Red Ribbon RE RISE India Real Estate Fund

A topical, multi-asset-class fund investing in Indian Real Estate

by Mike Foster

Table of contents

Important notice to readers

Our report is provided for informational purposes only, and does not, in any way, alleviate investor need for own due diligence. You should consult a suitably qualified advisor before committing your capital.

It is important that readers of this research document also read the Red Ribbon RE RISE India Real Estate Fund Fact Sheet, Placement Memorandum, and also see the Relevant Entities segment of this document for details on all parties.

We draw our readers' attention to the disclaimers at the foot of this report.

Fund features

Red Ribbon RE RISE India Real Estate Fund			
Fund data		**Fund data**	
Fund	Red Ribbon RE RISE India Real Estate	Currency	EUR, GBP and USD
Legal structure	SICAV SIF	Auditor	Deloitte Luxembourg
Type	Closed-ended, 8-year term, with 2-year extension	Administrator	RBC Investor Services Bank SA
Target equity	€200m	Bank and Custodian	RBC Investor Services Bank SA
Domicile	Luxembourg	Legal Advisor	GSK Stockman
Fund Advisor	Red Ribbon Fund Management Ltd	Fund Manager/AIFM	LIMESTONE PLATFORM AS Luxembourg
Fund Advisor JV	RE RISE GmbH, Germany	Share classes	Institutional income Institutional capital Well-informed income Well-informed capital
Asset Manager	Substantia Real Estate India Private Ltd		
Instrument	Equity		
Strategy	Multi-asset fund Income from Grade A commercial assets Redevelopment and new-build capital growth West and north regional focus	Minimum subscription	Institutional €/£/$1,000,000 Well-informed €/£/$125,000
		Investor exit	Mapped to disinvestment by fund
		Target returns	Capital share 9% IRR p.a. Income share 8% yield
Mainstream impact investment	Category 6 fund Environment: carbon-neutral certified Social impact: housing and refurbishment Technology: IoT, AI, Blockchain	Subscription fee	Institutional 1% Well-informed 5%
		Management fee p.a.	Institutional 1% Well-informed 2%
Target/ typical asset allocation	35% inner-city redevelopment 35% new-build 25% listed Indian equities 5% cash	Performance fees apply	

Source: Hardman & Co Research, Red Ribbon

The scope of this report

Our commissioning

Hardman & Co has been commissioned to provide research on the structure, procedures and advisors to Red Ribbon Asset Management with respect to its Advisory Mandate on the LS Opportunities Fund, Red Ribbon RE RISE India Real Estate Sub Fund, which has been authorised as an Alternative Investment Fund by the CSSF (Commission de Surveillance du Secteur Financier) in Luxembourg, as of 7 April 2021, updated 9 July 2021. The Fund is legally structured as a SICAV SIF.

We also summarise the reporting and control structures in place, articulated through LIMESTONE PLATFORM AS, the Alternative Investment Fund Manager (AIFM), which is a cross-border Hosted Solutions provider with a physical branch in Luxembourg. The branch acts as the Investment Manager for the Red Ribbon RE RISE India Real Estate Fund.

We rely on information provided by Red Ribbon's senior team and the AIFM to the Fund

In addition, we place the activities of the Fund in the context of the Indian real estate market and draw our readers' attention to the disclaimer at the foot of this report. We have relied on the information provided by the Fund Advisor and from the official documents, such as the Private Placing Memorandum, provided to us, in addition to the market information provided by third-party real estate sources. We use other sources on capital markets and the Indian economy – with relevance to real estate investment.

To be read in conjunction with official documentation from RE RISE, including Placement Memorandum

While this report refers to risks and risk mitigation, it is to be read entirely in conjunction with the Fund's Prospectus and all associated public information regarding the AIFM, its Fund Advisor, the Asset Manager and the other delegates involved in the Fund.

This report is designed for information purposes only

We assess the management of the Fund and its execution capability, its rationale and parameters for asset allocation, its risk/reward screening process, its due diligence procedures and the third-party advisors' capabilities and specific remits. For this, we have relied entirely on information provided by the managers of the Red Ribbon RE RISE India Real Estate Fund. In addition, we evaluate the current Indian real estate market, the market opportunity and the investment flows. Our views are based on a separate analysis of the Indian real estate market and information from third-party professionals, which we quote as the appropriate source on a case-by-case basis.

Our focus is on structure of whole Fund, market opportunity and Red Ribbon's capabilities in real estate portion of Fund

Our report provides a detailed assessment of the Red Ribbon RE RISE India Real Estate Fund's structure, as hosted through the LS Opportunities Fund SCA SICAV SIF umbrella platform. We look in greater detail at the specific investments envisaged. Note that there is also the ability to invest up to a maximum of 25% in quoted Indian equities, which are focused on real estate or construction entities, and we summarise the quoted equity selection criteria; however, in this report, we are not assessing India's equity markets. Our focus is on the *structure* of the whole Fund, the *market opportunity and the capabilities of the engaged parties* in the real estate portion of the Fund.

We have been given detailed access to manager, AIFM and all members of delivery team

Limitations on our enquiries

As a result of COVID-19, we have not visited the offices or the proposed geographical areas of investment; hence, significant reliance has had to be placed on information received from our client. We have met with the advisor via remote-location meetings. We have made enquiries from the relevant advisors and other actors regarding their respective capabilities and status on certain specific factors.

Hardman & Co refers to the operating processes within the managers and advisors, but has not made any enquiries and will not, in the future, make any further enquiries into the legal ownership of any assets, including special purpose vehicles (SPVs) and other corporate holding structures. Nor have we made enquiries into any current or future derivatives or agreements (such as profit share or overage payout) with third parties.

Part 1

Rationale for investment: structure, rewards and risks

Executive summary

A multi-asset-class, real estate vehicle invested through substantial, knowledgeable team

This is a multi-asset-class, real estate investment vehicle with the ability to invest up to a maximum of 25% of its assets into long-position Indian equities. The Fund makes investments directly into real estate.

It is supported actively by an Asset Manager in India, Substantia Real Estate India Private Ltd (Substantia). Substantia has both extensive local knowledge and contacts, and also the capabilities to assess a large number of potential direct real estate project investments and co-investments.

A good, immediate pipeline

The majority of the Fund will invest directly in yielding assets and development assets in Indian real estate, but the Fund may invest up to 25% of its AUM in quoted equities whose businesses are involved in Indian real estate. The framework of authorisation for investments includes 680 filters. 225 proposals have been sourced. The team is currently exploring seven vetted projects, subject to the successful close of the initial offer period, and aims to raise €100m. From this, we conclude that the Fund, supported by the AIFM, and its Advisor and Substantia, are qualified to assess the contractual arrangements entered into with vendors and with project partners.

Since 2016, and particularly in 2019, the Indian real estate market has opened up to global investors, crucially with long-term growth objectives.

Urbanisation: long trend, more than boom

Urbanisation is running at among the fastest rate for most emerging, top global economies. This key driver for growth is fuelling demand for owning real estate. By 2030, another 225m people will be added to the Indian urban areas, which is more than the population of Japan and Germany combined. India's population growth of 25m p.a. is equivalent to Australia's entire population.

Inward institutional investment hit $67.5bn in 2020-21, despite COVID-19

Maturing capital markets producing significant liquidity for recycling investments. India's latest FDI norms for real estate have been relaxed.

Global inward investment has been significant, and has risen steadily, from $45bn in 2015 to $67.5bn in the first nine months alone of the financial year 2020-21. Such sustained and growing investment has matured Indian real estate capital markets, resulting in large REIT listings involving a roll call of international marquee investors, such as Blackstone, Brookfield, Morgan Stanley and GIC. Growth in the securitised lending market has raised liquidity, providing exit strategies for global investors whose entry point was direct investments. With the raised clarity of structures via regulation from the Real Estate Regulatory and Development Act (RERA), in 2019, Foreign Direct Investment (FDI) norms were eased, at least on projects with more than 100 saleable units. This opening has created a highly investable real estate market. There is now a deep and liquid market, with demand for commercial assets in the top five cities being as large as that for all of London office space in 2019.

RERA: important positive, which we explore in this document

Indian real estate saw structural corrections from 2015, owing to the Government's 2016 demonetisation of 86% of currency, the 2017 introduction of unified taxation (Goods and Services Tax – GST) and, importantly, positive 2016 sector regulation through RERA.

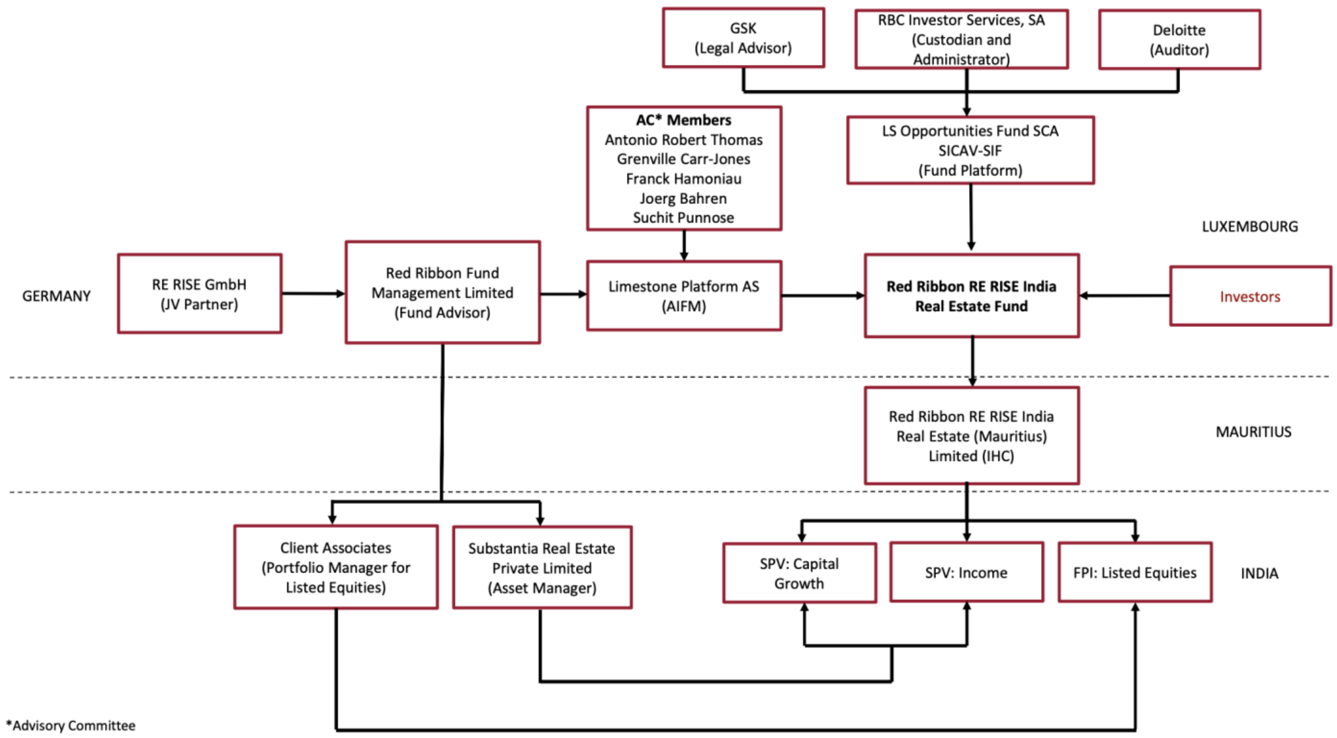
The S&P BSE Realty Index stood at a pre-pandemic high of 2,516 in January 2020, before falling to a COVID-19 low of 1,281, and then peaking at 2,846 in March 2021, before further rises, to 3,003 on 14 July 2021, an 11-year high.

A multi-asset fund offering capital and income share structure

Investment into the Red Ribbon RE RISE India Real Estate Fund provides depth and scalability for an investor across all asset classes, such as retail, commercial, residential and listed equities, through both Income and Capital Growth share classes. This multi-asset strategy offers diversified exposure to a real estate market set to quintuple in size to $1tr by 2030.

Fund structure

Organisational structure – Red Ribbon RE RISE India Fund



Note: For the Mauritius entity, there are service providers in the process of being appointed
Source: Red Ribbon

Why Red Ribbon RE RISE India Real Estate Fund?

Experienced "on-the-ground" asset management teams

Undercapitalised projects seek strong investment partners

- The Fund has prepared a pipeline of opportunities looking for investors, including sound projects that are under-capitalised.

Major legal changes in recent years

- Legislation in 2016 and 2019 has enabled more FDI, and established stronger, more transparent investment structures.

Strong ESG emphasis

- The Fund has an emphasis on investing in social impact projects, such as slum redevelopment, and pursues environmental impact through the active use of offsite construction technologies.

Unique multi-asset strategy ensures enhanced liquidity

- There are strong controls and a multi-asset allocation strategy, which help to optimise internal liquidity for project cashflow, as well as income distributions.

Wide range of investment opportunities

- The allocation to Listed Equities (overseen by the Advisory Committee – AC – organised by the AIFM) of real estate companies offers access to a broader opportunity to capitalise on asset opportunities.

Expanding on the points listed above

Team has managed collective AUM in excess of $10bn

In addition to close local developer contacts, the Fund benefits from access to the Fund Advisor's JV partnership with RE RISE GmbH, which has extensive experience in property development in emerging markets such as Brazil and China. There is also the presence of the wider AC team, which has managed in excess of $10bn of assets previously.

Funding developers (Capital Growth shares) and holding well-let stabilised assets (Income shares)

The Fund will offer Capital Growth shares backed by investments in developments with established developers, and Income shares secured on Grade A yielding assets, with multinationals and large listed domestic corporations.

Note that Red Ribbon RE RISE India Real Estate Fund is SICAV-SIF-domiciled and regulated in Luxembourg, on the LS Opportunities Fund hosted platform. LIMESTONE PLATFORM AS is the AIFM. Red Ribbon is the advisor to LIMESTONE, and Substantia has been engaged as the asset manager, locally in India, for the Fund.

Historical capital markets constraints, combined with urbanisation boom…

The Fund has the ability to invest up to 25% of AUM in listed equities of real estate developers, large infrastructure contractors and suppliers to the market, to capitalise on the projected growth of the Indian stock market in this sector in the coming decade.

Deliverable pipeline

…creating unique opportunities for Asset Manager to exploit

There is a strong real estate pipeline of opportunities. The AIFM, as part of its due diligence duties, undertook an initial review of potential target real estate assets in November 2019, in Mumbai and Pune. The AIFM, as the authorised entity, is responsible for operating the AC, membership of which includes representation from Red Ribbon and RE RISE. The Chair of the AC is the AIFM. Substantia, as the Asset Manager, refers potential Real Estate Opportunities to the AC as part of a comprehensive investment proposal and due diligence proposal. Substantia has identified a number of opportunities, and is currently preparing these targets, along with the required supporting material, for formal review by the AC. An important aspect of risk-mitigated real estate investment in India is the strength of the relationships developed by the Asset Manager on the ground.

The senior team at the Asset Manager has a strong track record, and its local presence provides the Fund with access to attractive projects.

In addition to the close, well-established relationships with local developers that Substantia and Red Ribbon bring, it should be noted that the business environment is conducive in three ways.

A growing market…

- First, Indian real estate is in rapid growth mode.

…and one where modernised investment structures have transformed transparency, and hence scope for JVs

A market seeking new forms of capital, particularly equity JV capital

- Secondly, political will and changed inward investment rules are bringing substantial FDI, enlarging the effective market. The 2016 legislation introducing REIT structures is a modernisation and standardisation of channels of capital into India. Changed structures work hand-in-hand with transparency of reporting and joint agreements. Standardisation and transparency of contracts between investors and developers has been a feature of the Modi administration, particularly since 2016. There is a synergy between the progress of modernising FDI channels into India and the upgrading of Joint Development Agreements (JDAs), which the Fund is likely to take advantage of.

- Thirdly, difficulties in the debt market in recent years have encouraged local developers to seek equity partners' capital.

Why Indian real estate?

In summary: dynamic urbanisation, major housing shortfall, short-term moderating GDP growth (throwing up attractive pricing opportunities), and medium-term demand underpinned

- Urbanisation is among the most dynamic in the world, and is anticipated to reach 590m by 2030.
- India has a significant estimated housing shortfall of 110m homes by 2022 and huge demand for clearance of ca.12m slum dwellings across targeted regions.
- Moderating GDP growth and constrained lending have led to attractive valuations.
- The country's middle-class population is estimated to reach 580m by 2025 (the EU's entire population is estimated to be only 470m by 2025).

Urbanisation ratio of 35%, vs. 60% globally, catching up fast

India's 35% urbanisation ratio compares with ca.60% for the world average, well behind other economies. China's ratio is 60%. Yet, at 580m, the size of the Indian middle class will be 1.25 times larger than that of the entire EU by 2025. Five Indian cities saw commercial real estate demand greater than London's 2019 13.2 msf (million square foot) office market demand.

110m housing shortfall; a real estate market moving towards $1tr

There is an estimated shortfall of 110m homes by 2022. The Indian real estate market is sizeable but has significant scope to rise, given its modest value per capita. It is currently worth $180bn, and is anticipated to reach $650bn by as soon as 2025. By 2030, it is anticipated to be the third-largest globally, reaching $1tr in size.

The Grade A vacancy rate in the median of the top seven largest markets was an impressively robust 11.3% at end-2020, reflecting strong regional growth among medium and large enterprises.

Setting aside COVID-19, GDP growth has been declining for the past three years, and inflation has been increasing. 1Q'19 annualised GDP growth was 5.7%, and fell to 4.2% by 4Q'20. One benefit to current investors from a moderation in GDP is that valuations may not be requiring ever-accelerating growth to support underlying expectations. It is clear that the 2021 situation regarding COVID-19 is of concern from a health, economic and political standpoint. We also note the mid-May 2021 cyclones in Gujarat and Mumbai. We anticipate that this growing market – which has, in recent years, benefited from additional funding sources, as itemised in this report – continues to present a number of opportunities, which the Fund is exploring.

See page 35 for more detailed assessment of the current position regarding COVID-19 (as of July 2021).

Investment mission of Red Ribbon RE RISE India Real Estate Fund

100% India-diversified

Diversification through geography and asset class

The Fund will provide a degree of diversification, through geography, project type (e.g. developments, as well as stabilised yielding assets) and asset class (e.g. direct physical investment and listed securities). Investment will be in the markets of the Western Region (Mumbai/MMR and Pune) and the Northern Region (Delhi/NCR).

Regional focus vs. pan-India strategy

The Fund takes into consideration the importance of regional focus in an appropriate way to gain exposure to India's real estate market, in contrast to strategies that emphasise, mistakenly, in our view, the concept of one India-wide market.

A balanced multi-asset portfolio approach

The investments in these regions will further be diversified into:

- up to 35% co-investment with developers in residential, commercial and mixed-use projects, and slum redevelopment;
- up to 35% co-investment in Grade A buildings with blue-chip tenants;
- up to 25% investment in listed equities of real estate developers and suppliers to the sector; and
- ca.5% of the value of the Fund held in cash for operating expenses and maintaining a liquidity buffer.

Capital structure within the Fund

No fund gearing, hybrid instruments for investment

The Fund does not gear, while there may be borrowing at the SPV level of the project.

The Fund will consider a mix of the possible ways of financing based on the project asset class and region. It could be structured debt, preferred equity, etc. Projects are all ringfenced. Joint ventures (JVs) will be the principal *modus operandi*.

Capital Growth shares will invest in development assets. Income shares will invest in yield-generating assets. Dividends from listed equities will pass to the Income Share Class.

Further information

Red Ribbon is advisor to LIMESTONE PLATFORM AS (the AIFM), and Substantia has been engaged for the purposes of Indian real estate-specific expertise by the Mauritius IHC (Intermediate Holding Company), and not directly by the AIFM.

See Part 3 of this report: *Procedures, criteria and due diligence for investment*, which outlines i) how the Investment Mission is adhered to, ii) how assets are sourced, iii) how investments are to be selected, and iv) an overview of the due diligence procedures as we understand them.

The role of the AIFM (LIMESTONE PLATFORM AS) and how the AC is organised is outlined in more detail below.

Luxembourg Fund, with Mauritian IHC, local Indian Asset Manager and European JV Partner

The Fund has engaged LIMESTONE PLATFORM AS as the AIFM. The AIFM has retained Red Ribbon as its advisor. Note that Red Ribbon is not regulated in Luxembourg. It is Gibraltar-regulated.

Managers, distributors and relevant entities

Important to refer to Private Placement Memorandum of July 2021

A summary table is provided in the section, *Relevant entities*, later in this section of the document. Following that table (on page 25) are extract summaries from the Private Placement Memorandum (PPM), dated July 2021. This Memorandum is authorised by the CSSF (Commission de Surveillance du Secteur Financier).

RE RISE has significant emerging market real estate expertise

- This Sub Fund is managed by LIMESTONE PLATFORM AS as the AIFM, and advised by Red Ribbon Fund Management Limited, Gibraltar ("RRFM"). RRFM has been engaged as the Distributor for the Sub Fund. RRFM is remunerated by way of an Annual Advisory Charge, Subscription Fees and Performance Fees.
- Asset Manager: Substantia Real Estate India Private Limited.

AIFM LIMESTONE performs active oversight of the strategy and also the execution

- The Fund has no JV Partners. The JV Partner to Red Ribbon is RE RISE GmbH, Germany. See short introduction by RE RISE: https://www.youtube.com/watch?v=Hk9vltlN3DE.
- Administrator and Custodian: RBC Investor Services, Luxembourg. See *Appendix 4* of this document.
- Auditors: Deloitte Luxembourg and Deloitte Mauritius.

The Fund is LS Opportunities Fund

- Fund: LS Opportunities Fund SCA SICAV SIF.
- General Partner of the Fund: LIMESTONE Opportunities Fund Management SA, Luxembourg.
- AIFM: LIMESTONE PLATFORM AS. The AIFM organises the AC, which reviews all investment proposals in accordance with the investment objectives of the Fund, as stated in the PPM.
- Legal Advisor to the Luxembourg Fund and the AIFM: GSK Stockmann, Luxembourg.
- Distributor appointed by the Luxembourg Fund: Red Ribbon Fund Management.
- Distributors appointed by Red Ribbon include Henwick Park Distribution Limited, Auxilia Capital Limited United Kingdom, Legacy Advisors Private Limited (Singapore).
- There is a Mauritian IHC, Red Ribbon RE RISE India Real Estate Fund (Mauritius), through which the local Indian assets are held.
- This Mauritian IHC has one sole investor, namely the Luxembourg Fund.

It is important that readers of this research document read the Red Ribbon RE RISE India Real Estate Fund Fact Sheet, Placement Memorandum, and also see the Relevant Entities segment of this document for details on parties above. Details below are from Red Ribbon.

Mauritius entity

As touched on above, investors into the Fund invest via Red Ribbon RE RISE India Real Estate Fund, which is domiciled in Luxembourg. The Fund invests via the Red Ribbon RE RISE Real Estate Mauritius Intermediate Holding Company (IHC), which is domiciled in Mauritius and which benefits from a DTA between Mauritius and India.

The Mauritius entity then invests directly into India, into i) the Capital Growth assets, ii) the Income assets and iii) the Listed Equities Foreign participating interest (FPI).

Structure, quantum and term

- Structure: SICAV SIF.

Target equity raise €200m. JV Partner manages €52m assets in four funds, and one of the Fund advisors works with funds with a total AUM in excess of €1bn.

- Target equity: €200m in different share classes – Capital Growth, Income, Institutional and Well-informed classes. The Fund will be open for subscription for a period of up to three years from the date of authorisation: 7 April 2021. Current funds under management in this product are nil. Current funds under management by RRFM in global real estate are €52.19m.

- A Euro-denominated Fund. There is no hedging and no managing of currency risk.

Clear plan for investor cash-out

- Term: Closed-ended eight-year term, with two (2) one-year extensions ("8+1+1"). The Fund will not make any new investments in new development projects under the Capital Growth share class after year five from initial launch and under the Income share class from year six from initial launch.

- The Valuation Day is the last business day of the year in Luxembourg, as stated in the Placement Memorandum.

- Dealing days take place on the first business day after the Valuation Day.

- Investor distribution: The Fund (technically a Sub Fund) is a closed-ended vehicle; thus shares are not redeemable. Please refer to the Placement Memorandum for further detail.

- The Fund's policy to target an investment allocation of up to 25% of its AUM in listed equities in the Indian stock market is, in part, to optimise risk-adjusted diversified returns, but also to support medium-term liquidity for the Fund.

A Real Estate Fund, investing in direct real estate and in Indian equities materially exposed to real estate

Asset strategy

- This is a Multi-Asset Real Estate Fund (as authorised by the CSSF). Within real estate, this is delivered via a multi-asset strategy.

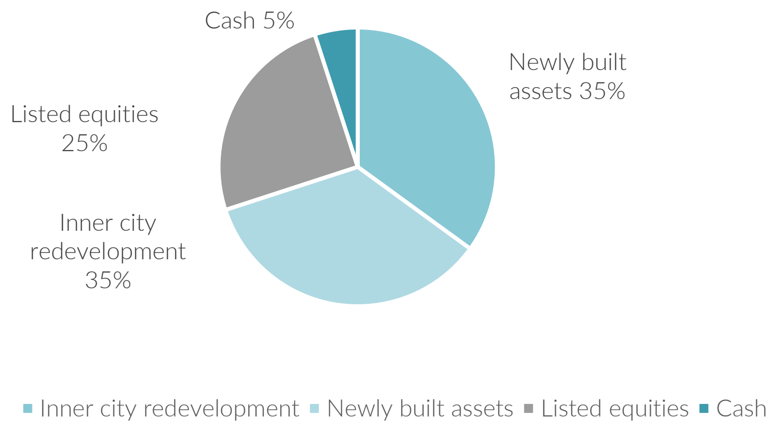
- Up to 25% is invested in listed equities, which is invested by a separate fund manager and retained by the AIFM, and with all equity investments pre-approved by the AC.

- There will be a regional focus on the Western Region (Mumbai/MMR and Pune) and the Northern Region (Delhi/NCR).

Inner-city redevelopment, with high positive social impact, is core part of Fund strategy

"Triple P" – bottom line of Planet, People and Profit

Target asset allocation



Source: RRFM

Asset strategy: an article 6 Fund with policies on ESG, offsite construction technology and Mainstream Impact Investment (MII)

ESG and environmental approach as outlined in Placement Memorandum

Active prioritising of positive ESG and ongoing monitoring of investee progress

The Fund aims to assess the risk of exposure to, and the impact on, material ESG issues, aiming mainly to invest in well-governed businesses that strive to reduce the environmental impact, while creating value for society. The investment selection process seeks investees with a more positive impact on ESG issues. The AIFM, supported by the AC, adopts a structured due diligence process that aligns with the OECD Due Diligence Guidance for Responsible Business Conduct.

An "Article 6" product under SFDR; thus does not have ESG or sustainability as prime objective

The Sub Fund does not promote environmental or social characteristics (a so-called "Article 8 product" under Sustainable Finance Disclosure Regulation (SFDR); nor is it classified as a product that has sustainable investments as its objective (a so-called "Article 9 product" under SFDR).

Our understanding of the ESG and environmental aspirations

The ESG attributes being sought-after to being carbon-neutral-certified and using modern methods of construction. There will be elements of affordable housing and of rehabilitation and redevelopment.

The Fund has a technology strategy, including IoT SMART buildings, blockchain-based quality assurance and AI-enabled optimised design.

ESG is brought together under a commitment to MII.

Target returns and minimum subscriptions

Target returns

Targets of 20% capital and 10% income on respective asset class shares

The Fund Manager, supported by the AC, based upon the assessment of the market conditions and the pipeline of opportunities that has been built up, aims for the following target returns:

- Capital Growth share class ROI: 20% p.a. The focus will be on developing assets.
- Income share class ROI: 10% p.a. The focus will be on standing, yielding assets.

Hurdle rates

8% and 6% hurdles, respectively

No Performance Fees are payable unless the following hurdle rates are crossed:

- Capital Growth share class ROI: 8% p.a.
- Income share class ROI: 6% p.a.

Hurdle rate reset each year; therefore – importantly – not rolling forward underperformance between years.

The hurdle rates affect the payment of Performance Fees. These will be applied on the percentage rate by which the net asset value (NAV) per share will exceed the respective hurdle rates during the specified Calculation Period. If there is an "underperformance" at the end of the considered Calculation Period, it will not be carried forward to the following Calculation Period. The Performance Fee will be accrued and paid out annually to the Investment Manager.

Fees

Investors should refer to the Placing Memorandum for a full list of fees

Annual Management Charge: 1% to institutions, 2% to well-informed class investors

Fees include:

- Annual Management Charge: 1% p.a. (NAV) for institutional investors, 2% p.a. for well-informed class investors.
- Performance fees: Capital Growth shares: 10% (over 8%), 20% (over 16%) and 30% (over 24%).
- Performance fees: Income shares: 10% (over 6%), 20% (over 12%) and 30% (over 18%).
- Subscription fees, charged to the Fund and not to investors: 1% for institutional investors, 5% for well-informed investors.

Subscription

Minimum subscription

- Sophisticated/well-informed investor: €/£/$125,000,
- Institutional investor: €/£/$1,000,000,

Subscription fee

- 1% for institutional investors, 5% p.a. for well-informed,
- There are no redemption fees,

Investment phase, timing

Investment funds to be drawn down once specific projects initiated

- We understand that the Fund has a pipeline of potential projects where considerable due diligence has been carried out, and it is expected, therefore, that it can deploy funds into pre-identified projects. COVID-19 has an impact, which is changing over time. We refer to the latest update on COVID-19 received from Red Ribbon, on page 35.
- The Placement Memorandum refers to the investment objective, strategy and policy, as well as other topics: "The Sub-Fund may hold aforementioned Real Estate either directly or indirectly through one or more entities (including special purpose vehicles) in which the Sub-Fund may hold a participation interest ranging between 10% to 100% and/or in conjunction with one or more third parties. Control of these entities and special purpose vehicles will be ensured via majority participations and / or additional contractual arrangements, in case of minority participations with the restrictive covenants that would enable the Sub-Fund to control the assets in those entities. Those special entities may have different board members and financial year end from those of the Company." See Appendix D, of the Red Ribbon RE RISE India Real Estate Fund Placement Memorandum.

Dealing Day process during the offer period

- "The Valuation Day of the Sub Fund shall take place on the last Business Day in Luxembourg of each year period (annual calculation frequency) and any other day as may be determined by the General Partner for the purpose of calculating the NAV." (Source: Red Ribbon RE RISE India Real Estate Fund Placement Memorandum.) *Investors should refer to the Placing Memorandum.*

Valuation

A full extract from the Placement Memorandum is reproduced in *Appendix 2* of this document. Below, we summarise some key points.

Valuation methodology

The AIFM is responsible for the NAV.

As stated in the Placement Memorandum, the value of the participations in investment funds shall be based on the last available valuation and in accordance with the methods provided by the instruments governing such investment funds.

It is expected that investments in real estate assets will be valued with the assistance of one or several independent valuer(s) designated by the General Partner in consultation with the AIFM for the purpose of appraising, where relevant, the market value of a property investment in accordance with its/their applicable standards.

RICS Red Book through Fund life, including approach of potential liquidation

The valuation of a property investment is based on RICS Red Book through the life of the Fund, and this – we understand, although not in the Placement Memorandum – is including the approach of potential liquidation dates.

It is the intention that the CSSF Circular 02/77 will apply in the event of an error in the NAV calculation, except that the materiality thresholds referred to therein shall be set at 2%.

Summary of RRFM and JV Partners' management and track record

Current funds under management (FUM) in global real estate are €52.19m.

RRFM's mandates and expertise are global real estate

€52.19m FUM

Funds under management (FUM)

Launched	Exit	Third-party FUM, €m	Fund	Asset class	Country
2008	2022	3.76	Portfolio Fund 1	Feeder fund, diverse	Global
2009	2021	28.92	Chinese	Residential, development	China
2009	2022	6.60	Portfolio Fund 2	Feeder fund, diverse	Global
2010	2021	12.90	Latin American	Residential, development	Brazil

Source: JLL and Real Estate Intelligence Service

The advisor is thus an experienced real estate specialist, with expertise in several of the major developing markets worldwide.

RRFM shareholders, directors and management

RRFM Limited (Gibraltar)

Ordinary shareholder	Proportion of shares
Red Ribbon Asset Management PLC, UK	60.0%
Suchit Punnose	40.0%

Source: RRFM

RRFM Limited team

John Sheath – Chairman

John is an internationally experienced Chartered Director and independent non-executive director (NED). John focuses on risk and corporate governance, business development and business improvement, having served several blue-chip clients in these areas, as well as having been an NED for a variety of regulated businesses. While maintaining an extensive contact database, with significant benefit to his roles, he is also known for creating the only Isle of Man independent register for NEDs, serving the island as a philanthropic venture. His wide experience within both the Isle of Man and internationally gives John an insight that allows him to add great value, whether as a board member or consultant. John is resident in the Isle of Man and, as an NED, represents regulated businesses and listed funds. He is also passionate about technology.

Suchit Punnose – CEO (AC member)

Suchit Punnose is also the CEO and Founder of Red Ribbon Asset Management PLC. A highly successful entrepreneur and experienced investor, with expertise in emerging markets, Suchit is now building on his extensive experience to offer a mandate to investors seeking to align their financial portfolios with these values. Suchit is executing investment strategies in growth markets, and is focused on projects in the UK and with affiliates or subsidiaries on the Indian subcontinent. His entrepreneurial talent and diverse knowledge of the cultures of Europe and India equip him with the skills required to develop projects in the manner, and with the governance criteria expected, of a UK public company.

Suchit Punnose is a shareholder of Substantia Real Estate and RRFM.

Anthony Frieze – Managing Director

Anthony spent most of his banking career, spanning more than 20 years, at JPMorgan, BNY Mellon, Deutsche Bank and Allianz/Dresdner Kleinwort, originally as a stockbroker and then as a senior product specialist and relationship manager in agency repo and collateral management. His clients included some of the world's largest sovereign wealth funds, as well as a wide range of leading central banks and governmental and international investors across Europe, Asia Pacific and the Middle East. As part of the senior management team, he headed the department's risk management committee, and also secured approval to launch a new money market fund offering. In the time since leaving the City, and before joining the Fund Manager, he was CEO of a startup discretionary macro futures fund, and concurrently became a specialist in placement advisory and capital introduction, with a focus on alternative investments. His relationship network has been built around the UK-based family office and wealth advisory world. He has been based largely in London, but has also had postings in Hong Kong and New York. He was also, for several years, the financial services practice lead at a startup PR agency, where he advised offshore financial centres, including Jersey Finance and the Alternative Investment Management Association.

William Prescott – Chief Impact Investment Officer and Executive Director

William is an entrepreneur with particular expertise in emerging technology markets. He has founded and successfully exited a number of technology-based ventures. He is an experienced mentor, business consultant and investor in early-stage ventures. Expertise includes product, process and business model innovation.

He holds a Master's degree in Physics, Microelectronics & Telecommunications, and an MBA from the University of Exeter Business School.

His focus is on innovation systems architecture, impact investment, sustainability and business model innovation. Driven by a belief that vibrant, healthy and resilient economies must be led by businesses that align their core purpose to the creation of positive social and environmental outcomes, William collaborates with colleagues at the University of Exeter and worldwide to explore business models, strategies and processes aimed at helping businesses create socioeconomic value.

Marcus Wohlrab – Executive Director

Marcus is a senior international executive with over 30 years' experience analysing and valuing companies. His expertise also comprises valuations of venture capital and private equity funds to fully listed companies and their derivatives, assessing their risk profile for his institutional and private clients, as well as for his own portfolio.

Marcus's investment banking experience includes roles at Wood Gundy (Canadian investment bank), Paine Webber (US investment bank) and UBS (Swiss bank), where he advised his institutional and private clients as to the investment eligibility of single companies, as well as investment products such as structured products and funds. He was Executive Vice President at NASDAQ and EASDAQ stock markets, running European and Middle Eastern sales, marketing and research teams (comprising over 100 personnel). There, his team advised corporates on investment community positioning, considering factors such as valuation, risk, market segment and competition, completing several-hundred corporate and corporate financial instrument transactions. He sat on the board of the Corporate Investment Counsel, advising management on strategic company decisions and personally investing in a number of these companies where he is also a board member.

Marcus is also a co-founder of the Gibraltar Stock Exchange (GSX Limited).

Summary of Substantia Real Estate India Private Limited's management and track record

Substantia Real Estate, Asset Manager to the Fund

Suchit Punnose – Chairman

Suchit Punnose is a shareholder of Substantia Real Estate and RRFM.

Sunny Chowdhry – Director of Projects

Sunny Chowdhry has 26 years' experience in Indian real estate, starting in 1995. He is the former Associate Director of Country Garden Holdings, with a presence in 13 countries, as well as an Associate Director of RISLAND, a ca.$160bn listed enterprise. Sunny is a former JLL Operations Head of Retail Malls, and was previously head of a family office, with $1bn of real estate assets under management.

Advisory Committee

LIMESTONE PLATFORM (the AIFM) actively involved in oversight of processes, and chairs AC

The General Partner may, in consultation with the AIFM and the Investment Manager, as the case may be, establish one or several internal ACs. The General Partner of the Company is Limestone Opportunities Fund Management S.A., the unlimited Shareholder of the company, a company incorporated under the laws of Luxembourg.

The AIFM, LIMESTONE PLATFORM, is the Authorised Entity from the regulator's (CSSF) perspective, and fuller detail is provided later in this document, under the heading, *The role of the AIFM* (page 24).

Antonio Thomas – AC Chairman

Antonio is the CEO of LIMESTONE PLATFORM AS, Luxembourg, and Resident Board Director for the UCITS and AIFM vehicles.

Grenville Carr-Jones – AC Member

Grenville is an NED of LIMESTONE PLATFORM. He has 45 years' global real estate expertise, and is a fellow (subject matter expert) of RICS and the Luxembourg Institute of Directors.

Suchit Punnose – AC Member and Fund Advisor

JV partner to Red Ribbon, listed above in this document, is RE RISE GmbH, Germany

Jörg Bähren – AC Member and JV Partner to Red Ribbon

Franck Hamoniau – AC Member and Capital Introduction to Fund

The members of the AC shall be appointed by the General Partner in consultation with the AIFM and/or the Investment Manager, as the case may be, and will be composed of representative(s) of the board of managers of the General Partner and representative(s) of those of the Investors who have committed to subscribe or subscribed substantial portions of the capital of the relevant Sub Fund and/or representative(s) of the AIFM or the Investment Manager and any others who wish to be represented on the AC, and others whom the General Partner may invite, as further disclosed in the relevant Sub Fund Appendix.

The AC role as per Placement Memorandum

Once established, an AC shall meet, as required, to review proposals to invest/disinvest and then forward such proposals to the AIFM and/or Investment Manager, as the case may be, for decision.

Our understanding of the likely investment recommendation process

Substantia recommends assets to the AC and the AIFM, which, by internal statute, have up to 30 days to review. The AC is required to meet at least once a month, but it is anticipated that this could frequently be more often. We understand that there is a series of systems in place to facilitate a significantly faster approval process. Once agreed, the AIFM – LIMESTONE – will instruct Substantia.

The AC – chaired by LIMESTONE – must approve recommendations for eligible listed equity investments

The AC – chaired by LIMESTONE – approves recommendations for eligible listed equity investments, and the agreed universe can only be altered by the AC.

To date, the AC has pre-approved a list of 350 BSE- (Bombay Stock Exchange) and NSE- (National Stock Exchange) listed equities, within which a quoted equity portfolio will be constructed. All 350 have businesses that are more than 50% directly exposed to the broad real estate and building materials sectors.

Regular direct AC visits to India

All AC members have been to India to inspect a number of assets. The AIFM (LIMESTONE) will conduct annual, on-site visits in India.

The role of the AIFM

LIMESTONE is overarching Portfolio Manager

LIMESTONE PLATFORM AS is the AIFM of the main fund, and is a regulated Alternative Investment Fund Manager.

As the AIFM, Limestone chairs the AC.

The General Partner appointed LIMESTONE PLATFORM AS as AIFM of the company by means of an AIFM agreement, dated 11 July 2016, with an effective date on 25 July 2016, to provide portfolio and risk management, administration and marketing services in accordance with the AIFM Law.

LIMESTONE PLATFORM AS is a private Estonian-based investment management company, founded in August 2007, which has been granted an AIFM-authorised management company activity licence for the management of alternative investment funds and the supply of securities portfolio services by the Estonian Financial Supervisory Authority, according to the provisions of the AIFM Directive.

The Supervisory Board of the AIFM is composed as follows:

- Mr Markku Malkamäki, Chairman;
- Mr Heikki Sirve; and
- Mr Eero Leskinen.

The Management Board of directors of the AIFM is composed as follows:

- Mr Paavo Põld, Business Development;
- Mrs Triin Lindma, Operations; and
- Mr Antonio Thomas, CEO.

AIFM has overall responsibility

The AIFM may delegate, under its own responsibility and control, the functions of portfolio or risk management and administration – in particular, the registrar, transfer and administrative agent services of the company, and marketing, where applicable.

The LIMESTONE PLATFORM AS, Luxembourg Branch, shall act as the delegated portfolio manager of this Sub Fund (the "Investment Manager").

Checks and balances

To reiterate, there are a number of checks and balances, and all parties have strong relevant expertise

RBC Trustee & Depositary Services is the Depository for the Fund, and is independent of the AIFM. See *Appendix 4* of this document for more details.

No investment can be made without the agreement of the AC and the AIFM. The AC has three representatives: LIMESTONE as AIFM, RE RISE Germany and RRFM. The three have long experience in real estate.

Relevant entities

Relevant entities

Name	Description	Regulatory status	Domicile
LIMESTONE PLATFORM AS	Fund Manager and Management Company*	AIFM, EFSA	Estonia
LIMESTONE PLATFORM AS, Luxembourg Branch	Investment Manager	Branch of AIFM, EFSA	Luxembourg
LIMESTONE Opportunities Fund Management S.A.	General Partner	n/a	Luxembourg
LS Opportunities Fund, SCA SICAV-SIF	Fund	SICAV-SIF, CSSF	Luxembourg
RRFM Ltd	Fund Advisors**	AIFM, CSSF	Gibraltar
RE RISE GmbH	JV Partner**	n/a	Germany
Substantia Real Estate India Private Ltd	Asset Manager	RERA Registration pending	India
Anarock, CBRE, Knight Frank	External Real Estate Advisors	n/a	India
Deloitte Luxembourg, Deloitte India	Auditors	n/a	Luxembourg, India
RBC Investor Services SA	Depository	n/a	Luxembourg
GSK Stockmann	Fund Legal Advisor	n/a	Luxembourg
Lextone Legal, Ardent Legal	Asset Manager Legal Advisor	n/a	India

**Chair of Advisory Committee of the main fund, **Sit on the Advisory Committee of the main fund; Source: RRFM*

Investment Manager and AIFM have overall responsibility for investments and calculation of NAV

LIMESTONE PLATFORM

The Investment Manager (LIMESTONE PLATFORM AS) has appointed Red Ribbon Fund Management Limited as an investment advisor to this Sub Fund (the "Investment Advisor").

Investment Advisor is Red Ribbon FM Ltd

Red Ribbon

The Investment Advisor is a global financial service provider established in Gibraltar, offering a wide range of investment management services to corporations, municipalities, entrepreneurs and high-net-worth individuals. The Investment Advisor is a fund manager regulated by the Financial Services Commission of Gibraltar, and has the experience, network and infrastructure in India to identify, acquire, add value to, and dispose of, target assets for the Sub Fund.

The duties of the Investment Advisor include the following: i) identification of a potential investment opportunity that meets the investment policy of the Sub Fund; ii) performance of the necessary due diligence on the assets through a Red Ribbon group company located in India, in particular Substantia Real Estate India Private Ltd; and iii) preparation of the investment memorandum and its submission to the Investment Manager for its further consideration.

The appointment of the Investment Advisor shall, in no way, limit the responsibility of the Investment Manager and the AIFM.

Depository

RBC

See *Appendix 4* of this document.

Risks

Capital shares rely ultimately on transactions

Ability to exit projects dependent on sale of units

The Fund's ability to exit a residential project is ultimately a function of the timely sale of all the units in the development. However, the developers are selected by the Asset Manager, based on their established track record to market and sell units.

There may be negative "long-tail" systemic COVID-19 effects

COVID-19 clearly major issue, and risks include end-user funding and supply chain, including labour

A COVID-19-related sales slowdown may lead to long-tail effects on the banking system and buyer confidence. There is a risk (so far avoided) of the market suffering negative feedback loops. Unemployment rises and deteriorating personal finances – perhaps especially in the "affordable housing client" segment – may be significant.

Pandemics may pause urbanisation. Mumbai is not London, but London real estate prices have certainly fallen compared with smaller cities/towns.

Past five years' legislation been supportive to FDI-funded model

Politics have been destabilised by COVID-19, and the Indian government has a significant agenda to introduce the private (often regulated) sector into more of the economy.

Inflation and currency weakness is a problem, entrenched

Ongoing, agrarian and inflation situations to be further addressed

Inflation is stubbornly high. Food inflation is high, and is a large part of the basket. Agrarian reforms are not wholly unpopular, even with farmers, but some Indian regions are seeing particular resistance. This may be associated, in particular, with the reduction and abolition of food price subsidies. The abolition of the food price floor in the UK in 1846 caused a decade of political (but not economic) turmoil.

Rupee weakness, but fund priced in Euro

Rupee weakness has slowed in the past couple of years, but is a feature. The Fund is *not* priced in Rupees, so there is a translation effect, but we believe there to be no project-transaction currency mismatch. We believe costs and income to be in the local currency.

We consider team and structure robust, but Hardman & Co's endorsement is a generalist one

Strong AC structure evident from information provided to us

Red Ribbon RE RISE India Real Estate Fund and its key stakeholders have experienced well-connected, specialist professionals on their boards and senior management teams. Coordination of expertise is important. We are satisfied that there are good systems in place, which are articulated via the AC and the Portfolio Manager. While we have met the team and understand the procedures regarding the IC, we have not reviewed all internal processes and procedures.

Essential to have strong criteria from start (land registry) to end (corporate structures on clean exit)

We have seen the criteria for investment and the ceilings imposed on factors such as loan to value (LTV), on individual schemes and overall. We have seen the criteria for i) sector and project risk-dispersal/concentration, ii) target for senior debt, and iii) possible ratios between bond or mezzanine or equity funding for projects.

The risk-mitigation role of the AIFM

AIFM is actively involved

LIMESTONE PLATFORM's role was summarised earlier in this report.

NAV calculation

From the Placement Memorandum: "The valuation of the relevant portfolio and the production of the NAV calculation will be a complex process which might in certain circumstances require the AIFM and its Advisors to make certain assumptions in order to make the necessary calculations. The lack of an active public market for securities and debt instruments will make it more difficult and subjective to value investments of the Sub Funds for the purposes of determining the NAV."

Derivatives and debt

Summarised from the Placement Memorandum: "The Fund may use derivatives. The Sub Fund may only use financial derivative instruments to hedge all or part of its assets against currency or interest rates risk."

The Sub Fund will not make use of borrowing and leverage for investment purposes. However, as per the Placement Memorandum, borrowing of less than three months will be authorised exclusively "to fulfil obligations assumed in relation to investments where there is a shortfall caused by a Defaulting Investor and to pay other liabilities the Sub Fund may incur".

In summary

All real estate investments bear risk, including exposure to macroeconomic factors, which is out of the hands of the managers. AC oversight is an essential and important positive. The main risk may be the selection of strong development partners. Projects typically last 24 months. We understand that the Fund conservatively assumes project timelines of 36 months. However, the past two years have illustrated that there can be substantial step-changes in risk over this time period.

Part 2

Indian real estate, macroeconomics and capital markets

Indian real estate: underlying growth drivers

India is now the fifth-biggest economy in the world, set to become the third-largest by ca.2030, with 25m births p.a. (one every 1.25 seconds).

Urbanisation

Urbanisation a major factor – India arguably has strongest urbanisation story in the world

For real estate demand, urbanisation is a clear positive, and is a sustainable, ongoing feature. Agricultural yield improvements and organisational change are being targeted strongly by the Indian government.

- 590m: size of urban population by 2030 (currently, the urban population consists of 31% of the total population, approximately 377m in absolute terms).
- There is an estimated shortfall of 110m homes by 2022 (Source: IBEF).

Agriculture still major employer, but inefficient…

- Agriculture employs 43% of the workforce, but generates 16% of GDP (Source: Statista, Funds-Europe, Ministry of Statistic). There is a significant incentive to accelerate the modest rises in rural productivity, and thus drive the workforce towards service and industrial opportunities.

…providing driver towards urbanisation

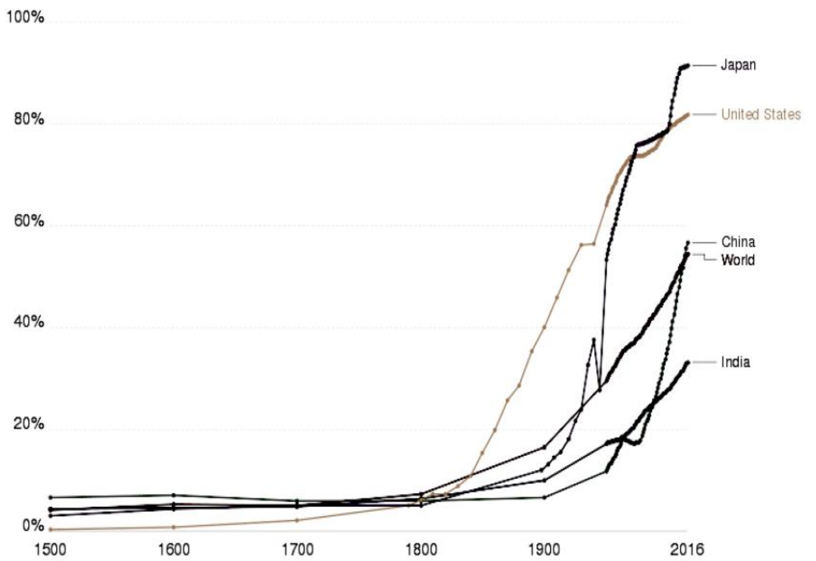
- Urbanisation differs compared with the earlier European urbanisation, in that mortality rates for European cities were significantly higher than for rural rates.

To recap on points we have made earlier in this report:

- 25m births every year (total population of Australia, for instance);
- 580m: size of the middle class in 2025, greater than EU; and
- 1.45bn: population in 2025.

India has lagged, and appears to have plenty of scope for sustained long-term increase – more than China, for example

Growth in population share for urban India



Source: UN World Urbanisation Prospects 2018 and Our World in Data

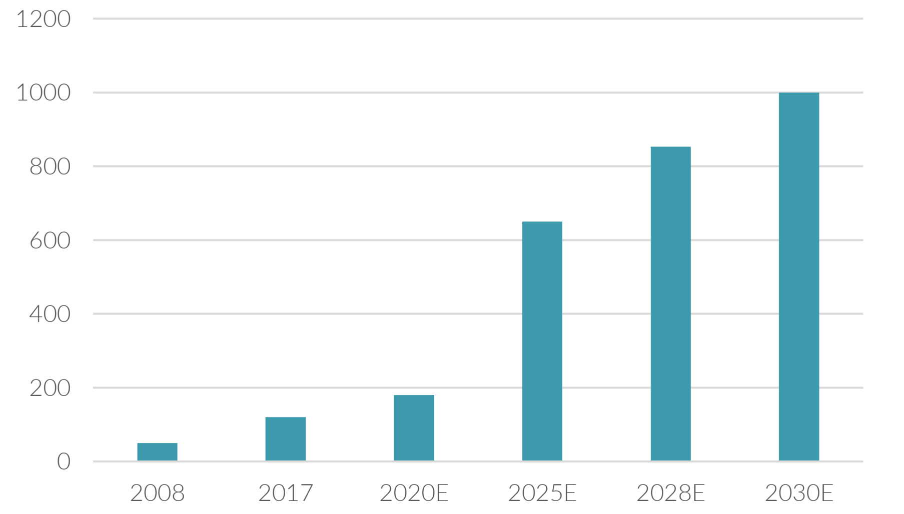
In value terms, Indian real estate not one of largest global markets – yet

Size

The Indian real estate market is currently worth $180bn. By 2025, it is expected to reach $650bn. By 2030, it is expected to reach $1tr (Source: Red Ribbon). This would make it the third-largest market globally. It is expected to contribute ca.13% to GDP by 2025. Cushman & Wakefield estimates that it currently contributes 6% (possibly on a slightly narrower definition). In 2019, institutional investors invested $6.3bn, and the sector is expected to attract $100bn of private equity investment by 2026.

Some analysts see a $1tr value by as soon as 2030

Indian real estate market size, $bn



Source: IBEF, KPMG, Economic Times

GDP growth has been sluggish (pre-COVID-19)

GDP growth trends

Setting aside COVID-19, GDP growth has been declining for the past two years, and inflation has been increasing. Neither of these macroeconomic inputs is supportive to real estate. We are of the view that these headwinds are not permanent and that the market is currently anticipating an upswing as it enters the next phase of the economic cycle.

Over the five years to end-1Q'19, Indian GDP recorded a CAGR of 7.8%. Prior to COVID-19, GDP growth was moderating.

Indian quarterly data: GDP annual growth up to start of COVID-19

Period	Growth p.a.
1Q'19	5.7%
2Q'19	5.2%
3Q'19	4.4%
4Q'19	4.1%
1Q'20	3.1%

Source: Ministry of Statistics

Secular growth accompanied by policies aimed at preventing economic overheating

Investor valuation baseline

One benefit to current investors from a moderation in GDP is that valuations may not require ever-accelerating growth to support underlying expectations. The evidence of REIT share prices is that valuations were becoming more realistic, even before COVID-19 struck, and again in April 2021, making this a potentially more sustainable time to invest.

Summary of investment drivers

- Real estate is supported by the economic and demographic trends, and this support is unwavering.

Headwinds

- Before the onset of the pandemic, there were macroeconomic headwinds and, indeed, this is reflected in the share prices of a number of leading Indian REITs pre-COVID-19; so, valuations are not at a peak.
- There are reasons to anticipate moderating inflation and improving productivity. This would boost both real estate fundamentals and their valuation basis, because falling inflation might support falling long-term interest rates.

COVID-19 clearly brings major uncertainties. Market trends, however, appear reasonably robust in its light.

- Setting aside COVID-19, general levels of development vs. take-up and of voids are not signalling problems for investors. We expand on several market trends, briefly, below.

Tax and politics

Liquidity support targeted at both real estate investors and home buyers

The 2016 REIT legislation was successful in attracting investment, and the result of this 2016 Real Estate Regulation and Development Act moved India to 34th place in JLL's Global Real Estate Transparency Index in 2020. The Indian government has also indicated the importance placed on real estate through its SWAMI initiative to re-finance residential development as of 2019. It is important to note that this initiative is specific to distressed assets and assists the market to progressively clear them. These projects do not align with the Fund's investment strategy.

Corporation tax cut

In 2017, the statutory corporate tax rate was reduced from 30% to 22%, a lower rate than the global average corporate tax of 23.8% (Source: Funds-europe.com). The government has also embarked on a marked programme of de-monetisation of bank notes. This was, in part, a plan to raise tax collection efficiencies, reducing the size of the informal economy. There have been transitional strains, but the overarching philosophy is the increase in productivity through supporting private enterprise. As can be seen through lacklustre GDP growth and inflation consistently remaining at about the upper end of the target range, this is a long game.

Rural investment but also disruption to modernise…

There are consistent indications of government policy investing in rural roads and railways. Emphasis also continues on affordable housing. Recapitalisation of the banking system is a major policy area.

There is significant legislation regarding producer price floors in agriculture. This brings us to the economy-wide factors that have impelled this political attention.

…pointing to importance of positive social impact on urban housing

The government has been actively incentivising developers by relaxing the social housing policies, as overseen by the long-established Slum Rehabilitation Authority. This has led to increased investment activity in the clearance of slums in inner cities.

Economic macro factors

Economic growth

Reduction in agricultural employment drives urbanisation and new real estate development

Plenty of scope for agriculture to shed labour progressively over time

- While agriculture is now down to 16.0% of total output, its low productivity has a significant impact on costs and the availability of trained, educated labour for high-productivity urban labour.
- Real estate demand is growing, despite this drag, so there is scope for acceleration if these trends of stubborn low productivity in agriculture and somewhat modest manufacturing growth improve.

India was growing at 7.8% p.a., but this fell to 4.1% as 2019 ended

- Growth has slowed in India, even before the pandemic of 2020. 2H'19 manufacturing failed to grow.
- Service sector output continues to dominate and to grow (to 2019), but industrial output in 2H'19 actually fell.

GDP was growing very strongly, but 2018 saw a slowdown

Over the five years to end-1Q'19, Indian GDP registered a CAGR of 7.8%, to reach US$2.67tr in March 2019. It reached the UK and France in absolute size.

Indian quarterly data: GDP annual growth

Period	Growth p.a.
1Q'19	5.7%
2Q'19	5.2%
3Q'19	4.4%
4Q'19	4.1%
1Q'20	3.1%
2Q'20	-24.4%
3Q'20	-7.5%
4Q'20	0.5%
1Q'21	1.6%

Source: Ministry of Statistics (Tradingeconomics.com)

In 1Q'18, quarterly GDP growth achieved a rise of 8.2% over the previous year. Each quarter since then has seen the annual GDP rate reducing, bar the post-COVID-19 bounce.

Food and drink are a larger part of CPI basket, and here productivity is poor and inflation high

Indian industrial output has averaged growth at slightly below Indian GDP, with the largest sector of the economy – services – climbing faster. It is noteworthy that 2H'19 Indian manufacturing growth was broadly zero (Source: Ministry of Statistics).

- Agriculture remains economically crucial because rural India makes up 66% of the country's population, with agriculture comprising 43% of employment.
- Agriculture comprised 16.0% GDP in 2019 (Source: Statista), a figure reducing by ca.0.10%-0.15% p.a.
- Food and drink comprise 46% of the CPI basket.

The top-five sectors in terms of employment generation as of 2017 were railways, construction, infotech, food processing and automotive (Source: Funds-europe.com). Manufacturing, as well as agriculture, are seen as areas that are underperforming global developing countries' growth and productivity.

Inflation and cost of capital

- Long-term trends support the view that, by 2050, India may be the world's third-largest economy. Its age demographics are stronger than China's for longer-term growth. 2019, however, showed signs of slowing growth and stubbornly high inflation.

Inflation a real problem, undermining exchange rate and raising interest costs

- Hardman & Co considers CPI inflation to be one of the most challenging factors for the Indian economy, and for real estate.

Agrarian reform may be one important aspect – a political problem among several

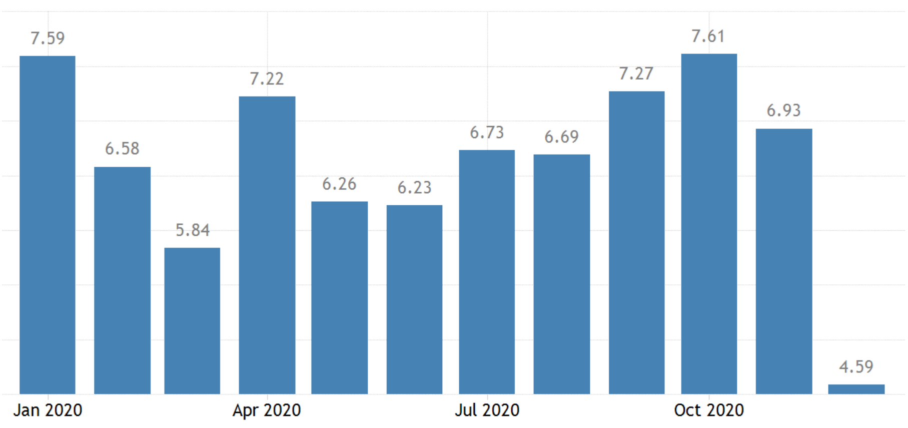
- Food remains a significant portion of expenditure, and its cost increases remain in high-single percentage figures p.a.
- Agrarian reform is accepted by most in some measure. Unfortunately, there are significant losers, as well as overall major benefits, and the current government probably has less political "capital" than it did a month ago.

Inflation consistently remains above the upper end of the 2%-6% target range

Inflation above target range

- From 2014 to late 2018, the rate of inflation moderated slightly from previous rates, but has since accelerated again.
- It will be important to see if December 2020's low rate was an aberration.
- There is stimulation of supply, as well as demand, during economic growth, and it can be the case that the growth raises the cost of money (required returns), thus depressing valuations.

Indian consumer price inflation (%)



Source: Ministry of Statistics and Programme Implementation

The main component keeping CPI and cost of debt high, we believe, is the large portion of the consumption basket still being made up of food, allied to the low productivity and high price inflation in food. Food & Drink comprises 46% of the CPI basket: *https://tradingeconomics.com/india/consumer-price-index-cpi*.

Cereal makes up a significant 9.7% portion of the basket, and has been rising in price for some years, approaching a 10% CAGR. The latest CPI total inflation rate is 6.9%.

Within that, food is 9.4% (down from 11.0% the previous month). COVID-19 has contributed to food inflation.

Over the five years to end-2018, CPI saw a 4.3% CAGR, having been at higher levels in previous years. Acceleration was notable from the start of 2019. It paused in 1Q'20, but accelerated again from end-1Q'20.

In conclusion

COVID-19 may affect inflation

Markets have slowed…

GDP growth has been slowing since the latter part of 2018. Coincidentally, this was around the time that a large infrastructure fund part-defaulted (we touch on this later). Inflation, however, remained relatively high, and higher than the 6% upper-end government targets. Agri prices have been a significant part of the problem, and thus it may be in indigenous hands to improve the economic situation here. This may lead to difficult political decisions having to be taken.

…agri-sector and COVID-19 acute problems…

We note that this government has been proactive, in both promoting growth (with the agri-sector's disappointing efficiency being at heart) and providing a legislative background conducive to investment. That said, i) the government may well still be under significant pressure due to April 2021's ongoing medical emergency, ii) the COVID-19 situation may raise food inflation, and iii) food inflation is a significant issue in its overall weighting of importance and quantum.

…while medium term sees inexorable growth in urbanisation

Overriding these important details is the inexorable urbanisation trend. This is behind China and other large developing economies, but is clearly and firmly rising ever higher at a fast rate. If oversupply of real estate can be avoided and financing issues marshalled well, demand expansion should be sustained and reliable.

RRFM is targeting the affordable sector. In-migration from rural areas is a real factor but is dwarfed by slum clearance. One of the major problems in these areas is clean-water poverty.

COVID-19 – a pandemic crisis illustrates investment need

A pandemic crisis

The Indian real estate market has needed to find resilience to many varied market challenges in the past.

Hardman & Co has no specific expertise in assessing the impact and duration of the current crisis, and is therefore unable to express an opinion in this respect. We have, however, been provided with the opinion of Red Ribbon management.

Red Ribbon points to strength in commercial office (especially "work near home"), residential and retail.

In 1Q'21, new launches and sales surpassed pre-COVID-19 levels of 1Q'20 by 51% and 29%, respectively. Mumbai (20,350 units) and Pune (10,550 units) led in the sale of residential units, and were followed by Delhi NCR (8,790 units).

Substantia is focused on the large, established micro markets of the Mumbai, Delhi NCR and Pune city regions. We are informed by Red Ribbon management that there has been a recent boom in demand in these markets and a shift from high-rise to low-rise apartments. In areas like Gurgaon (the prime suburb of Delhi NCR), low-rise apartments have become a recognised sector with the easing of planning norms. We are informed that this sub-sector, in particular, is successfully growing, in part as a result of COVID-19.

Hardman & Co is not in a position to review the most recent sub-sector market trends. However, it is also our understanding from Red Ribbon that shopping centres, retail shops and high-street market footfall are strong, even despite the April 2021 COVID-19 upsurge. Again, these data are too recent for Hardman & Co to undertake an assessment in this regard.

The timing for a new entrant seems propitious

This is a crisis but, in part, one of investment need

The global pandemic will have a permanent impact on society and on real estate.

India was seeking enhanced FDI prior to COVID-19, and there was a clear need for much more physical infrastructure prior to the pandemic.

10-year term provides scope for long-term, time-value-based investment

As of July 2021, India is not yet focused on the reopening of the economy, and we do not believe it would currently be prudent to predict the direction or any correction of the real estate market. The Fund has a 10-year (8+1+1) term and, as such, this extraordinary event should not be seen as having a sustained impact on the Fund's overall performance and returns.

The Reserve Bank of India cut its repo rate to 4.0% in May 2020. It remains at the same level to date (July 2021), and has had significant liquidity injected. Immediately prior to COVID-19, the $/Rs rate stood at just under 72.0, but it then peaked rapidly to 76.5. With strong CPI inflation, the rate has been on a falling trend, having been 63.8 at the start of 2018. As a barometer of concern, it illustrates a crisis developing, ebbing and flowing. At end-March 2021, the rate recovered steadily, to 72.4, but then retraced to 75.4 as of 20 April 2021. Since this low point, the rate has fluctuated between that level and 72.4 as at end-May. Since then, the rate has eroded to 74.5. We conclude that there is government banking support, but currencies illustrate the turbulence. This brings opportunity to a new participant.

Tail risks will persist for some time, and even best-capitalised local developers will be seeking strong partners

The tail risks will affect the ability of banks to lend and the position of non-banking sources of debt. They will also affect interest rates (downwards), taxes (upwards) and potentially inflation (a particularly sensitive point in India). They will have an impact on the quantum of sector-by-sector real estate demand and the physical layout of the assets. To the extent that this raises uncertainty, Red Ribbon RE RISE India Real Estate Fund is investing at a time when providers of fresh capital can capture the new basis or greater required return on capital, where perhaps availability of debt becomes more constrained. COVID-19 is a risk and an opportunity in this regard.

Disruption and new entrant premium

Disruptive backgrounds are helpful to creating new investment vehicles and allocating fresh capital. The fresh capital has "optionality", and is welcomed by existing developers seeking fresh capital. On this basis, the Fund can be fully up to date with market requirements from the actual physical assets invested in.

Work-from-home trend unlikely to affect Indian office demand

Recovery trends evident and anticipated in the UK are not necessarily safe to be directly translated to India. In the UK, residential rental and capital values for London underperformed the UK-wide indices in the second half of 2020. Question marks surround urbanisation trends, which have been evident for 40 years and more in the UK. COVID-19 has bolstered the trend towards remote working and reduced the appeal of longer commuting times. This may not be the case in India.

While COVID-19 has accelerated the use of the internet for retail in the UK, initial trends in February 2021 indicate a strong pull for brick-and-mortar retail outlets in India. As a result, India continues to expand its physical retail estate, as can be seen in the target investment regions addressed by Red Ribbon RE RISE India Real Estate Fund.

India is hit less by US$ strength than many emerging markets

While, in general, emerging markets have been hit by a strong US$, India, as a growth market, has been, to some extent, insulated by weaker oil prices. India has a large domestic market, and is a beneficiary of global IT-based outsourcing, which COVID-19 may boost further.

It seems inevitable that political problems will result from the events of April 2021.

Private investment and the stock market

Overview

A new investor, such as RE RISE, has a breadth of potential target investment sub-markets. We assess some of this variety in this segment of our research. The differing factors at play bring complexity, but they also provide broader diversity of investor opportunities.

Private investment

We have pointed to slow housing market since 2014, and 2018 macroeconomic growth slowdown

There is rising incoming investment into Indian real estate. We note, however, that transactions are broadly the same as the quantum in Singapore, which is a far smaller economy. Just as with our analysis of urbanisation, which lags many other developing nations, but is catching up fast, the potential for Indian real estate investment is that it is rising from a level that is modest compared with GDP and population. Since 2014, there have been delivery headwinds.

We have highlighted the tax cuts, liquidity boosts and new regulatory structures in place since 2016, to encourage inward investment.

Government and underlying strength encouraged inward investment in real estate: $14bn 2015-19

- As with urbanisation, real estate investment is rising from low levels.
- The quantum has now reached proportions that bring real liquidity – $14bn global private equity inflow to real estate was seen over 2015-19.
- There is a breadth of asset classes in which to invest: residential, commercial and development, plus the very large class of infrastructure.
- The largest quoted stock in the broad index is DLF, an infrastructure fund.

More detail on this global flow of funds

We have reviewed the macroeconomic and legislative landscape that has led to capital inflows. This resulted in a $14bn five-year inflow into the Indian real estate market. Private equity investment between 2015 and 2019 included large global investors; some were real-estate specialists, others were broader-based. Over this period, Blackstone invested $4.9bn. This was followed by two Canadian investors, Brookfield Asset Management and Canada Pension Investment Board, which invested $2.2bn and $1.7bn, respectively. Two Singapore-based investors were next in size: Xander, at $1.6bn, and the sovereign fund, GIC, with $1.5bn. Note that these sums are real-estate-based and do not include the large infrastructure market. 2020 has, of course, seen much-constrained flows of funds.

2015 to 2019, $14bn institutional investment

Blackstone invested privately; then its REIT started to recycle some of the capital

We note that, since 2017, Indian REITs have been permitted to invest in unlisted equity shares or debt of real estate companies, mortgage-backed securities, Transferable Development Rights (TDRs) and other securities. Regulations require a majority (80%) of the REIT assets to be "completed" and to be "income-generating". https://www.mondaq.com/india/fund-management-reits/489236/setting-up-of-real-estate-investment-trusts-reits-in-india-regulatory-and-taxation-aspects

This has been a major support for the rise in institutional investment into real estate. Between 2015 and 2019, institutional investment into Indian real estate cumulated to $14bn. Private equity investments in the real estate sector peaked at $2.5bn in the first quarter of 2019 – the highest level since 2008.

Blackstone, we have seen, has invested privately, subsequently using the REIT market to start to recycle some of the capital.

Major private investment (FDI) into Indian real estate

Below, we list some particular, larger, individual investments.

Lager private equity investments into Indian real estate between 2015 and 2019

REIT	Headquarters	Investee	Asset class	Stake	$m
Blackstone Group LLP	USA	Indiabulls Properties Pvt Ltd and Indiabulls Real Estate Company	Commercial	50%	742
GIC	Singapore	Exora Business Parks Limited	Commercial	40%	406
Brookfield Asset Management	Canada	Essar Group – Equinox Business Park	Commercial	100%	390
Xander	Singapore	Phoenix's Hyderabad office project	Commercial	100%	350
Mapletree Investments	Singapore	Shapoorji Pallonji Group	Commercial	n/a	350
Ascendas	Singapore	Phoenix Group	Commercial	n/a	200
CPPIB	Canada	Island Star Mall Developers Private Ltd (Phoenix Mills JV)	Retail	n/a	185

Source: India Brand Equity Foundation

Sector stock prices

The BSE is the world's seventh-largest stock market by capitalisation.

Relatively few large stocks, but exposure to several different sub-sectors

S&P BSE Realty sector comprises several distinct sub-sectors

We consider it important that there are a number of large, liquid, real estate stocks quoted in Mumbai. It is also important that there is a significant diversity of economic drivers. By descending market valuation, the stocks in the two real estate sectors quoted on the Mumbai exchange comprise:

- infrastructure;
- diversified developers;
- two REITs; and
- residential developers.

Most sector stock prices reached highs in 2021 above the previous year's high

The S&P Indian Realty Index, therefore, can be seen to be skewed to a relatively small number of stocks. The largest stock, DLF Ltd, an infrastructure fund, performed well in 2020 and particularly well in 4Q'20.

Detailed and updated real estate and construction stock share price charts can be seen overleaf.

The Indian stock market is somewhat unusual in the low prevalence of REITs, with only two – albeit large ones – listed. They comprise the second- and third-largest real estate stocks by market valuation. The largest is an infrastructure fund (DLF), as listed in the table below.

Stocks have been volatile; however, market capitalisations are high, plus…

…six out of top 10 sector stocks (by market capitalisation) are at or near their highs for past 18 months, and…

Construction sectors: residential & commercial complexes and real estate

City	Price (Rs)	High since start 2020	Low since start 2020	Mkt. cap. (Rs crore)
DLF	311	326	114	77,217
Godrej Property	1,501	1,540	617	41,724
Embassy Office REIT	360	468	310	34,100
Oberoi Realty	687	687	290	24,956
Mindspace REIT	281	340	291	16,709
Phoenix Mills	862	879	488	14,828
Prestige Estate	301	384	134	12,030
NBCC (India)	54	54	16	9,702
Dilip Buildcon	586	680	193	8,570
Brigade	325	325	91	7,474

Prices as of 14 July 2021; Source: BSE

…nearly all share price highs have been registered post-COVID-19

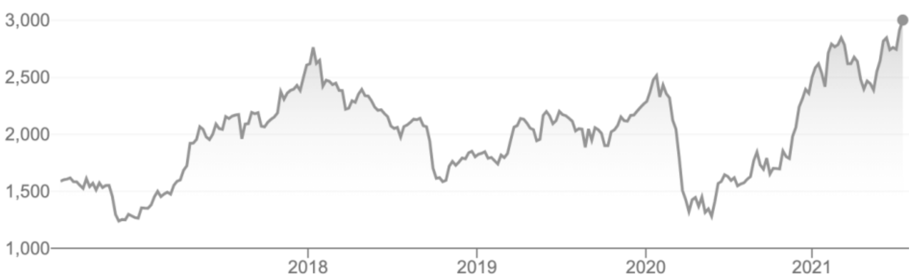
The large majority of the highs since the start of 2020 have been reached in 2021, i.e. above the pre-COVID-19 levels.

At the current $ exchange rate, DLF's capitalisation is $10.3bn. Only a further 17 stocks' capitalisation exceeds Rs crore 500 ($65m).

The Indian market real estate sector capitalisation is dominated by DFL. Other large Indian real estate companies include developers such as Godrej, which is part of a family of companies in a wide range of consumer sectors. Oberoi, a residential developer, is also among the larger real estate companies listed.

Sector index has demonstrated resilience

S&P BSE Realty index



Note: current index 3003 (on 14 July 2021); Source: BSE

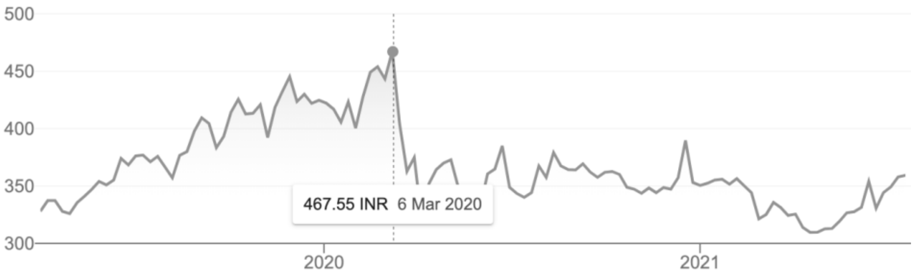
Currently low market exposure to REITs

At the end of 2019, the REIT share of Indian real estate sector market capitalisation was only 17%, with just one quoted REIT, Embassy Office Parks. Of this stock, Blackstone is the largest shareholder. Blackstone disposed of an 8.7% stake at Rs341 for just over $300m on 24 June 2020.

As there have been two successful REIT flotations in India, the market capitalisation share taken by REITs as a proportion of total real-estate-quoted securities is low by worldwide standards. In the US, ca.95% of total real estate market capitalisation is via REIT vehicles. For the UK's 57 REITs, the figure is ca.95%. In Singapore, Japan and Malaysia, the range is lower, at 40%-55%, comparing REIT market capitalisations with those of the whole real estate sector.

Embassy Office Parks REIT, on 12 February 2021, reported a 15% decline in consolidated net profit, to Rs214.79 crore, for the third quarter ended December 2020. Net profit fell to Rs214.79 crore in the third quarter of 2020, from Rs253.45 crore in the previous-year period. Total income rose to Rs595.94 crore, from Rs568.12 crore. It announced an Rs2,300 crore investment over the coming three years to develop nearly 6 msf of commercial space.

Embassy Office Parks REIT



Note: high 467 (on 6 March 2020), current 359; Source: Google, BSE

Most recently, in July 2020, Mindspace Business Parks REIT, also backed by Blackstone, was oversubscribed by 13 times during its initial public offering (IPO).

Mindspace Business Parks REIT

Note: high 340 (on 15 January 2021), current 28; Source: Google, BSE

In conclusion

In face of relatively high cost of debt, new FDI has come into Indian real estate

The combination of major urbanisation, economic slowdown and investor-friendly legislation brings a liquid environment. It also offers attractive opportunities in good, but underfunded, projects, which are numerous in quantity.

A significant amount of global investment in the past six years – $14bn or more – has added liquidity, and will no doubt broaden further. As an example, the largest global investor, Blackstone, floated some of its assets in a REIT in 2019, allied itself with a Bengaluru entity, and is now reducing its REIT stake. Overseas capital is working with indigenous capital in order to broaden the market.

Currently, the share prices of developers are stronger than those of REITs, while overall sector and market indices have proven resilient since pre-COVID-19.

Stock market sector is near all-time high, but REIT share prices remain under a cloud

There is significant market exposure to development – much of it residential – and there are also significant amounts of capital in infrastructure funds. Each of the sub-segments has its own investment dynamic, and this too expands the breadth of potential targets. Despite many oversubscribed IPOs, REIT share prices have not performed well.

REITs – their evolution since 2016

The Fund is not a REIT

Red Ribbon RE RISE India Real Estate Fund is a fund with regulated advisors, not a REIT.

The introduction of REIT legislation in India has been of crucial importance for FDI in a number of ways, some of which we summarise below.

The Real Estate (Regulation and Development) Act, 2016

In India, in 2016, Real Estate (Regulation and Development) Act received assent

This Fund is not a REIT, but we are strongly of the opinion that it benefits from the FDI-friendly structures legislated in recent years, of which REIT legislation is a highly visible example. In a practical sense, it has enabled some early FDIs to recycle by listing two REITs on the BSE market. Their share prices have been lacklustre, but the yields they sell on are not excessive (sub-6% for the largest one) and still – in our view – provide prospective further new funds for recycling capital. We have referred to tax and politics already. It is of great importance that legislation has indicated an increasing willingness to tap global market capital and non-resident Indians, and so the form and sustainability of this legislative background is crucial. FDI has been allowed at up to 100% ownership since 2005.

Legislation has encouraged start of REIT market in India – early days and slow build-up

A strong regulatory framework brings several benefits, including:

- encouraging new investment;
- facilitating greater comparability of the investments; and
- ruling in certain levels of governance and ruling out non-conforming investments.

India has a real estate market structure based around SPVs. While many UK REITs invest in standalone entities for purposes of collateral optimisation, they are mostly (although not exclusively) 100%-owned. In India, many SPVs have significant minority owners, possibly a local developer or other active or passive investment partner. Pursuant to 2017 legislative amendments, a REIT can have a controlling stake of 51% in a holding company, provided that, in turn, it owns a controlling stake of 51% in the SPV that holds the assets in its name. Highly diluted stakes are thus excluded, but the REIT can participate within the well-established desire of developers and others to maintain a significant economic interest in the ultimate assets.

Non-banking capital flow

Overview

A complex story, but, in short, highlights to us more capital investment opportunities

We have provided above a synopsis of some of the varied factors at play in equity inflows to Indian real estate. In this segment, we consider the breadth of varied factors in debt financing. Capitalisation of lenders has been constrained – this is a recurring theme. A number of major initiatives – private sector and governmental – have been put in place to counter this series of constraints.

Note that the share price of NBCC (India), a blue-chip Indian government enterprise, fell sharply in 2020 on the first COVID-19 shock, but it has risen by 220% since.

Debt financing and its constraints

Banks were wary of debt into real estate, interest rates were high and LTVs were low

Debt is an important factor in capitalising real estate. All things being equal, it might be expected that, as an asset class becomes progressively better considered for debt funding, the required return from that asset might fall. 10 years ago, debt funding to both institutional investors and private owners of apartments was difficult to come by. Debt has been introduced since then, including provision by non-banking financial institutions. Cost of capital on debt tends to be below that on equity. It is important, however, to be aware that debt coupons for high-quality, modern real estate are higher in India than in most longer-established financial economies with deeper indigenous pools of capital.

New entrants came: NBFCs/HFCs

In addition to banks, the role of non-banking financial companies and housing finance companies (NBFCs/HFCs) is significant. Adding debt into the capital flows of real estate investment is not a simple matter. There are a number of classes of lenders. Banks, on their own, were insufficient to grow debt funding significantly. The share accounted for by NBFCs/HFCs in the past cycle was an estimated 50%-60% of lending to real estate developers.

A potential balance sheet risk among lenders

These ran into some difficulties

Recent years have seen turbulence, and we have referred to the slowdown in residential from 2014. NBFCs' focus on residential funding has waned and been provided more by the specialist HFCs. Yet, since mid-2018, HFCs have stalled or lowered their disbursements. In 3Q'18, the default of an infrastructure fund led to significant uncertainty. It was followed by government initiatives in 2019. The most significant of these has been a Special Window for Completion of Affordable and Mid-Income Housing, to finance residential development projects.

Most NBFCs borrow from banks and sell "commercial paper". The commercial paper they sell is basically short-term financial securities, which debt mutual funds buy. The importance of NBFCs to Indian real estate investment markets is that they indicate confidence in credit markets and are a conduit of credit into various sectors of the economy – but primarily real estate. There is a risk in that the timeframes of the providers of credit to the NBFCs are different from the timeframes of loans provided by the NBFCs to the real estate owners. An NBFC is an entity engaged in the business of loans and advances, and in the acquisition of shares/stocks/bonds/securities.

Since mid-2018, HFCs have stalled or lowered their disbursements. Securitisation has been required to generate liquidity for their balance sheet debt obligations. By asking HFCs to provide only 75% of their qualifying assets for individuals' housing loans by March 2024, the Reserve Bank of India has clearly segregated HFCs from NBFCs. HFCs not qualifying would be made to rescind their licence and run operations as NBFCs, which would affect their funding lines and perceived risk profile. This equity raising and regulatory tightening has come at a time when banks have been relatively well-capitalised. During the same period, banks have increased their retail home loan portfolios. They have been reducing their infrastructure exposure.

In addition to the NBFC slowdown, the banks reduced lending to large infrastructure (as opposed to real estate itself) to ₹8.9 lakh crore in 2017-18, from ₹9.85 lakh crore in 2015-16. After this period of debt-funding slowdown, Jharkhand Road Projects Implementation Co, an SPV, failed to remit ₹76 crore to investors when the payments for its bonds were due for 3Q'18. Its parent, IL&Fs, had significantly drawn funding lines, and concerns over these caused a further reduction in broader NBFC confidence.

Fund flows to stalled and stressed projects

In part, post government liquidity injection, tide may have just started to turn more positive…

In September 2020, with NBFCs still facing a liquidity crunch, the Ministry of Housing and Urban Affairs announced: "In order to give relief to homebuyers of stalled projects, the SWAMIH investment fund, has been created for funding stalled projects that are net-worth positive, including those projects that have been declared as Non-Performing Assets (NPAs)". It may be that the government has an appetite to look at the possibility of creating more schemes like this ₹25,000-crore SWAMIH to ensure expeditious completion of all stalled and stressed projects.

…but lending remains constraint to developers

The surveyor and valuer, JLL, has been referred to by RRFM as stating that the NBFC crisis has led to a new lending paradigm. "Lending has now become selective and demands a lot of financial discipline. NBFCs/HFCs started lending in relatively smaller tranches to developers with better credit record and ability to sell residential units in mid-segment and affordable categories," a JLL report stated.

The fight-back – a recovery

COVID-19

It is noteworthy that significant help was targeted to real estate – both individuals and developers/lenders. The Reserve Bank of India's Rs500bn liquidity scheme was just one aspect. Nearly 50% of this money was channelled to HFCs, and to small and medium NBFCs. A similar sum was dedicated to an extension of the credit-linked subsidy scheme to the middle class for affordable housing (Source: Cushman & Wakefield). Stamp duty was cut on transactions.

Bouncing back

As of September 2020, the total liabilities and assets of NBFCs stood at Rs 35,85,854 crore, compared with Rs 33,89,267 crore in March 2020. Two big trends in the past three months have given confidence to investors on NBFCs. Improving collection efficiencies and an improvement in loan disbursements for most lenders have brightened the outlook.

"Within NBFCs, we expect HDFC to report strongest growth in core operating profit, although reported profit should be down 66% from a high base that included an MTM gain when the stake in Gruh Finance Ltd was swapped for shares in Bandhan," wrote analysts at Jefferies India Pvt. Ltd in a note. There are still significant constraints on developers – which we expand on (pages 31 and 42, and elsewhere).

In conclusion

Debt finance predominantly indigenous, and not in plentiful supply. This creates clear opening for Red Ribbon's active equity participation.

The constraint of debt funders opens developers exactly to what RRFM brings. Debt finance is predominantly indigenous. As to equity funding, overseas capital is working with India in order to broaden the market. With a growing and very large market requiring capital, the constraints evidenced in the debt-funding arena highlight the need and the demand for equity investment into yielding assets but also to facilitate development. This is exactly what RRFM seeks to support.

While the cost of capital on debt tends to be below that on equity, in this case, it is important to be aware that debt coupons remain relatively high. Again, this enhances the opportunity for RRFM. This may be, in part, the result of the market strains we have outlined above, but may also be affected by stubbornly high inflation, which we have also touched on.

There has been an NBFC slowdown, with problems encountered in infrastructure investment in 2018. Market prices are far from reflecting problem-free bullishness; yet our stock market analysis illustrates that the real estate sector is still dominated by an infrastructure fund, and that its price rose strongly in 4Q'20 and going into 1Q'21.

This is an actively evolving area, with significant investor comment and interest being expressed – once more, underpinning the timeliness of the Red Ribbon RE RISE India Real Estate Fund's opportunity.

Sources

https://www.businesstoday.in/opinion/columns/real-estate-industry-2021-what-can-the-sector-look-forward-to-in-new-year-%202021/story/426812.html

https://economictimes.indiatimes.com/industry/banking/finance/nbfc/hfc-lending-to-real-estate-players-down-48-per-cent-in-fy19-at-rs-27000-cr/articleshow/70376244.cms

https://www.livemint.com/market/mark-to-market/q3-may-bring-some-cheer-to-nbfcs-as-loan-offtake-recovers-hdfc-to-shine-11610604389670.html

https://www.thehindubusinessline.com/money-and-banking/rbi-report-on-trends-nbfc-sector-remains-resilient/article33447516.ece

https://economictimes.indiatimes.com/industry/banking/finance/banking/why-ilfs-default-makes-a-compelling-case-for-revival-of-frdi/articleshow/67746645.cms

https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1655205#:~:text=In%20order%20to%20give%20relief,Performing%20Assets%20(NPAs)%20or%20are

Supply and demand in the investment-focus regions

Data provided in this segment are approved by RRFM and derive principally from Cushman & Wakefield and JLL. Hardman & Co has not visited local markets or undertaken primary research on these markets. Data and assessments are provided up to end-4Q'20.

Sources

https://www.cushmanwakefield.com/en/india/insights

https://www.jll.co.in/en/trends-and-insights/research

Regional analysis:

Delhi/NCR

Commercial property

The Delhi office market vacancy rate stood at 26.6% at end-2Q'21 (Cushman & Wakefield), up from 24.0% a year previously.

Evidence of strong rebound post-COVID-19 first conflagration

Office space take-up in Delhi NCR recorded a 65% rise in 4Q'20 compared with 4Q'19, with gross leasing at 2.08 msf, on the back of a gradual return of economic activity. With the unprecedented disruption presented by COVID-19, the annual leasing volume of 8.3 msf in 2020 was down by 26.5% compared with the latest five-year leasing average of 11.3 msf (2015-19).

More market traction is expected as strategies are firmed up, in conjunction with an improvement in business sentiment. Despite tenant exits as part of business continuity plans and remote working policies, demand has remained healthy over the past two years, as occupiers have been active regarding relocation/consolidation plans.

While real estate costs remain a critical component, i) hub-and-spoke models arising out of de-densification strategies, ii) health and wellness as key parameters in leasing decisions, and iii) managed workspace demand fuelling the growth of enterprise coworking models will be key themes defining office demand in the next few quarters.

Micro-market analysis

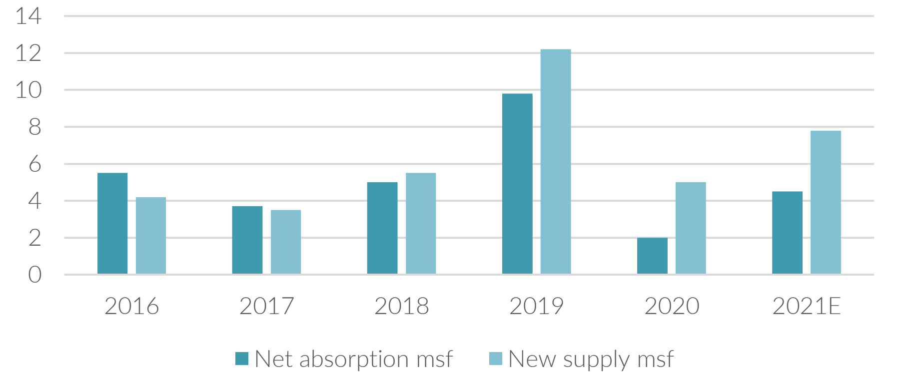
4Q'20 recorded supply additions of 2.8 msf, with more than half of this coming from the micro markets of Noida Sector 16B and Golf Course Extension Road, Gurugram.

New supply is high

Unoccupied space in the new supply, coupled with some exits and downsizing plans, led to a QoQ increase of 126bps in the city's vacancy rate, which stood at 25.1% at the end of 2020. Golf Course Extension Road and Sohna Road will be key micro markets in Gurugram, driving new supply in 2021.

- Net absorption (4Q'20): 0.63 msf
- New completions (4Q'20): 2.79 msf
- Upcoming supply (2021-23): 25.71 msf

Net absorption and new supply in Delhi/NCR



Note: msf = million square feet; Source: Cushman & Wakefield, Red Ribbon

Residential property

Prices remained range-bound across most submarkets

PropTiger's 2Q'21 report stated that residential sales in primary markets in Delhi-NCR stood at 2,828, which compares with 1,886 for 2Q'20. Looking back to the initial-wave COVID-19 recovery, in 3Q'20, sales improved by 38% QoQ; however, this remained lower than the volumes seen during the pre-COVID-19 period. The majority of this traction was witnessed in Noida, contributing nearly 48% to the overall sales, as it caters to all price segments. This was followed by Ghaziabad, constituting 31% of sales, which mainly caters to mid and affordable segments.

Gurugram accounted for nearly 20% of the overall sales in 3Q'20. There is a greater preference for ready-to-move-in projects by reputable developers. In addition, affordable and mid-segment projects evinced more interest from homebuyers vis-à-vis high-end and luxury projects.

The emerging corridors of suburban markets, such as Noida-Greater Noida Expressway, Golf Course Extension Road and Dwarka Expressway in Gurugram, continue to drive sales, on the back of anticipated augmentation in physical and social infrastructure in these markets.

Three projects were launched during the third quarter of 2020: two in Gurugram and one in Noida. While the launches were in high-end and upper-mid segments in Gurugram, the project launched in Noida catered to mid-segment buyers.

Prices remained range-bound across most of the submarkets within Delhi NCR during the quarter. With the phased unlocking of businesses, it is encouraging to see the resumption of construction activities across most parts of Delhi NCR, and physical site visits have also begun.

Average prices in 3Q'20 were Rs 4,729 per sq. ft.

Mumbai/MMR

Commercial property

Large areas re-let (vs. UK areas)

The last quarter of 2020 recorded gross leasing volumes of 2.21 msf, achieving 21% QoQ growth, as leasing activity was healthy and driven by a select number of major transaction closures in the last quarter. The improvement in gross leasing was driven by 1.32 msf of term renewals and 0.89 msf of fresh leasing during the quarter.

The Thane-Belapur Road submarket was the most active, with a 20% share of leasing activity in 4Q'20, followed by Lower Parel, Malad-Goregaon and Thane submarkets, with 17%, 12% and 11% shares, respectively. At 16%, Thane- Belapur Road also had the highest share in gross leasing for full-year 2020.

In 4Q'20, the BFSI (Banking, Financial Services and Insurance) and IT-BPM (Information Technology – Business Process Monitoring) sectors accounted for 29% and 21% of market activity, respectively, while Engineering & Manufacturing and Flexible Workspace contributed shares of 11% and 9%, respectively, of the quarterly activity.

Micro market analysis

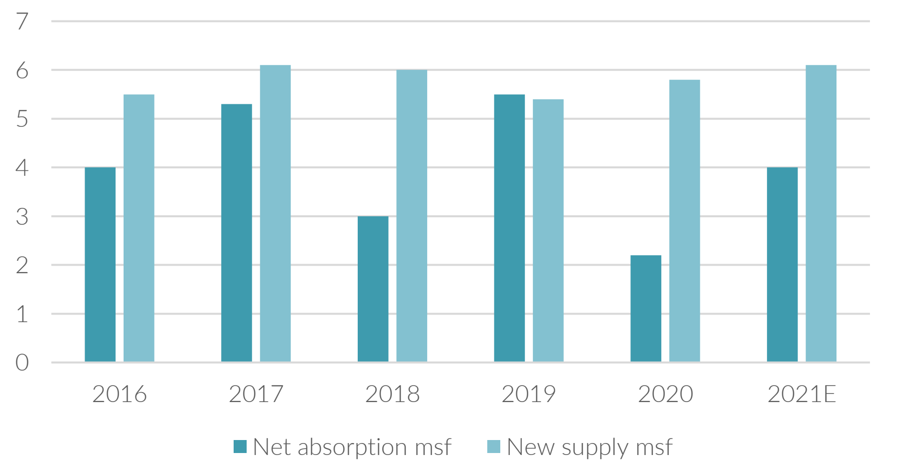
As with many markets, big supply pipeline in commercial

A total of 1.74 msf of fresh supply was added during the quarter, with Thane-Belapur Road accounting for 1.55 msf of the new completions. The only other completion in 4Q'20 was recorded in the BKC submarket. In 2020, a total of 5.60 msf of new supply was added, with Thane and Thane-Belapur Road witnessing the maximum completions.

An additional 14.47 msf of supply pipeline is anticipated over the next three years, with Thane-Belapur Road (Navi Mumbai), Lower Parel-Worli and Malad-Goregaon submarkets contributing the most to this upcoming supply. The submarkets of Thane-Belapur Road, Malad-Goregaon, Central Suburbs and BKC submarkets are expected to remain the preferred locations of occupiers for their future demand.

- Gross leasing (2020): 8.32 msf
- New completions (2020): 5.60 msf
- Upcoming supply (2021-23): 14.47 msf

Net absorption and new supply in Mumbai/MMR



Note: msf = million square feet; Source: Cushman & Wakefield, Red Ribbon

Residential property

New launches in the Mumbai residential market declined by a marginal 2%, from 2,294 units in 2Q'20 to 2,242 units in 3Q'20 (latest data). The Eastern Suburbs submarket accounted for the highest share of new launches, at 31%, followed by Navi-Mumbai, at 28%.

The majority of the new launches in the Eastern Suburbs were concentrated in Mulund. Most developers continued with the strategy of e-launches, due to constraints posed by the lockdown.

After registering a 50% slump in 2Q'20, residential sales improved significantly, growing by 17% compared with the previous quarter. The increase in sales was driven by the Western Suburb (Goregaon, Kandivali) and Eastern Suburb submarkets, with both submarkets registering sales growth of more than 40% compared with the last quarter.

The state government reduced the stamp duty by 2%-3% from 1 September 2020 to March 2021, which helped improve homebuyer sentiment – as with the UK timing. Thereby, the unsold inventory in the Mumbai region declined by 2%, as sales outpaced new launches during the last two quarters of the year.

Residential prices remained unchanged across submarkets in 3Q'20 compared with the previous quarter. However, developers are offering flexible payment options, such as bank subvention schemes and stamp duty waivers to propel sales.

Average prices in 3Q'20 were Rs11,159 per sq. ft.

On 30 November 2020, Livemint.com commented as follows:

"Developers are reducing prices dramatically and I have seen prices drop on new flats by almost 20%", said Vishal Kadrekar, proprietor of Fair Value Property, which operates in and around Parel, Prabhadevi and Worli.

"Fuelled by stamp duty cuts offered by the Maharashtra government and other advantages available to buyers, such as festive offers and discounts, many developers, including top-tier ones, have launched new projects in the past 3-4 months spanning suburbs and peripheral areas of Mumbai", said Bhavin Thakker, managing director, Mumbai, and head, cross-border tenant advisory, Savills India. "Some direct discounts are offered. There are also several indirect reductions in prices or benefits offered to buyers", Thakker said.

On 27 April 2021, Liases Foras real estate market data stated the following, revealing decent growth but a lag in Mumbai:

Positive numbers but Mumbai lags on sales and hence also unsold stock

"Top eight Indian cities have recorded 9% year-on-year rise in residential sales at 69,697 apartments in the first quarter ended March, led by activity in the Mumbai region and Pune. In terms of growth, sales in Chennai witnessed maximum on-year growth of 31%, followed by Pune at 24%, Bangalore 19%, Hyderabad 18%, and Mumbai Metropolitan Region (MMR) 7%. The National Capital Region (NCR) witnessed the maximum decline of 8%. Mathematically, the next three sized markets must have shown low growth, though Ahmedabad saw large declines in inventory. This of course is just one quarter.

Prices remained stable in Tier I cities on both sequential and on-year basis. During the quarter, unsold housing stock in Tier I cities decreased by 7% year on year. Ahmedabad witnessed the maximum decline in unsold stock at 16%, followed by Kolkata 13%, Bangalore 11%, Pune 10%, NCR 8%, and MMR 4%, the data showed."

https://realty.economictimes.indiatimes.com/news/residential/top-eight-indian-cities-record-9-on-year-rise-in-jan-mar-housing-sales/82271844

Pune

Commercial property

Widening supply/demand gap

Overall, rents were largely range-bound across all submarkets during 4Q'20. A widening supply/demand gap is likely to keep rentals under pressure across most of the submarkets.

Gross leasing volumes in Pune have remained quite steady, even in 2020, with 5.0 msf in the year comparing very favourably with the five-year average (2015-19) of 4.8 msf and maintaining a similar level to 2019 numbers as well. 4Q'20 office leasing achieved 1.46 msf, of which fresh transactions and pre-commitments accounted for 0.95 msf, with the rest coming from term renewals. Fresh office leasing improved significantly in 4Q compared with previous quarters. Several formerly delayed relocation/consolidation and expansion decisions were executed during the quarter.

Micro market analysis

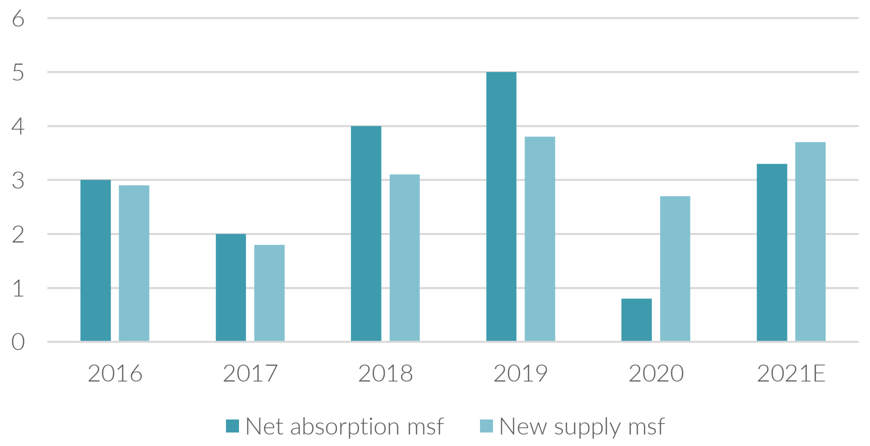
59% of gross leasing activity during 4Q'20 was concentrated in the SBD East submarket, followed by the PBD West (16%) AND PBD East (11%) submarkets. Global Captive Centres led, with a 29% share of leasing activity, followed by IT-BPM and professional services occupiers, with 25% and 24% shares, respectively.

Going forward, Baner & Balewadi, in the SBD West submarket, and Kharadi & Viman Nagar, in the SBD East submarket, are expected to be the most active in catering to future demand coming from IT-BPM, BFSI captives and e-commerce segments, which are expected to be the key occupier sectors likely to drive space take-up.

Pune witnessed supply additions of 1.16 msf in 3Q'20, with Phoenix Fountainhead 2, Kalpataru Infinia, Shanti One and The Orchid Centre being key projects that were completed. New office space supply during the year was recorded at 2.9 msf, a decline of 25% YoY, with significant supply getting deferred to 2021.

- Gross leasing (2020): 5.02 msf
- New absorption (2020): 1.01 msf
- Upcoming supply (2021-23): 13.1 msf

Net absorption and new supply in Pune



Source: Cushman & Wakefield and Red Ribbon
Note: msf = million square feet

Residential property

Pune witnessed 1,756 new unit launches in 3Q'20, an increase of 55% compared with 2Q'20, which was a low base.

Prominent locations in Pune, such as Kharadi, Hinjewadi and Tathawade, saw increased activity, and accounted for more than 50% of the launches during the quarter. It is relevant to note that developers continue to align new supply with demand, and the majority of these launches were in affordable and mid segments.

Average prices remained unchanged during the quarter, and developers continue to offer attractive benefits to attract homebuyers.

Average prices in 3Q'20 were Rs6,643 per sq. ft.

Real estate markets

Overview

The purpose of this report is to analyse the risks and opportunities to the specific Red Ribbon India RE RISE Fund; nonetheless, it would be wrong to undertake this in absence of any overview of the Indian real estate markets. The following relies on a variety of respected, global real estate agencies. This segment includes Hardman & Co opinions, but no original "on-the-ground" analysis has been undertaken by us.

Commercial

These are large – in space terms – markets.

Office market in each of the five Indian city markets exceeds the size of London's

We assess statistics before the impact of COVID-19 in the table below.

Office real estate demand (2019), msf

City	msf.
Bengaluru	32
Mumbai	26
Delhi/NCR	25
Pune	16
Hyderabad	15
Chennai	13
Kolkata	8

Source: Ministry of Statistics

Wide ranges of vacancy rates, as demand growth and supply oscillate

London office market demand at end-2019 stood at 13.2 msf (Source: Knight Frank).

India's space absorption reached 69.4 msf in 2019 (Source: Colliers).

It should be noted that Bengaluru and Hyderabad are the two largest markets, as measured by standing stock in Special Economic Zones (SEZs). Mumbai's SEZ exposure is much lower, despite the large size of its total market. A CBRE 2019 report states SEZs as accounting for 27% of the total future supply of space.

Office market data

REIT	3Q'20 absorption (msf)	3Q'20 absorption (msf)	3Q'20 new completions (msf)	Grade A office vacancy, Sep'20 (%)	Population (m, 2011) of metro area
Bengaluru	2.72	0.45	4.70	6.5	8.43
Hyderabad	1.54	1.18	3.33	11.3	6.81
Pune	0.46	0.64	0.63	4.7	3.11
Mumbai	0.28	0.45	0.30	13.4	18.41
Chennai	0.21	0.10	0.00	7.6	7.09
Delhi NCR	0.20	0.50	0.22	27.9	18.98
Kolkata	0.02	0.00	0.00	26.3	14.03

Source: JLL and Real Estate Intelligence Service

Colliers states the 3Q'20 absorption in the top six markets (the table above lists the top seven) at 6.5 msf. The JLL-based table above states 5.4 msf. Both show a significant increase in 2Q'20.

New completions across these regions (JLL, above) totalled 5.77 msf in 2Q'20, rising to 9.18 msf in 3Q'20, split by regions, as shown in the table above. This is a 59% increase. It may be worth noting that Bengaluru showed zero completions in 2Q'20, which puts the 3Q'20 figure into some context. Cumulative absorption 1Q-3Q'20 was stated by Colliers at 6.8 msf for Bengaluru, vs. 7.9 msf new supply. This is a particularly active market. For Mumbai, the figures were 3.1 msf and only 1.5 msf, respectively, and, for Delhi-NCR, the figures are 3.6 msf and 7.2 msf, respectively. Supply has been restricted by COVID-19.

Vacancy rates vary in this fast-growth market

It should also be noted that vacancy rates, city-by-city, year-by-year, vary somewhat, but Bengaluru was lower still, at under 5% in 2019 (CBRE), and Delhi/NCR was 20% (CBRE).

- We have pointed to the large size of the Indian real estate market, but it is also clear that there are large numbers on absorption and on supply; therefore, ratios can change relatively rapidly.

- Vacancy in the markets listed increased from 13.1% in 2Q'20 to 13.5% in 3Q'20. The most important data above may well be vacancy rates. While far from negligible, vacancies have not risen by a statistically significant amount.

These are unweighted figures, but, weighted, the figure is very marginally higher. Despite the rise in vacancy levels in southern markets, Bengaluru, Chennai and Pune continued at single-digit rates.

For Bengaluru, it is of note that vacancies of Grade A stand at 6.5% – a low figure – set against its higher-than-average new completions figure. So, the high absorption in 3Q'20 has acted to keep the rise in vacancies to a modest 5.3%-6.5% increase. This is an important and encouraging metric. Delhi NCR, however, is a major market by size, and vacancy levels are high, especially with relatively modest absorption rates in the quarter years covered above. We make no analysis of these numbers but believe them to be noteworthy.

A variety of data indicates rents going sideways, but this may not capture the use of rent-free periods as new letting incentives.

Fuller details are available at: https://www.worldpropertyjournal.com/real-estate-news/india/mumbai-real-estate-news/india-real-estate-news-mumbai-property-news-jll-india-mumbai-2020-office-market-report-covid-19-impact-on-mumbai-property-market-12163.php

A Knight Frank report, published on 30 November 2020, *Asia-Pacific Real Estate Outlook 2021: Navigating the Post-Pandemic Recovery*, estimated that the Bengaluru market is expected to experience a rise in rental values in 2021, while Mumbai and NCR are expected, at best, to remain stable in rental values.

"For the main office markets of India, the positive trends are a draw out of the encouragement received in the subsequent part of 2020 (July-Sept) which saw office space demand making a comeback, albeit still short of pre-Covid periods", the report stated.

https://www.business-standard.com/topic/office-market

An expansion from Tier I and a broadening from CBDs

Various commentators assess details within the regional markets. Hardman & Co notes commentaries that, as the market grows, commercial real estate business activity is shifting from Central Business Districts (CBDs) to Suburban Business

Districts (SBDs), and Tier I to Tier II cities, raising the demand in Tier II cities. The CBRE India real estate report for the 2019 outlook pointed to a broadening of international leasing interest: "Traditionally, American corporates have driven about 40% of total [overseas] leasing in the country over the past few years. While this trend is expected to continue, we anticipate that India's position as a preferred outsourcing destination would also attract corporates from other geographies such as EMEA and APAC."

https://www.cbre.co.uk/research-and-reports/India-Real-Estate-Market-Outlook-2019

Residential

2016-20 demand four times supply by some measure

Demand is high – generally, supply is low, but 2020 has naturally disrupted this

Structurally, residential demand is also growing. The cumulative residential demand was 4.156m units between 2016 and 2020 alone. Hardman & Co notes that the definition of demand can vary. Supply was 1.023m (Source: India Brand Equity Foundation, IBEF). IBEF is a trust established by the Department of Commerce, Ministry of Commerce and Industry.

- Indian residential sales and new launches increased by 13%-15% in 2019 (CBRE) or 10% (Cushman & Wakefield).
- In the past five years, residential prices have hardly moved in absolute terms in major cities (CBRE).
- Between 2014 and 2017, supply fell 55%, in part because 2014 supply reached 25% above effective demand.
- 2017 launches fell 32% (YoY) and sales fell 25% (Cushman & Wakefield).
- Supply has expanded modestly since 2017, a year in which demand stopped falling, and was matching or slightly exceeding supply. 2018 launches rose 16% (YoY) and sales 18% (Cushman & Wakefield)

Supply fell 2014-17, and the bounce-back is modest

Significant medium-term supply reduction

It is important to note that residential markets in 2017 were under some downward pressure, in part as a result of demonetisation, which calls into question the stability of some of the pre-2017 investment flows. It may be that this was a salutary removal of certain types of investors with obscure backgrounds. A Goods and Services tax also dampened demand, according to the 2019 CBRE report mentioned above. In 2018, the major providers of mortgages – NBFCs – suffered a liquidity crisis. We look at NBFCs in the overview on page 42 of this report and note that several major ones have share prices at or near all-time highs. The Goods and Services tax has also been directed away from segments that have an impact on residential confidence, CBRE's 2019 report states.

Volumes, inventory and pricing

1Q'21 saw unsold housing stock in Tier I cities decrease by 7% YoY. Ahmedabad witnessed the maximum decline in unsold stock, at 16%, followed by Kolkata, at 13%, Bangalore 11%, Pune 10%, NCR 8% and MMR 4%.

Sales volumes had fallen between 2014 and 2017, but began a recovery in 2018. These figures relate solely to the top seven cities. By 1Q'19, sales for the quarter achieved 29,000; by 1Q'20, they had risen to 37,500. By 3Q'19, the figure had slightly tracked down, to 36,000, but, in 4Q'19, there was a problem, with a figure of 27,500 recorded (vs. 34,000 in 4Q'18). The market's most recent tailing off was prior to COVID-19.

Given the inflation in CPI, house prices have fallen in real terms

We turn to pricing, and it should be kept in mind that CPI, over the 10 years assessed in the table below, has often been 5% or more p.a.

Residential sales price indices

City	100 basis, start 2011
Hyderabad	146
Bengaluru	136
Pune	128
Kolkata	123
Mumbai	121
Delhi/NCR	120
Chennai	109

Source: JLL

Cushman & Wakefield's June 2020 Indian real estate sector analysis included some summary points on residential and its reaction to the COVID-19 crisis. We quote from this report:

- Established developer brands have access to capital debt and structured equity, the rest struggling for working capital amid sluggish sales.
- NBFCs Liquidity Scheme 2.0 – to kickstart retail lending, as the wholesale lending portfolio remains under stress.
- Developer lending still a challenge, developer defaults and working capital issues to drive distressed lending.
- Buyers to defer purchases in line with economic sentiments, job security concerns.
- Developers under pressure from financial partners to kickstart sales – bargain deals.
- Distressed opportunities in bank-held projects for buyers/opportunistic investors.
- Limited headroom for substantial price cuts but sales pressure to trigger a 5%-10% price cut across segments. Established players in premium and luxury housing segments may hold on to price levels, although lenders and sales pressure could trigger a 15%-20% discount vs. previous price quotes.

Retail

Retail environment is different in India

India's retail real estate sector is in rapid growth mode. The demographics are totally different compared with mature "western" economies. Shopping at physical malls remains a social experience, and logistics supply chains are far less developed. India's retail market is expected to increase by 60% to $1.7tr by 2026. The online share of Indian retail sales rose from 0.9% in 2014 to 4.9% in 2019 (Source: Statista), or to 5% in 2017 (Source: India Brand Equity), equating to $30bn sales online, doubling every 3.5 years. We note some regulatory changes to e-commerce in 2019, but omnichannel is set to continue as the route-to-market, with full e-commerce (by-passing all physical venues) as a very small segment.

2012-17, one new mall per month

- Malls in India in 2012: 188
- Malls in India in 2017: 246
- In 2018, 5.1 msf new retail developments became operational (CBRE)

With most retail being in malls, the importance of entertainment, food and beverage is significant. The major cities for the pipeline are Delhi/NCR, with Mumbai at a significantly lower level (data from CBRE). In 2017, Mumbai was the largest pipeline, at 1.0 msf. By 2019, Mumbai's pipeline stood at 0.9 msf, but other markets had expanded by significant multiples. Hyderabad's pipeline in 2017 did not register with the CBRE data but, by 2019, was 4.1 msf, and Bengaluru's 0.4 msf figure for 2017 grew to 2.2 msf by 2019. The Delhi/NCR 2017 pipeline of 0.3 msf grew to 2.9 msf in 2019.

Logistics

There are only two globally meaningful logistics real estate markets in India: Mumbai, with its 15 msf 2019 pipeline (CBRE) and Delhi/NCR's 8.5 msf. All other markets total some 9 msf. Given our comments on e-commerce in the segment on retail real estate, it is notable that total pipelines in the seven largest cities stood at ca.33 msf in 2019, falling to 23 msf in 2020.

Data centres

Business parks are significant market

Business parks already make up a large market, and are set to continue to grow strongly.

In conclusion

Apart from the obvious – that this is a series of very large markets – the conclusion to be drawn may be that some markets show large vacancy rates, as well as large growth. In such a rapidly urbanising sub-continent, the correct positioning within fluctuations in rates of growth in demand and in supply is crucial to successful investment.

Part 3

Procedures, criteria and due diligence for investment

Management procedures and capabilities

See pages 16 and 17 for the Investment strategy. It is noted that there are two distinct types of investment, on top of the cash liquidity element. It is anticipated that investment will be undertaken in both direct property (which may be developments or yielding assets) and securities.

We highlight the role of the AIFM, LIMESTONE PLATFORM. See overleaf and the earlier section of this document (page 5) for further details regarding LIMESTONE PLATFORM's important role.

Sourcing

- The Fund's team members have an extensive network, built up from past experience and established relationships, which will be used to identify developer partners in those target regions that will provide investment opportunities. The Mumbai market alone comprises ca.18,000 sites for redevelopment identified by the planning authorities.
- 225 (to date) proposals have been assessed, and 55 of those selected for detailed analysis.
- Developers will provide a constant source of investment opportunities for the Fund as active players in the market, which will be vetted by the Asset Manager.
- Service providers – the Fund has identified established and local service providers for legal due diligence and financial analysis, such as legal, valuation and audit work. It takes into consideration regional variations in real estate laws that would help provide more detailed information. Substantia has an extensive network among major developers and in those markets where there are the most significant opportunities. Substantia's senior team has strong experience in FDI investment into Indian real estate.
- LIMESTONE PLATFORM, the AIFM, is an active and important overarching element to the process, as it has the regulatory oversight of the Fund.

Selection

Fund has fully vetted, readily investable projects worth €100m

The selection criteria have been touched on above, but this will be managed through the contacts and expertise of the team. Transactions must have a positive social impact. Out of 219 proposals, 55 potential transactions have been surveyed and three given the investment go-ahead, subject to AC approval and the Fund being successfully launched. Moreover, we have reviewed an initial deployment plan to the value of €100m, prepared by the Asset Manager. This consists of fully vetted, readily investable projects into which investments can be drawn down in the first 90 days of the Fund.

The quoted investments will be selected by an externally appointed fund manager and actively approved by the Fund.

Operational due diligence

Management and execution capability

The "on-the-ground" capability to oversee the process of initial investment selection, of supervising progress on co-investment development, and of the rationale for quoted company equity investment, is provided by Substantia Real Estate, the Asset Manager to the Fund. LIMESTONE PLATFORM, the AIFM, has important responsibilities, discharged by senior personnel who have demonstrable real-estate-specific expertise. LIMESTONE will be actively involved in monitoring the execution of projects at an "oversight" level. This oversight will include "on-the-ground" visits, we understand.

Rationale and parameters for asset allocation

The Fund has been established with a multi-asset strategy to capitalise on all real-estate-related asset classes, as India's real estate sector undergoes further significant consolidation on the back of RERA legislation.

The Fund, uniquely among similar commingled offerings, has a listed equities component, which will benefit from both the growth of the Indian stock market and the wave of new issuance (IPOs) from the real estate sector.

LIMESTONE PLATFORM's AIFM role

Importance of LIMESTONE PLATFORM cannot be overstated

The Procedures are tied to the defined responsibilities of the AIFM, which is the Regulated entity responsible for the Fund, including oversight, selection and retention of delegates. We have (page 24, above, within this document) outlined our understanding of LIMESTONE PLATFORM's regulated role and involvement. The responsibility of the AIFM has precedent over other retained advisors and managers as the Regulated entity.

Mauritius entity role

An SPV has been put in place in Mauritius, essentially for tax optimisation reasons. The Fund may indeed benefit from the participation exemption when receiving dividends from the Mauritius SPV or upon disposal of its shares in this vehicle. The double tax treaty between Luxembourg and Mauritius aims to avoid double taxation and prevent tax evasion with regard to taxes on income and on capital. Real estate income, therefore, will be taxed only at source.

The Fund will be investing in India through an IHC, incorporated in Mauritius.

The decision to opt for an IHC incorporated in Mauritius is based on several considerations:

- Investing in India via a Mauritian holding company is the tried-and-tested route for doing so, and is familiar to JV and development partners on the ground in India, as well as to all the brokers for the Listed Equities element.
- The IHC will be a 100%-owned subsidiary of the Luxembourg Fund, with strict authorised payment powers and a board representative from the Luxembourg Fund Board to the fullest extent required.
- Income in Mauritius is taxed at 3%, unless the Indian income is withheld at more than 15%; as it is currently withheld at 17%, the Mauritian income tax liability will be 0%.
- Mauritian Capital Gains Tax is currently charged at 0%.

The Luxembourg regulator, the CSSF, signed an MoU with the Financial Services Commission of Mauritius in January 2020. The CSSF's basic requirements for SPVs have been taken into consideration, which include that i) they are 100%-owned by the sub-fund of the SIF, ii) have board members on their board, who also serve on the board of the SIF, iii) have the same financial year as the SIF, and iv) have the same auditor as the SIF. In the case of the latter, it has been agreed that Deloitte Mauritius will audit the holding company, as Deloitte Luxembourg audits the SIF.

Asset and investment structure due diligence

ESG are important criteria. Key philosophies will be as follows: MII and the belief that the transition to a more resilient economy must inevitably be led by well-governed businesses striving to reduce the environmental impact of creating value for society.

We provide a summary overview of how the board screens potential investments. How does the board monitor changing circumstances? How does the board set up legal structures and make sure that these are seen through operationally "in the field?"

Due diligence procedural structure

Red Ribbon's presentation indicates the following:

- KYC/UBO/PEP check
- Balance-sheet analysis
- Statutory compliance
- Media/PR check
- Title check and legal due diligence
- Environmental impact assessment
- Tenant covenant check

We now turn to the specific outcomes of this structure.

SPVs and legal agreements

The Fund will enter into a Joint Venture Agreement (JVA) in the SPV with the project developers. The SPVs will enter into a Development Management (DM) Agreement with Substantia Real Estate as the Asset Manager, who would monitor the timelines and quality of the projects by use of technology, milestone-based methods and tools such as Gantt Charts and industry standards like LEED, GRIHA, SRA, NBC and FIDIC.

All agreements have been structured so as to confer upon the Fund the maximum protection through a combination of preferential voting rights and restrictive covenants.

The AC and the AIFM would conduct site visits both before investment approval and throughout the life and delivery of the project.

Investment in listed equities

The investments will be long only.

Risk-return optimisation

Risk-return optimisation for the Fund benefits from equity investments. This will be in listed Indian equities that offer exposure to property, development and construction companies, and property market service providers. There may be exposure to building materials commerce. With a universe of ca.300 listed companies, the portfolio can create diversified exposure in the broadest sense to the Indian real estate market.

Liquidity

A subsidiary rationale is liquidity for the Fund. Its approach will be to seek investment in large, efficient businesses reporting positive cashflows and stable earnings. These are typically large- to mid-cap highly liquid stocks, and it is an important characteristic that there should be no difficulty exiting Fund positions in line with the anticipated timing of the Fund's closure.

Sectors to be considered

Sectors that we understand will be selected will include suppliers such as steel, cement, sanitaryware, tiles, doors, windows and construction materials.

ESG and MII

Red Ribbon RE RISE India Real Estate Fund is an Article 6 (of the SFDR) Fund. Notwithstanding this, the Fund intends to apply, where possible, the creation of sustained, positive social impact. We will return to the regulatory definition of Article 6 later in this section of the report.

35% of the Fund is dedicated to co-investment in slum development, particularly in Mumbai. These are mostly new townships, typically with 10,000 inhabitants; therefore, social infrastructure, such as shopping, cinemas and small hospitals, are all present, creating new opportunities in the township. The typical apartment may be worth ca.€20,000.

The Fund, as a result of its activities, aims to have a positive social impact through inner-city slum redevelopment and a positive environmental impact through the active use of offsite construction technologies, such as steel modular buildings.

Article 6 Fund

The Fund conforms to the standards of Article 6 of the Sustainable Finance Disclosure Regulation (SFDR).

Below, we outline some specific details on the Fund's aims. This is in order to demonstrate that the Fund is working with both developers and the authorities to be a favoured partner in slum redevelopment projects: this often creates new townships, and the format utilised by the developer and funder can have a life-changing impact on local people.

Important to Fund's reputation and future pipeline to be "best-in-class"

It is important to the Fund's core values and its future pipeline to be "best-in-class". The details below are an indication of the topics that the Fund partners are going to be monitoring.

MII criteria

Criteria for stock selection (quoted investments)

Re: 25% of holdings invested in listed equities

Asset class: India, publicly listed equities on the NSE (National Stock Exchange) and the BSE (Bombay Stock Exchange) (*as per PPM*).

Sector: Real Estate, including developers, constructors and suppliers; this is a universe of ca.300 stocks.

Benchmark: BSE SENSEX and NSE: NIFTY50.

Strategy: Long-term returns are achieved by investing in high-quality businesses and projects at attractive valuations – and holding them for the long term – and by selecting those with a more positive impact, where possible. The selection process seeks large, efficient businesses with a strong balance sheet, and that report positive cashflow and have stable earnings growth.

Typical hold period: 3+ years.

All of Fund's investments – quoted and direct real estate – part of its ESG and MII mission

Re: All holdings

Monitoring: Periodic review of economic performance, exposure to, and impact on, key sustainability factors.

Sell strategy: Assets that are considered no longer likely to meet the economic criteria of the Fund are sold. Where the opportunity arises to reinvest in opportunities that are likely to meet the expected returns, the approach is always to seek those with a more positive impact.

ESG approach: A qualitative and quantitative approach to selection and monitoring that aims to assess the risk of exposure to, and impact on, sustainability factors, and selecting those with a more positive impact, where possible. Drawing on relevant information disclosed by investees, their stakeholders, subject matter experts, sector specialists, data providers and information aggregators to conduct a comprehensive assessment of relevant sustainability factors.

ESG disclosure: *Subject to the availability of relevant data*, disclosed metrics are curated to inform investors of the percentage of holdings that have effective procedures in place to manage sustainability factors, including:

Governance factors

- Efficacy of the strategy to engage stakeholders to identify ESG issues and risks
- Efficacy of the strategy to prioritise ESG issues and risks
- Efficacy of the strategy to mitigate or adapt to material ESG issues and risks
- Efficacy of the strategy to report the scale, cost and impact of ESG issues and risks

Social factors

- Impact on social and employee-related matters
- Impact on management of Human Rights
- Impact on anti-corruption and anti-bribery-related matters
- Impact on local communities

Environmental factors

- Impact on GHG emissions
- Impact on air pollutants
- Impact on ozone depletion substances
- Impact on energy consumption
- Impact on biodiversity
- Impact on water use
- Exposure to areas of water stress
- Impact on hazardous waste
- Impact on recycled waste
- Impact on land use

ESG benchmark: For each sustainability factor considered, baseline data are established in year one, which reflects the percentage of holdings that consider the factor.

Article 6 of EU Sustainable Finance Disclosure Regulations.

ESG compliance: Classified against Article 6 of the EU Sustainable Finance Disclosure Regulations, the Fund does not aim to influence or promote the impact of any one particular sustainability issue.

Commentary on listed equities

Tight control

With a universe of approximately 300 listed companies in the real estate sector, the Red Ribbon RE RISE India Real Estate Fund will include an actively managed portfolio of listed equities with diversified exposure, in the broadest sense, to the Indian Real Estate equities markets. The portfolio will be built utilising a bottom-up, multi-factor stock selection process, focusing on appreciation potential of individual stocks from a fundamentals' perspective. Stocks will be carefully selected to include companies that have robust business models and that enjoy sustainable, competitive advantages relative to their competitors. The selection process seeks large, efficient businesses with a strong balance sheet that report positive cashflow and have stable earnings growth.

Graded selection process, which means i) top-level AC approval, and ii) , limited pre-approved list

In practical terms, RRFM adopts a graded selection process that seeks equities in businesses with a more positive impact, where possible. From the universe of options that are considered likely to meet expected financial returns, analysts select those with a more positive impact, wherever possible. Consequently, holdings will include those where it is possible to determine their exposure to, and impact on, sustainability factors. Conversely, they may also include investees that do not disclose sufficient data to determine their impact on sustainability factors. However, preference will always be given to those that do disclose sufficient data, and to select those with a more positive impact, where possible.

The due diligence process is reapplied at regular, periodic intervals, and the metrics disclosed in subsequent years are curated to inform investors of the progress made by investee companies towards meeting their obligations to reduce the environmental impact of creating value for society.

Building sector is a major force for climate impact

Big ESG market for Indian investment and building sector is major force for climate impact

The COVID-19 pandemic has highlighted why these factors need to be at the core of both economic practice and financial thinking, not least in terms of the importance of setting high social standards. However, India is also particularly vulnerable to deepening climate change, and responding to this threat will require unprecedented flows of finance. It has been suggested (Source: Red Ribbon) that upwards of $4.5tr is needed to achieve India's goals just for urban sustainability and renewable energy by 2040. This dwarfs India's fiscal capacity, with its annual budgeted expenditure on all sectors being approximately $300bn p.a. Consequently, with limited public resources, private finance will have to play a major role.

RBI has expressed importance of benchmarking, and SEBI has important role

In response, the RBI (Reserve Bank of India) has expressed the importance of benchmarking and of reporting sustainability factors, and is choosing to redirect capital flows towards sustainable industry development by advocating a risk-based focus and a priority sector lending programme. The SEBI (Securities & Exchange Board of India) also mandates Business Responsibility Reporting (BRR) for the top 100 companies by market capitalisation.

However, despite the impact of COVID-19, India has seen record inflows into its ESG-aligned funds and, with mounting evidence to suggest that companies that strategically manage sustainability factors perform better, India has emerged as an important destination for investors seeking assets that are aligned with the Sustainable Development Goals (SDGs). In conclusion, RRFM's approach does not aim to influence or promote the impact of any one particular sustainability issue. However, the approach offers a robust response to the fundamental challenge and the fiducial responsibility of financial market participants to foster businesses that strive to reduce the environmental impact of creating value for society.

Criteria for project or asset selection

The core investment philosophy applies as much to its approach to selecting equities as it does to project and asset selection. Notwithstanding the gate applied to choosing projects that meet the economic criteria of the Fund, the MII graded selection process is designed to identify projects with a more positive impact, where possible.

Around half of all non-renewable resources mankind consumes used in construction, currently one of least sustainable industries in the world

Within the context of RE-RISE Real Estate holdings, this means identifying projects backed by stakeholders that consider the environmental impact of construction, the adverse impacts of the construction process and those attributed to living and working in buildings. Around half of all the non-renewable resources that mankind consumes are used in construction, which is currently one of the least sustainable industries in the world. However, contemporary civilisation depends on buildings for its continued existence. Buildings are long-lived, and cities have even longer lives, and, with an increasingly urbanised population, the opportunity for investment in India is matched only by the importance of achieving this sustainably.

Naturally lit and well-ventilated buildings that utilise renewable energy sources and that are designed to offer attractive whole-life performance to consumers are more likely to be sound wealth investments than those that are over-dependent on fossil fuels, or that ignore the fundamental human need for a healthy and engaging environment. Consequently, RRFM's project selection process considers key sustainability factors in the industry, which include:

1. **Energy use, global warming and climate change:** The construction industry's related energy use accounts for approximately half of all global energy consumption. The current use of fossil-fuel-derived energy in the production of materials, during the construction process, and by the occupants of buildings throughout their lifetime, is a source of significant quantities of GHG emissions.

2. **Resource depletion, waste and recycling:** The construction industry is a conspicuous user of resources. Materials are derived from numerous sources and suppliers, and minimisation of waste presents a particular problem. Throughout the construction cycle, and especially at the end of a structure's life, large quantities of waste are produced.

3. **Pollution and hazardous substances in the natural and built environment:** Pollution can be defined in many ways – pollution caused during the manufacture of materials and products, and pollution and hazards from the handling and use of materials or from the site itself. Most construction projects disturb the existing environment, whether on greenfield or previously developed sites. All of these activities pose a risk of introducing pollutants into the environment, which can affect the workers on site, the neighbourhood, or the local ground, water and air quality.

4. **Planning, land use and conservation:** There are wide-ranging environmental issues related to the interaction of the planning system, land use and conservation. The interaction can have a significant impact on local hydrological and ecosystem biodiversity. Pressure on the local road network and neighbourhoods by construction-related operations and completed developments, and their inter-relationship with other land uses,

can influence the propensity to travel and modal choice, which can affect the levels of energy used, and the pollution and emissions created. The combined effect of urban expansion and agricultural intensification has exceeded the capacity of the land to absorb exceptional levels of rainfall. At the same time, rainfall has become more intensive, concentrated and erratic, due to global climate change. The planning system, and the design of buildings and landscapes, therefore, are key to absorbing the peak rainfalls, and reducing stress on drainage and river systems.

While the above categorisation provides a convenient overview of the issues, few of the issues can be considered in isolation, and due consideration must be given to the numerous interactions and interdependencies that exist between them. Consequently, a comprehensive assessment of the related sustainability factors, combined with constructive project stakeholder engagement, leads to a better understanding of the impact of the projects in RRFM's holdings.

Due diligence process is reapplied to all investees at regular intervals

RRFM does not aim to influence or promote the impact of any one particular sustainability issue. The due diligence process is reapplied to all investees at regular periodic intervals. Whenever investees are no longer considered likely to meet the economic criteria of the Fund, they are sold. Where the occasion arises to reinvest in opportunities that are likely to meet the expected returns, the approach is always to seek those with a more positive impact. Consequently, from a sustainability perspective, the performance of the Fund will be measured by the percentage of holdings exposed to investees that strategically manage these sustainability factors.

Five benchmarks

Transparent criteria

The Fund seeks to invest in assets with Green certifications.

LEED – Leadership in Energy and Environmental Design (LEED)

The Fund seeks to invest in projects that aim to have an LEED rating.

The LEED Green Building Rating System represents the US Green Building Council's effort to provide a national standard for what constitutes a "green building."

The LEED-India programme was adapted from the US Green Building Council's (USGBC) in 2007. It is a purely private initiative, which is run by the Indian Green Building Council (IGBC) in India. The IGBC set up the LEED in 2011 for the India Core Committee, with the objective of adopting the LEED rating system for the Indian context.

LEED provides guidelines and specifications for building construction to achieve its sustainability goals and objectives. LEED is similar to a checklist of credits that can be achieved in seven major categories: i) sustainable sites; ii) water efficiency; iii) energy and atmosphere; iv) materials and resources; v) indoor environmental quality; vi) innovation and design process; and vii) regional priority.

GRIHA – Green Rating for Integrated Habitat Assessment (GRIHA)

The Fund seeks to invest with reference to the assets' GRIHA classification and performance. GRIHA is a national rating system for green buildings in India. It is an assessment of environmental impact, including emissions, but also environmental strain, such as water usage. A building is assessed on its predicted performance over its entire lifecycle – from inception through to operation. GRIHA is a Sanskrit word meaning "abode".

It is not an assessment of social impact. More than 300 projects across India, of varying scale and function, are being built based on GRIHA guidelines. Endorsed by the Ministry of New and Renewable Energy, Government of India, as of November 2007, GRIHA is a five-star rating system for green buildings.

Conforming to the GRIHA standard allows the developer to achieve a higher developable area (floor-area-ratio, FAR) in the saleable area.

SRA – Slum Rehabilitation Authority (SRA)

The Fund's strategy includes up to 35% to be invested in redevelopment projects. The majority of residential redevelopment projects in target regions of Mumbai and Pune are SRA projects to meet the Fund's values.

The Government of Maharashtra has launched a comprehensive slum rehabilitation scheme. Mumbai is the largest city in Maharashtra. The scheme includes tenements for sale in the open market, allied to cross-subsidy for free provision of certain accommodation to the slum dwellers.

The SRA brings together approvals processes; this includes the formation of co-operative societies, certification of eligibility of slum dwellers and provision of title through property cards (PR cards). The PR card is a government certificate, which is given to the owner of a property, and is used for proof of title; for example, when accessing long-term, lower-cost debt finance. PR cards are being extended, particularly in rural areas where proof of ownership is often problematic, but the urban equivalent widens choices for former slum dwellers. Health – and particularly water pollution-related – problems are significant issues.

The powers, duties and functions of the SRA comprise:

- to survey and review existing positions regarding slum areas in greater Mumbai;
- to formulate schemes for the rehabilitation of slum areas;
- to implement the slum rehabilitation scheme; and
- powers to force participation (not entirely dissimilar from UK slum clearance projects in the 19th century and subsequently with compulsory purchase).

Reports on global slum economies (such as the Rockefeller Foundation report, *Constrained Opportunities in Slum Economies*, November 2013) indicate that they may play an important role in serving slum dwellers' needs and providing livelihood opportunities. The report states "potential slum economy contributions to livelihoods are particularly important in Sub-Saharan Africa where youth comprise a larger share of the urban population". The opportunities centre around informal employment and informal welfare networks. "This suggests that interventions in this space likely require partnering with a range of organizations with broader focus areas."
https://www.rockefellerfoundation.org/wp-content/uploads/Constrained-Opportunities-in-Slum-Economies.pdf

National Building Code (NBC)

Published by the Bureau of Indian Standards, the National Building Code of India covers detailed guidelines for the construction, maintenance and fire safety of structures. Guidelines were issued to all Indian states to incorporate the recommendations of the National Building Code into their local building bylaws, making the recommendations of the National Building Code of India a mandatory requirement.

Fédération Internationale des Ingénieurs-Conseils (FIDIC)

It is intended to adopt the FIDIC as per specific project planning for the target assets. The shortlisted assets comply with the mainstream impact investment strategy, wherein the projects have a measurable social and environmental impact. The International Federation of Consulting Engineers is an international standards organisation for Consulting Engineering and Construction, best known for the FIDIC family of contract templates.

FIDIC also publishes business practice documents, such as policy statements, position papers, guidelines, training manuals and training resource kits in the areas of management systems (quality management, risk management, business integrity management, environment management, sustainability), and business processes (consultant selection, quality-based selection, tendering, procurement, insurance, liability, technology transfer, and capacity building).

One standard FIDIC form used extensively in the Indian construction industry is the Plant and Design/Build Contract. Design-only contracts prevalent in India are largely inspired by the FIDIC Conditions of Contract for Plant and Design/Build (the FIDIC Yellow Book).

World Economic Forum definition of Impact Investing

The World Economic Forum has defined Impact Investing as follows: "Investments that are motivated by the intention to create a social or environmental good are impact investments. However, if the intention is solely financial gain, even if the investment unintentionally creates social or environmental value, the designation of the investment being an impact investment is less certain. For example, an investment made into a pharmaceutical company that manufactures life-saving medications solely for the purpose of generating financial returns without the intention for social impact is not an impact investment." The Fund intends to increase use of clean water to the population at the base of the economic pyramid in urban areas, and it seeks to reduce carbon footprints – among other attributes.

This is an Article 6 (SFDR) fund

Effective from 10 March 2021, the Sustainable Finance Disclosure Regulation (SFDR) has laid down harmonised disclosure rules for funds and financial market participants. Red Ribbon RE RISE India Real Estate Fund is classified under Article 6 of the SFDR. Article 6 requires asset managers to disclose how sustainability risks are integrated into their investment decisions, and the results of an assessment of the likely impacts of sustainability risks on their funds. The Fund's investment approach has been designed to assess the risk of exposure to, and impact on, material ESG issues, and its graded selection process seeks investees with a more positive impact, where possible. The approach, characterised as "*Mainstream Impact Investment*" is adapted to all of this Fund Manager's investment activities, and is designed to select investees that are considered likely to meet expected economic returns. Where it is possible to determine their exposure to, and impact on, sustainability factors, those with a more positive impact are chosen. Conversely, funds may include investees that do not disclose sufficient data to readily assess their impact on sustainability factors. However, preference will be given to those that do disclose sufficient data to enable RRFM to choose those with a more positive impact.

In conclusion

Designed to be transparent and to enhance RRFM's returns and sustainability of returns

The Fund's reputation and its future pipeline quality rest on its commitment to be "best-in-class", and the detail above (Source: RRFM) is designed to illustrate the detailed processes and benchmarks.

The Fund's strong values with respect to ESG and MII standards mean that it seeks to deliver better and more efficient buildings, with lower maintenance costs.

Appendices

Appendix 1: Advisory Committee

Extract from Placement Memorandum re Advisory Committee

The General Partner with the consultation of the Investment Manager will establish an Advisory Committee that would provide strategic advice relating to the investment management of the Sub- Fund and in order to obtain recommendations with respect to possible investment, as well as, technical issues relating to the investment strategy of the Sub Fund.

The Advisory Committee shall be chaired by the Investment Manager and shall act as advisory body to the Investment Manager. The Investment Manager retains a right of veto on any and all investments.

The final investment or divestment decisions will be taken by the Investment Manager. The Advisory Committee will, *inter alia*, carry out the following advisory tasks:

(i) review and ratification or rejection of proposals for all acquisitions and disposals of Real Estate assets proposed by the Investment Advisor to the Investment Manager;

(ii) evaluation, query and recommendation regarding due diligence outcomes in relation to acquisitions and disposals of Real Estate assets by the Sub Fund;

(iii) review, analyse and rendering of recommendations to the Investment Manager in relation to any investment or divestment intentions as identified and prepared by the Investment Advisor, as may be the case from time to time; and

(iv) advise pertaining to philosophy, policies, valuation and strategy in respect of investment in physical property assets.

The Advisory Committee will comprise two representatives from the Investment Manager, one (1) representative from the Investment Advisor and two (2) independent advisors, as further described below.

The Investment Manager will be represented in the Advisory Committee by: Antonio Thomas; and Gren Carr-Jones.

The Investment Advisor will be represented on the same by: Suchit Punnose, Jörg Bähren and Franck Hamoniau.

The Investment Manager shall be entitled to carry out discretionary portfolio management functions in relation to the day-to-day administration and operation of the assets of the relevant Sub Fund and to advise as to the selection of liquid assets and other securities and assets constituting the portfolios of the Sub Funds, it being understood that the General Partner shall be exclusively responsible for determining the investment objectives and policies of each Sub Fund.

The Investment Manager shall furthermore monitor on a day-to-day basis the investments of the Sub Funds and provide the AIFM with all the advice, reports and recommendations in connection with the management of the assets of the Sub Funds.

Appendix 2: Valuation

Extract from Placement Memorandum re Valuation

The AIFM shall determine the NAV of the Shares of each Sub Fund in accordance with the Valuation Days and methodologies set for each Sub Fund by the General Partner and shall made it available to Investors.

The value of securities and money market instruments which are not quoted or traded on a Regulated Market will be valued at a fair value at which it is expected that they may be resold, as determined in good faith by and under the direction of the General Partner.

The value of debt instruments will be adjusted, if appropriate, to reflect, e.g. major fluctuations in interest rates in the relevant markets or the appraisal of the General Partner or any of its agents on the creditworthiness of the relevant debt instrument investments in real estate assets shall be valued with the assistance of one or several independent valuer(s) designated by the General Partner in consultation with the AIFM for the purpose of appraising, where relevant, the market value of a property investment in accordance with its/their applicable standards, such as, for example, and without limitation, the edition of the Appraisal and Valuations Standards published by the Royal Institution of Chartered Surveyors (RICS) investments in private equity securities other than the securities mentioned herein will be valued with the assistance of one or several independent valuer(s) designated by the General Partner on the basis of the reasonably foreseeable sales price of the assets concerned, as determined by the relevant independent valuer in accordance with the standards of the valuers' profession, such as the Valuation Guidelines published by Invest Europe, the European private equity and venture capital association.

Investments in private equity companies in the 12-months period prior to the Valuation Day will be valued at cost unless the AIFM considers that there has been a material deterioration.

The General Partner, at its discretion, may authorize the use of other methods of valuation if it considers that such methods would enable the fair value of any asset of the Company to be determined more accurately. This method will then be applied in a consistent way.

The Company may suspend the determination of the NAV and/or, where applicable, the subscription, redemption and/or conversion of Shares, for one or more Sub Funds, in the following cases: a stock exchange or another regulated and recognized market (that is a market which is operating regularly and is open to the public), which is a source of pricing information for a significant part of the assets of one or more Sub Funds, is closed, or in the event that transactions on such a market are suspended, or are subject to restrictions, or are impossible to execute in volumes allowing the determination of fair prices.

Force majeure or exchange or capital transfer restrictions; when, for any other reason, the prices of any significant investments owned by a Sub Fund cannot be promptly or accurately ascertained.

When Shareholders are entitled to request the redemption or conversion of their Shares, if any application for redemption or conversion is received in respect of any relevant Valuation Day (the "First Valuation Day") which either singly or when aggregated with other applications so received, is ten per cent (10%) (or such other percentage as provided in the Appendix of a particular Sub Fund) or more of the Net Asset Value of any one Sub Fund, the General Partner reserves the right in its sole and absolute discretion (and in the best interests of the remaining Shareholders) to scale down pro rata each application with respect to such First Valuation Day so that not more than ten per cent (10%) (or such other percentage as provided in the Appendix of a particular Sub Fund) of the Net Asset Value of the relevant Sub Fund be redeemed or converted on such First Valuation Day. To the extent that any application is not given full effect on such First Valuation Day by virtue of the exercise of the power to pro-rate applications, it shall be treated with respect to the unsatisfied balance thereof as if a further request had been made by the Shareholder in respect of the next following Valuation Day and, if necessary, subsequent Valuation Days, until such application shall have been satisfied in full.

Appendix 3: Costs and commissions

The Sub Fund will bear the cost of relevant taxes, share issues, listing costs, legal and translation costs. The company is not liable to any Luxembourg income taxes in Luxembourg. The company may be subject to withholding tax on dividends and interest and to tax on capital gains in the country of origin of its investments. As the company itself is exempt from income tax, withholding tax levied at source, if any, is not refundable in Luxembourg. As stated in the Placement Memorandum: "Investors should consult their own professional advisors on the possible tax or other consequences of buying, holding, transferring or selling the Company's Shares under the laws of their countries of citizenship, residence or domicile."

Soft commissions: The AIFM and/or Investment Managers may, from time to time, pay a part of the fees received to various sub-distributors, intermediaries, brokers, professional investors and/or assimilated entities, which may or may not be part of the AIFM's consolidation group. Such payments are intended to compensate such sub-distributors, brokers or other intermediaries for providing distribution or other services to Investors, including but not limited to the enhancement of the communication of ongoing information to Investors, the transaction processing or other shareholder and/or administrative services.

AIFM costs: As remuneration for the services of AIFM (excluding or including portfolio management function, if applicable), the AIFM shall receive from the respective Sub Fund(s) an AIFM fee as provided for in the relevant Appendix, calculated and paid, for each Sub Fund, as specified in the relevant Appendix. One-time fees per new Sub Funds and hourly or special task related fees may be agreed in the service agreement between the company and the AIFM.

The AIFM shall also be entitled to be reimbursed by the Sub Funds of its reasonable out-of-pocket expenses exposed in relation to those Sub Funds.

Other costs: Each Sub Fund will bear all costs relating to its establishment and operations. These costs may, in particular and without being limited to the following, include startup costs, the remuneration and company dedicated expenses of the General Partner and its directors, the remuneration of the AIFM and of the Depositary, Domiciliary, Registrar, Transfer and Administrative Agents, the remuneration of the Investment Manager(s), Investment Advisors, and other providers of services, brokerage fees, transaction fees and expenses, taxes and costs connected with the movements of securities or cash, marketing expenses (such as without limitation preparation of marketing materials, and sponsoring conferences and seminars), as well as the fees of the auditor, legal advisor(s), the costs of preparation and distribution of the Placement Memorandum and periodic reports. The Sub Fund will pay to the Depositary, Central Administration, Registrar and Transfer Agent a variable annual fee of maximum 0.03% of the net assets.

Appendix 4: Depositary – RBC Investor Services Bank S.A.

The company has appointed RBC Investor Services Bank S.A., a Luxembourg public limited liability company with responsibility for:

- **Safekeeping of assets:** The Depositary is responsible, in accordance with the Luxembourg laws and regulations, the AIFM Law and the Depositary Agreement for the safekeeping of the financial instruments that can be held in custody and for the record keeping and verification of ownership of the other assets.
- **Oversight duties:** To ensure that the value of the shares is calculated in accordance with the AIFM Law, the 2007 Law, the Placement Memorandum and with the Articles and the procedures laid down in Article 19 of AIFM Directive.
- **Cashflow monitoring:** The Depositary is required under the AIFM Law, the AIFM Directive and the Depositary Agreement to perform specific cashflow monitoring duties as follows:
- reconcile all cashflow movements and perform such a reconciliation on a daily basis;
- identify cashflows, which are, in its reasonable opinion, significant, and in particular those that could be inconsistent with the company's operations. The Depositary will perform its review using the previous Business Day end-of-day records;
- ensure that all bank accounts in the company's structure are in name of the company or in the name of its manager the AIFM on behalf of the company;
- ensure that the relevant banks are EU credit institutions or equivalent;
- ensure that the monies paid by the shareholders have been received and booked in cash accounts and booked in either cash accounts or third-party accounts as defined in the Depositary Agreement.
- **Principal paying agent functions:** The paying agent is responsible for receiving payments for subscriptions of shares and depositing such payments in the company's bank accounts opened with the Depositary and distributing income and dividends to the shareholders.

About the author

Mike Foster is an equity analyst at Hardman & Co.

Mike covers a wide range of clients in the Support Services, Building and Property sectors. He spent his early career working in fund management with British Rail Pension Fund and Eagle Star Investment Management. He then spent two decades in sell-side research at several firms, including Peel Hunt and Crédit Lyonnais. He has covered sectors including Construction, Support Services and Real Estate. In his fund management career, he was responsible for both bond and equity portfolios.

Mike was part of the group of investors that acquired Hardman & Co in late 2012. He holds a BA (Hons) in Geography from the University of Cambridge.

Disclaimer

Hardman & Co provides professional independent research services and all information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable. However, no guarantee, warranty or representation, express or implied, can be given by Hardman & Co as to the accuracy, adequacy or completeness of the information contained in this research and they are not responsible for any errors or omissions or results obtained from use of such information. Neither Hardman & Co, nor any affiliates, officers, directors or employees accept any liability or responsibility in respect of the information which is subject to change without notice and may only be correct at the stated date of their issue, except in the case of gross negligence, fraud or wilful misconduct. In no event will Hardman & Co, its affiliates or any such parties be liable to you for any direct, special, indirect, consequential, incidental damages or any other damages of any kind even if Hardman & Co has been advised of the possibility thereof.

This research has been prepared purely for information purposes, and nothing in this report should be construed as an offer, or the solicitation of an offer, to buy or sell any security, product, service or investment. The research reflects the objective views of the analyst(s) named on the front page and does not constitute investment advice. However, the companies or legal entities covered in this research may pay us a fixed fee in order for this research to be made available. A full list of companies or legal entities that have paid us for coverage within the past 12 months can be viewed at http://www.hardmanandco.com/legals/research-disclosures. Hardman may provide other investment banking services to the companies or legal entities mentioned in this report.

Hardman & Co has a personal dealing policy which restricts staff and consultants' dealing in shares, bonds or other related instruments of companies or legal entities which pay Hardman & Co for any services, including research. No Hardman & Co staff, consultants or officers are employed or engaged by the companies or legal entities covered by this document in any capacity other than through Hardman & Co.

Hardman & Co does not buy or sell shares, either for their own account or for other parties and neither do they undertake investment business. We may provide investment banking services to corporate clients. Hardman & Co does not make recommendations. Accordingly, they do not publish records of their past recommendations. Where a Fair Value price is given in a research note, such as a DCF or peer comparison, this is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price. Hardman & Co may publish further notes on these securities, companies and legal entities but has no scheduled commitment and may cease to follow these securities, companies and legal entities without notice.

The information provided in this document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Hardman & Co or its affiliates to any registration requirement within such jurisdiction or country.

Some or all alternative investments may not be suitable for certain investors. Investments in small and mid-cap corporations and foreign entities are speculative and involve a high degree of risk. An investor could lose all or a substantial amount of his or her investment. Investments may be leveraged and performance may be volatile; they may have high fees and expenses that reduce returns. Securities or legal entities mentioned in this document may not be suitable or appropriate for all investors. Where this document refers to a particular tax treatment, the tax treatment will depend on each investor's particular circumstances and may be subject to future change. Each investor's particular needs, investment objectives and financial situation were not taken into account in the preparation of this document and the material contained herein. Each investor must make his or her own independent decisions and obtain their own independent advice regarding any information, projects, securities, tax treatment or financial instruments mentioned herein. The fact that Hardman & Co has made available through this document various information constitutes neither a recommendation to enter into a particular transaction nor a representation that any financial instrument is suitable or appropriate for you. Each investor should consider whether an investment strategy of the purchase or sale of any product or security is appropriate for them in the light of their investment needs, objectives and financial circumstances.

This document constitutes a 'financial promotion' for the purposes of section 21 Financial Services and Markets Act 2000 (United Kingdom) ('FSMA') and accordingly has been approved by Capital Markets Strategy Ltd which is authorised and regulated by the Financial Conduct Authority (FCA).

(Disclaimer Version 8 – Effective from August 2018)

Status of Hardman & Co's research under MiFID II

Some professional investors, who are subject to the new MiFID II rules from 3rd January 2018, may be unclear about the status of Hardman & Co research and, specifically, whether it can be accepted without a commercial arrangement. Hardman & Co's research is paid for by the companies, legal entities and issuers about which we write and, as such, falls within the scope of 'minor non-monetary benefits', as defined in the Markets in Financial Instruments Directive II.

In particular, Article 12(3) of the Directive states: 'The following benefits shall qualify as acceptable minor non-monetary benefits only if they are: (b) 'written material from a third party that is commissioned and paid for by a corporate issuer or potential issuer to promote a new issuance by the company, or where the third party firm is contractually engaged and paid by the issuer to produce such material on an ongoing basis, provided that the relationship is clearly disclosed in the material and that the material is made available at the same time to any investment firms wishing to receive it or to the general public…'

The fact that Hardman & Co is commissioned to write the research is disclosed in the disclaimer, and the research is widely available.

The full detail is on page 26 of the full directive, which can be accessed here: https://ec.europa.eu/transparency/regdoc/rep/3/2016/EN/3-2016-2031-EN-F1-1.PDF

In addition, it should be noted that MiFID II's main aim is to ensure transparency in the relationship between fund managers and brokers/suppliers, and eliminate what is termed 'inducement', whereby free research is provided to fund managers to encourage them to deal with the broker. Hardman & Co is not inducing the reader of our research to trade through us, since we do not deal in any security or legal entity.

research@hardmanandco.com

1 Frederick's Place
London
EC2R 8AE

+44(0)20 3693 7075

www.hardmanandco.com