're also not over-exposed to real estate
- A lot of bank lending has shifted to the unsecured bond markets
- Unsecured bond debt might need to be refinanced through banking channels
- Banks are lending, at elevated rates, to existing relationships and the strongest borrowers
- No crisis, just a cyclical re-pricing of credit

Subdued transactional activity

European commercial real estate investment volumes

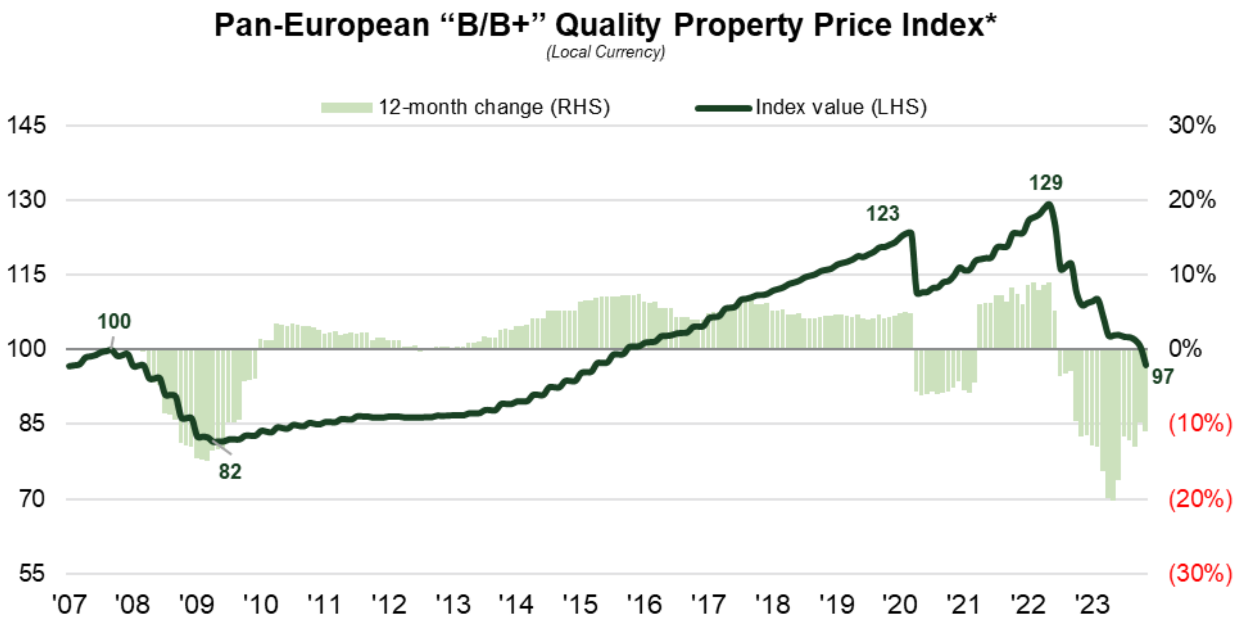


Source: CBRE

- 2023 has seen one of the most subdued transaction markets in history
- Wide bid:offer spreads reflect buyers expectations of lower prices
- Very little distressed selling as occupational performance remains robust
- As clearing levels are reached activity will increase and another cycle commence

By how much have capital values already fallen?

Green Street Commercial Property Price index



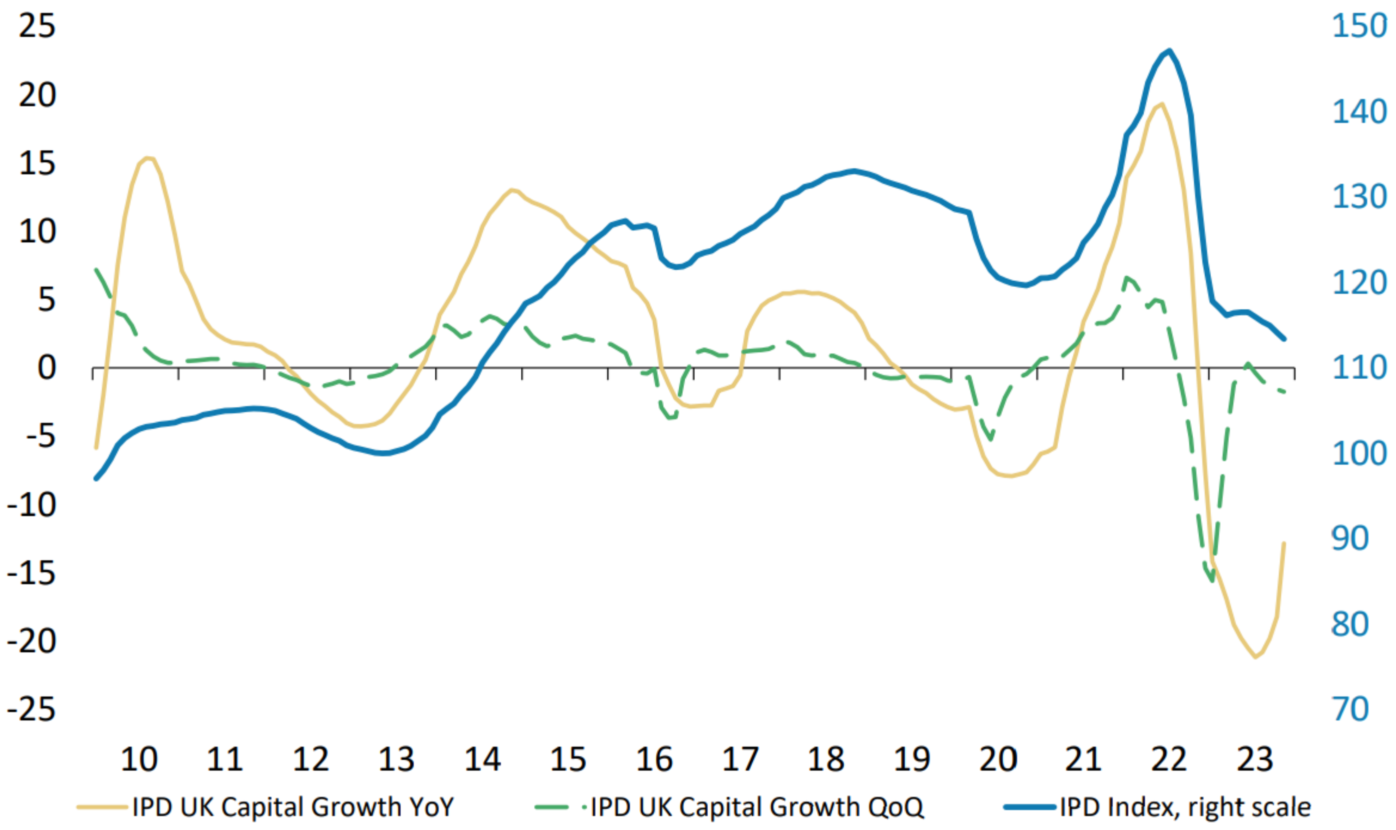
Source: Green Street Advisors

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.

- **Although improving, transactional activity remains subdued. 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?

UK IPD Capital Value Index

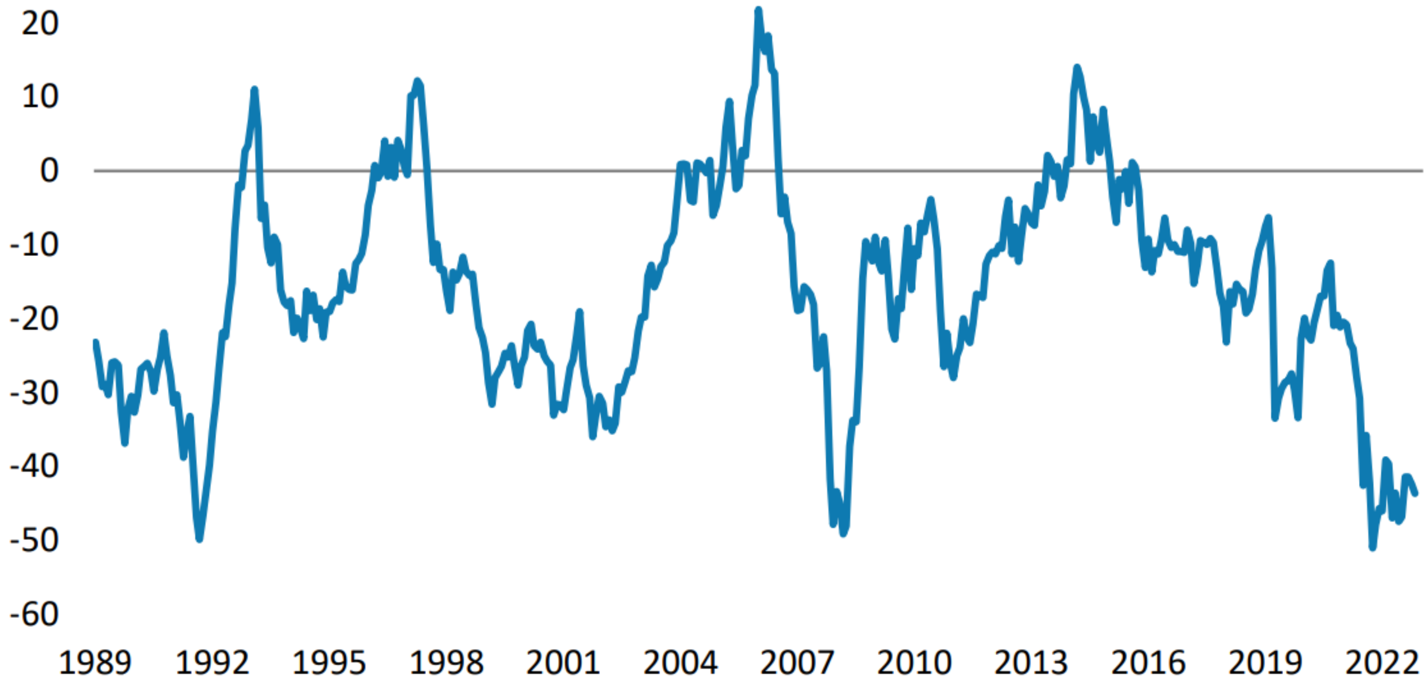


Source: MSCI IPD

- **UK commercial property values have declined by c.24% from peak values**
- **Capital values are back to 2014 levels**
- **Logistics, on the lowest cap rates, initially performed worst, but have stabilised**
- **Offices now the underperformer, with London City offices down 24% over 12 months, West End down 11%**

What is the market implying?

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



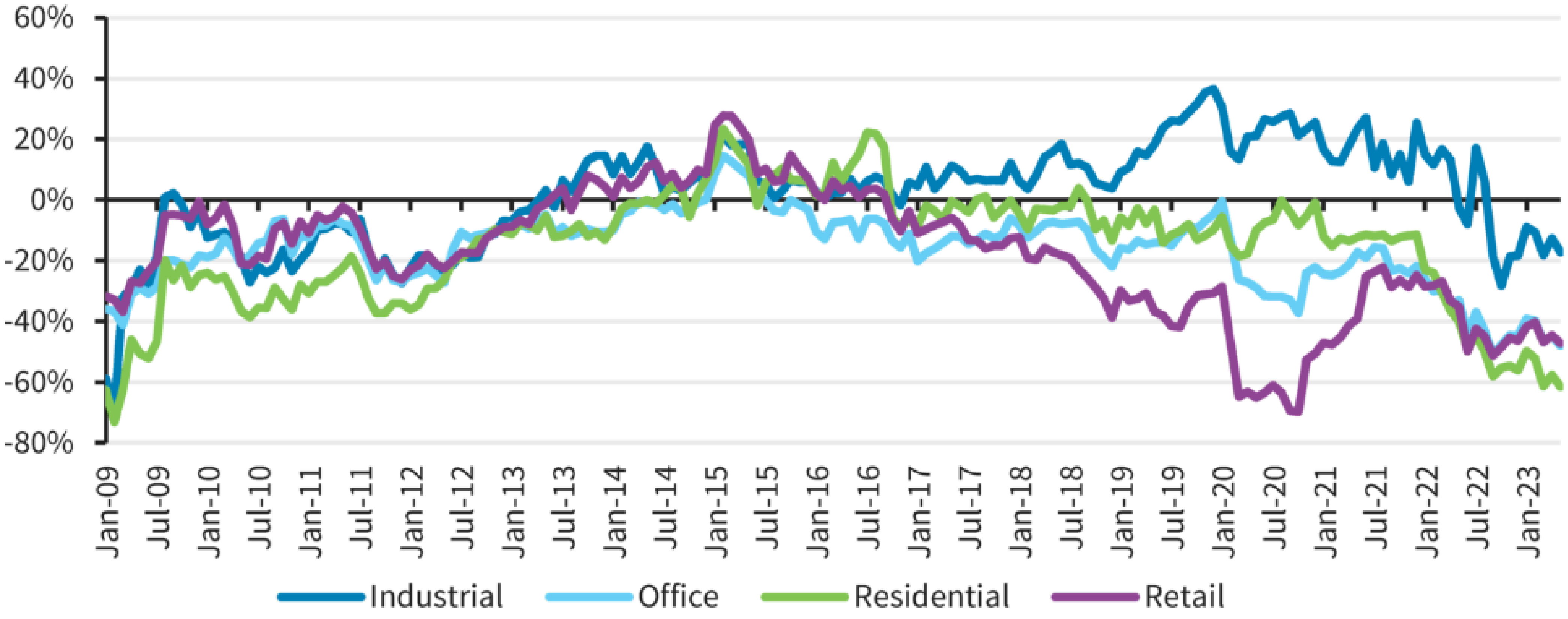
Source: Morgan Stanley

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?

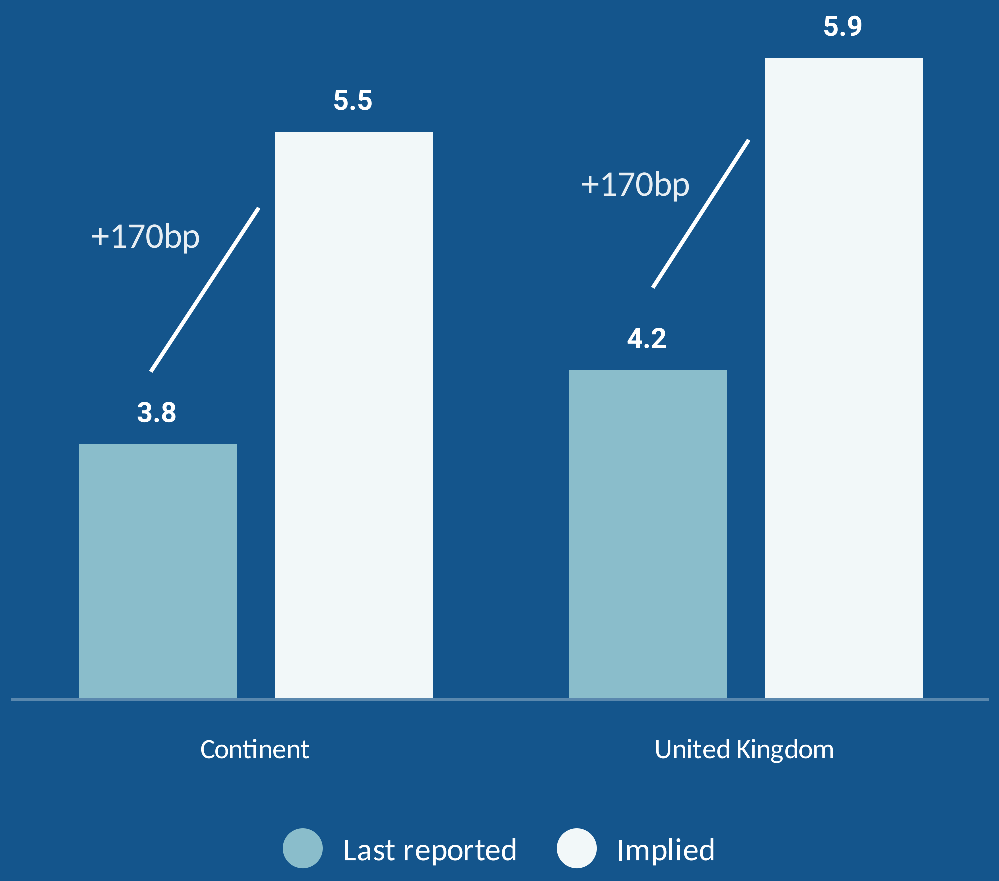
Historical NAV discounts by sub-sector



Source: EPRA, Barclays

What is the market implying?

The equity market already implies c. 170bp yield expansion



Source: Morgan Stanley

While it could take years for property values to fall, the REIT market dynamically re-prices the underlying real estate every day:

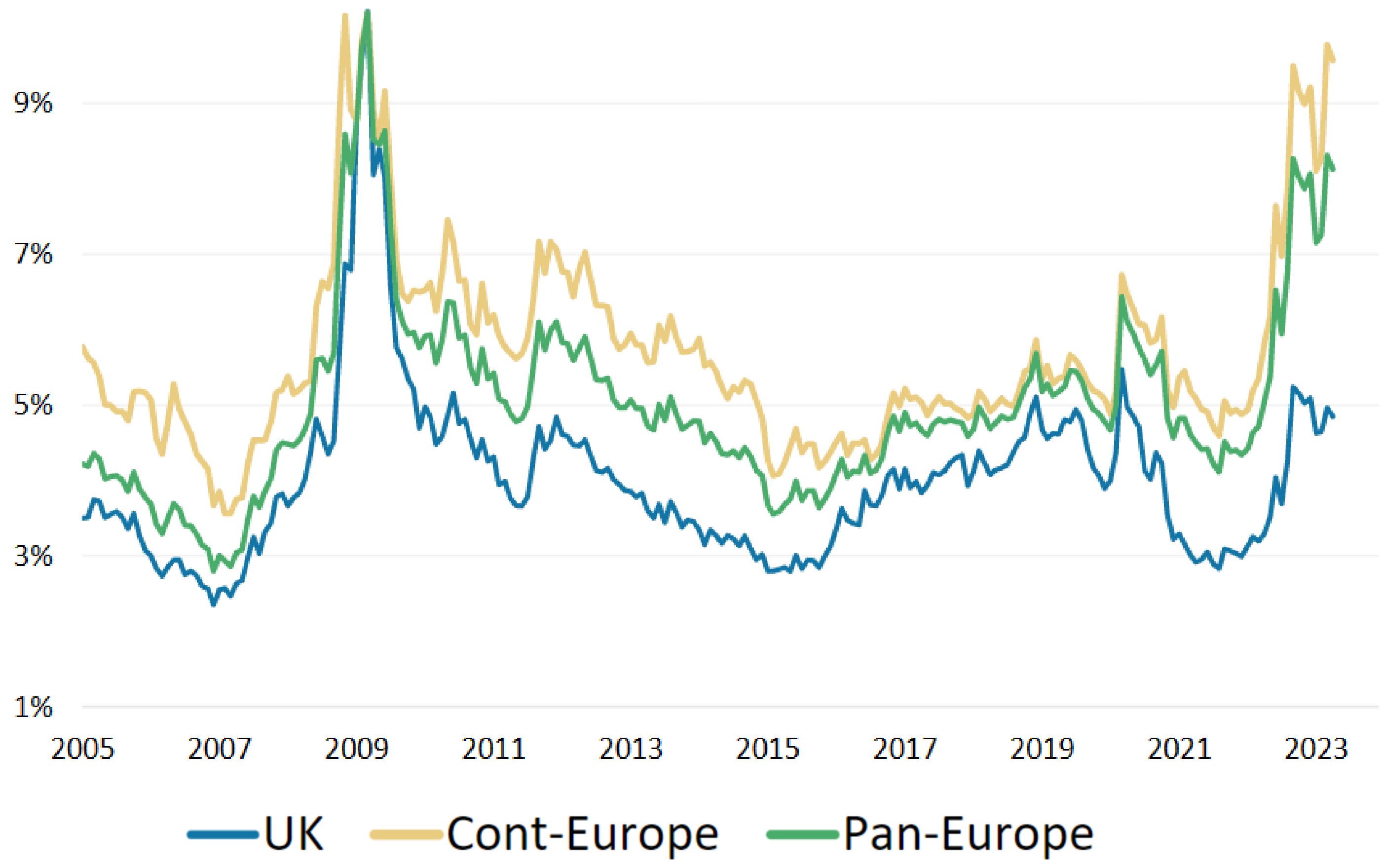
REITs already imply a c. 30% decline in real estate values.

This implied pricing suggests a c. 170bp outward yield shift, 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

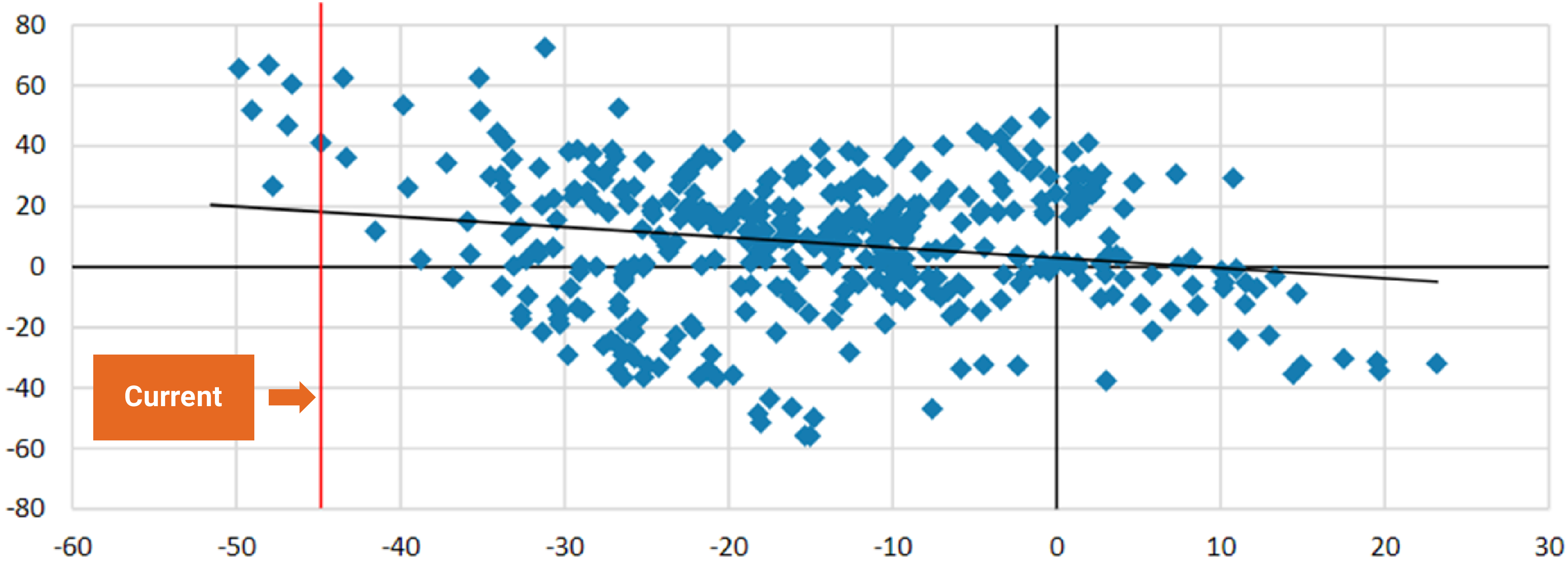
Weighted average debt maturity is 6 years

A REIT with 40% LTV and an average interest cost of 2% today, will need 3.6% compounded earnings 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)

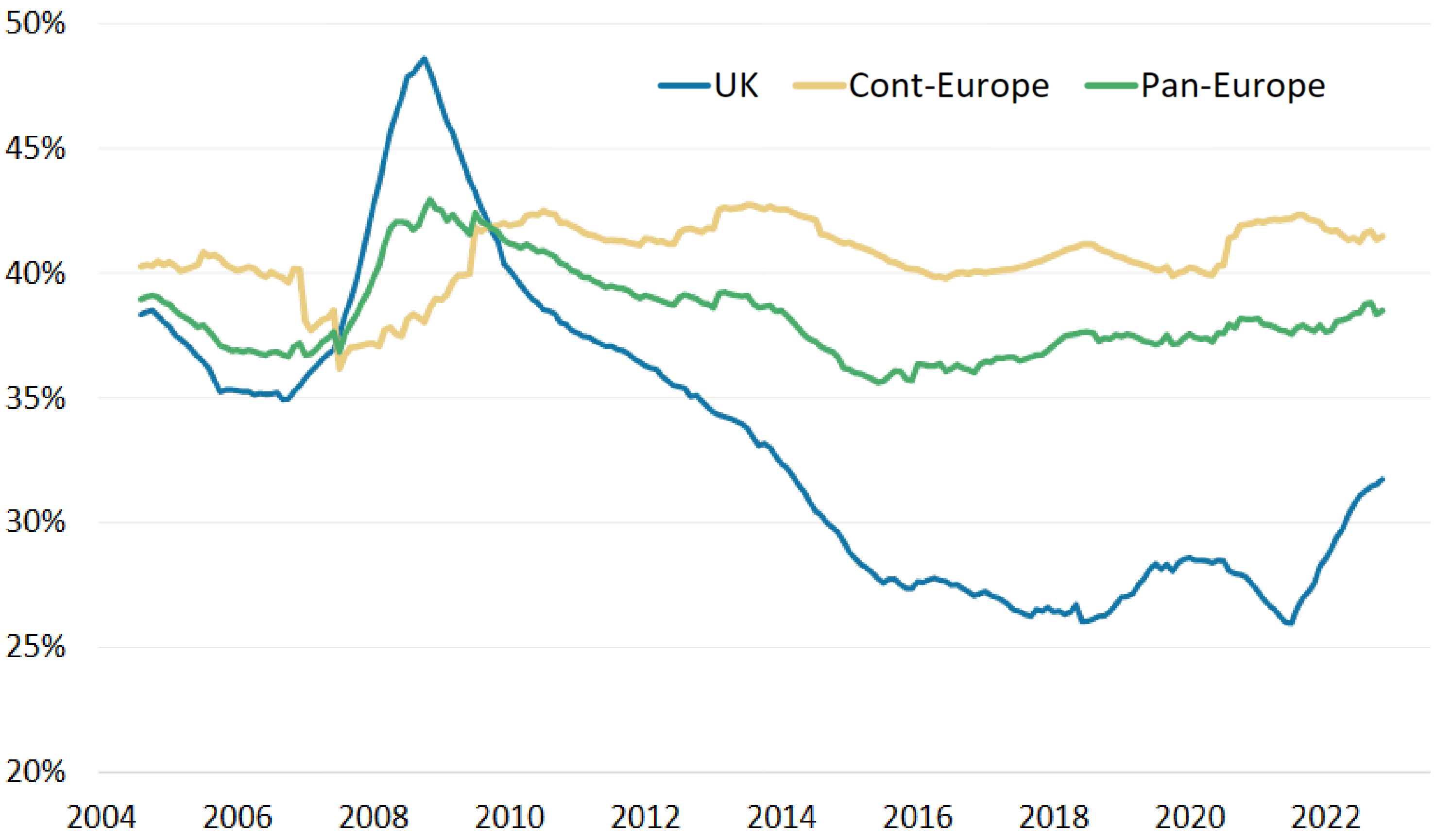
Monthly, since 1990



Source: Morgan Stanley

Leverage can 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.

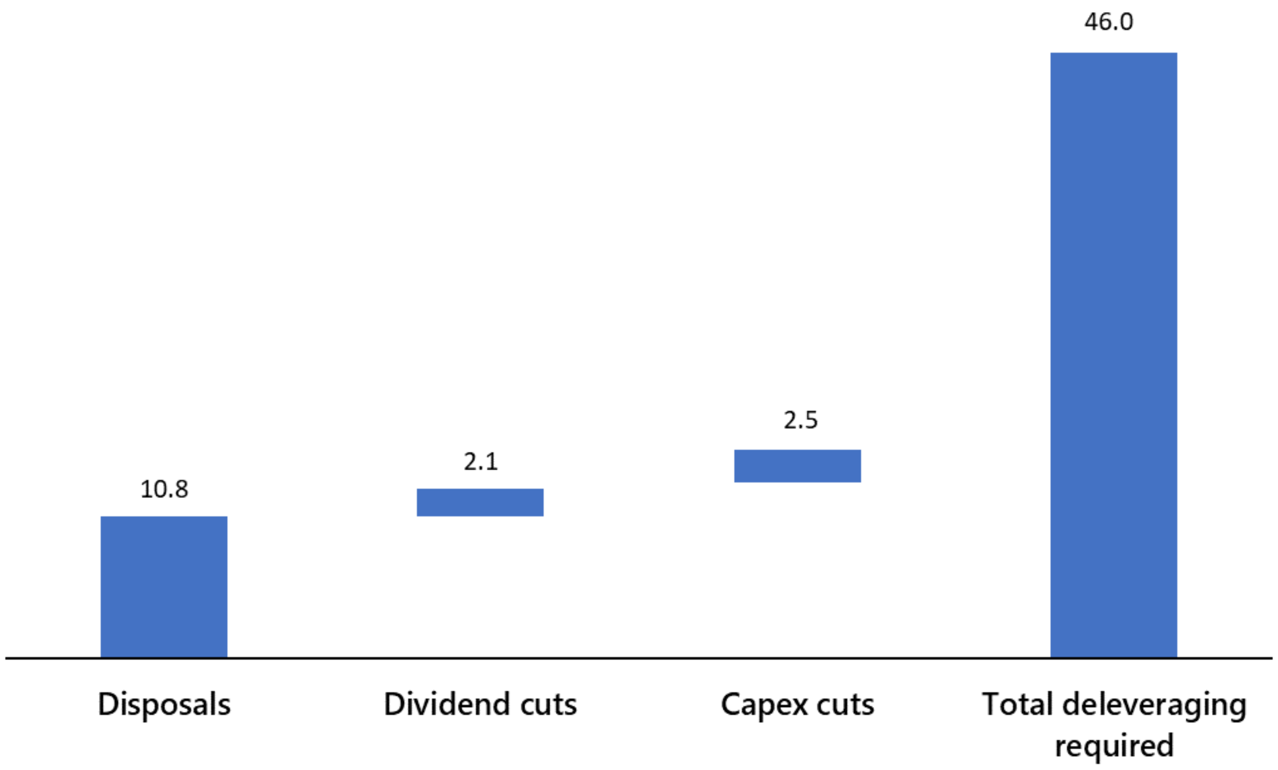
The Nordics and German residential most at risk.

REITs act to protect their credit ratings

Deleveraging through self-help measures

2023 year-to-date REIT deleveraging

Euro bln



Source: Kepler Cheuvreux

- **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**

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

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)

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

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

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

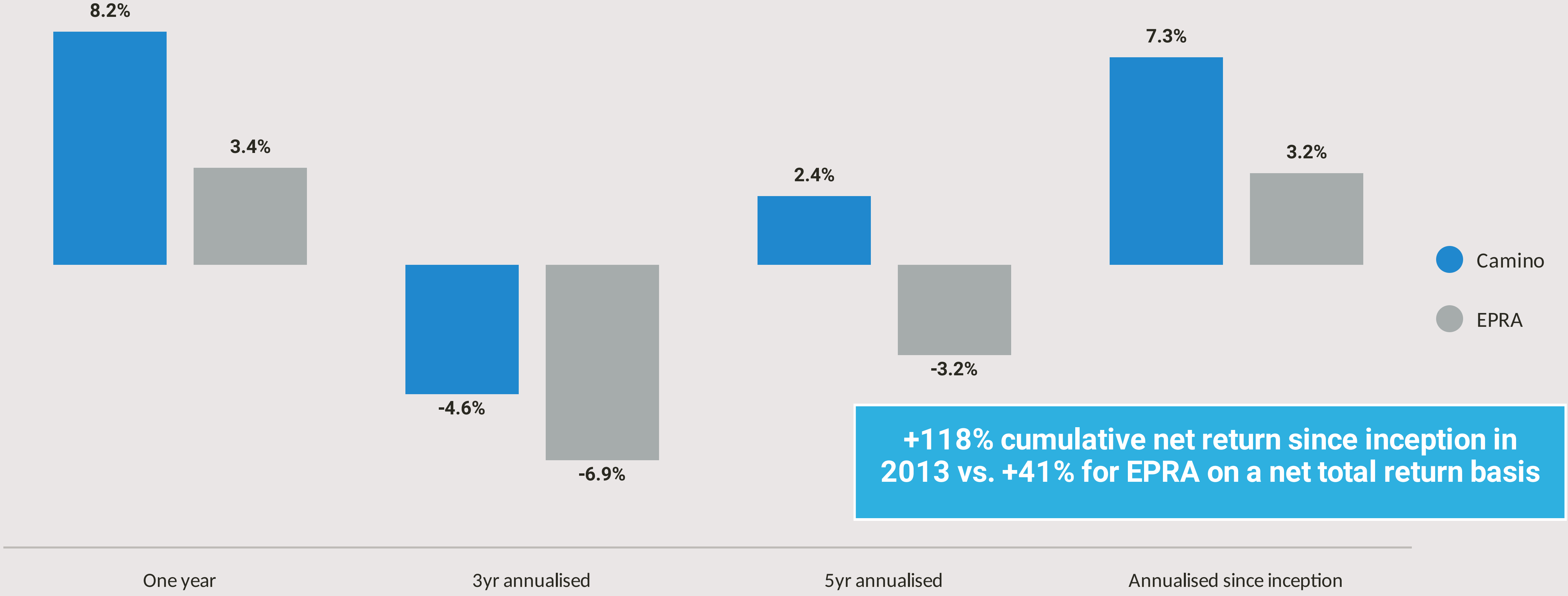
Multiple currency options

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

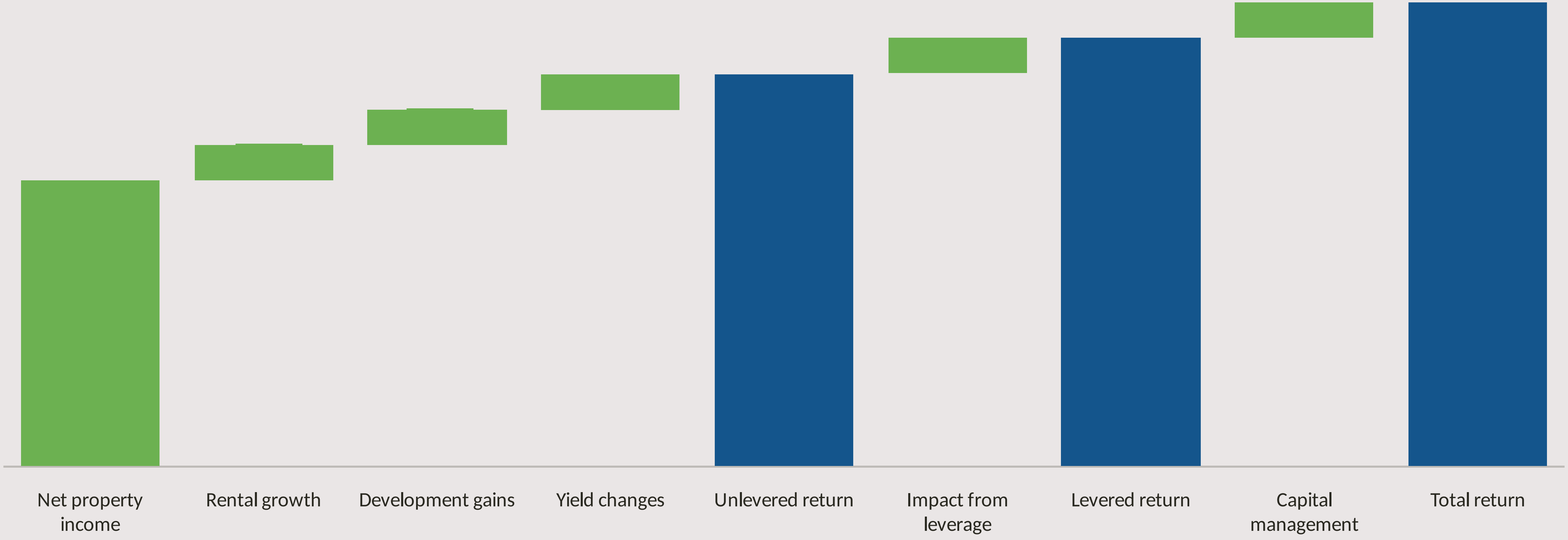


+118% cumulative net return since inception in 2013 vs. +41% for EPRA on a net total return basis

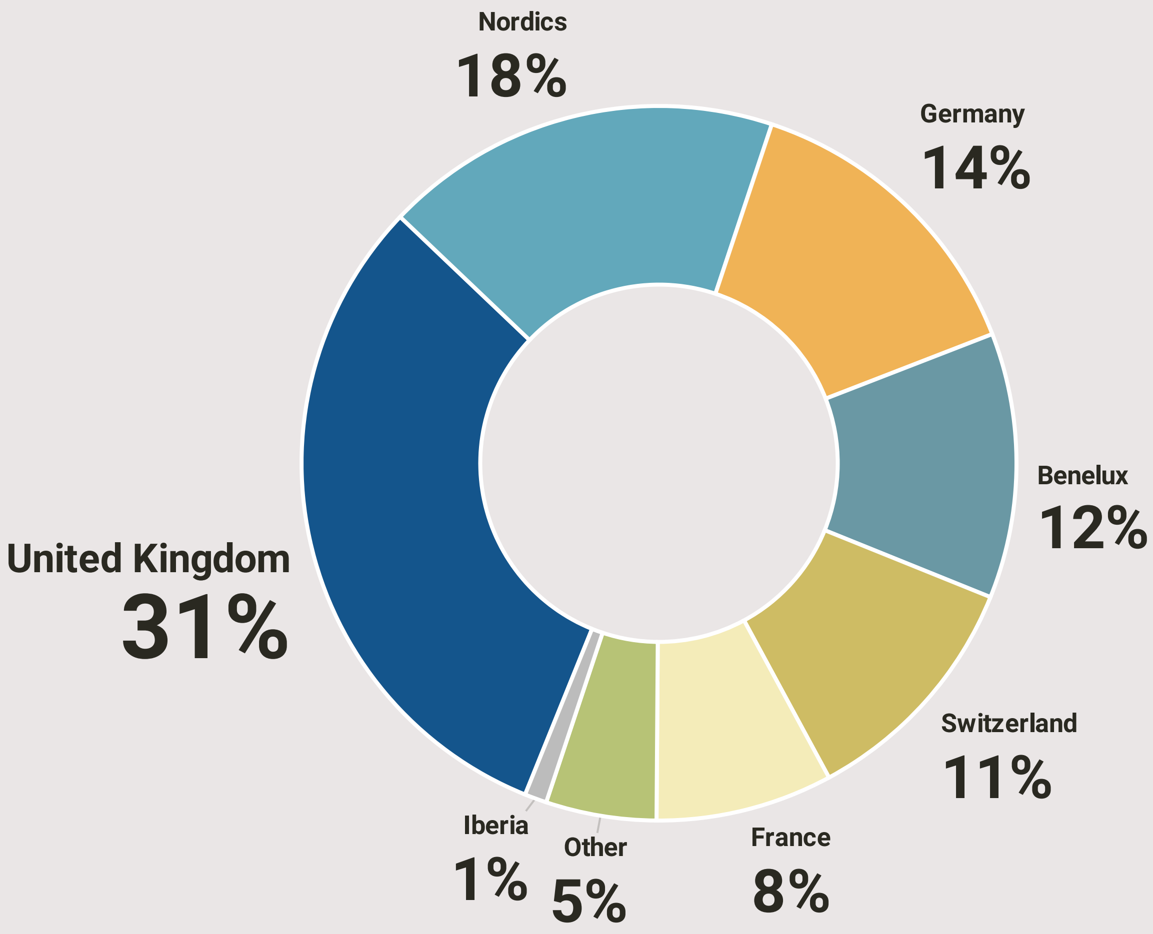
Source: Fund records. Returns updated to 27 November 2023

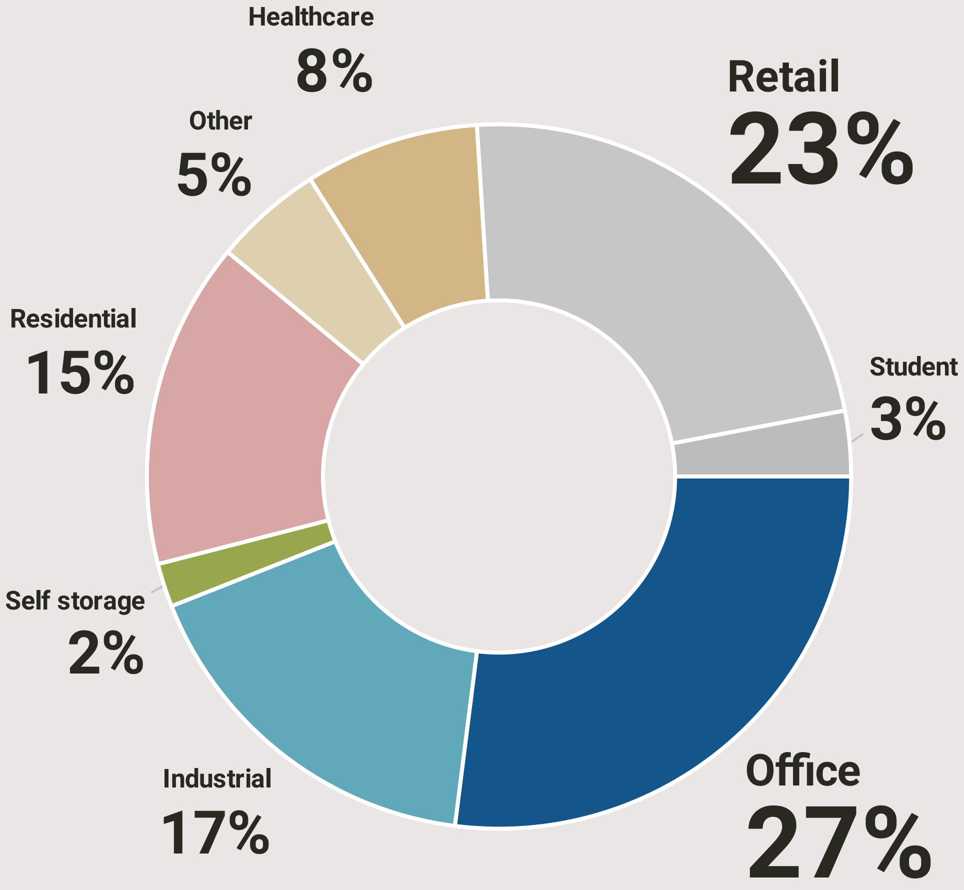
Valuation process based on total return relative to risk-adjusted cost of equity

Hypothetical illustration of total return estimation



Portfolio construction





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

Top ten holdings

5.3% dividend yield

7.6% cash earnings yield

38% loan-to-value

5.7yr debt maturity

27% discount to NAV

VONOVIA

Cibus
Converting food into yield

TAG
Immobilien AG

British Land

Fabege

NSI

SEGRO

PSP
Swiss Property

UNIBAIL-RODAMCO-WESTFIELD

SWISS PRIME SITE

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**
  Deloitte
- **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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Available on the following platforms:

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

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