# Clearance Camino Fund

## Monthly investor update - July 2018

The Clearance Camino Fund invests in European real estate securities with a focus on the core Western European economies. The investment portfolio is diversified and the Fund adheres to a conservative investment strategy, with a strict investment and risk management process. The Fund targets real estate companies with quality assets, an appropriate and sustainable capital structure and good management. The Fund invests with a medium to long term objective in real estate companies of all sizes, but adheres to strict liquidity requirements to ensure the investment portfolio remains liquid at all times. There is no leverage at the Fund level.

The Investment Manager is Clearance Capital Limited.

TISE The International Stock Exchange

Visit the fund on The International Stock Exchange web site:

http://www.tisegroup.com/market/companies/3342

| | |
|---|---|
| **July 2018** | **+2.8%** |
| **Year to date** | **+4.9%** |
| **Last twelve months** | **+15.9%** |
| **Two years annualised** | **+10.8%** |
| **Three years annualised** | **+6.4%** |
| **Five years annualised** | **+14.8%** |

* Net returns for the Euro Class A Share. See page 5 for performance of the GBP and USD share classes.

### Manager comment

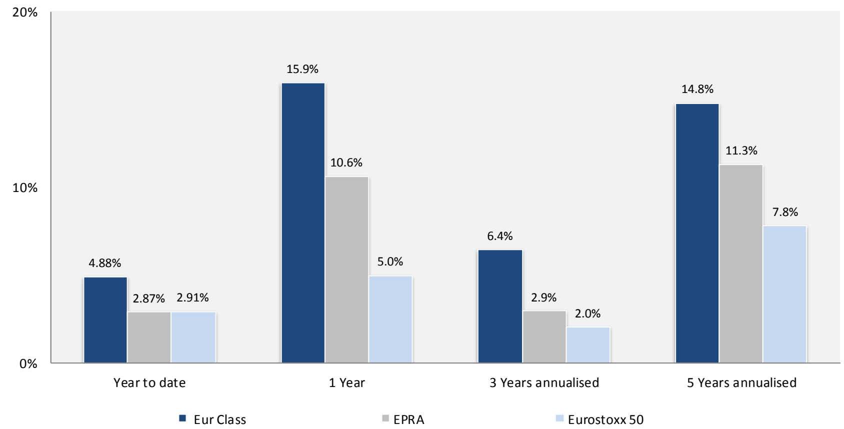
The hostile rhetoric towards the EU from Donald Trump had stoked fears of a US/EU trade war and continues to cause market jitters. Equities sold off in the middle of the month as Trump announced plans for tariffs on a further $200bn of Chinese imports. However the tone of discussions moderated after a meeting between Donald Trump and European Commission President Jean-Claude Juncker, which resulted in firmer European markets into month-end. July was a very busy month for first-half company reporting. The standout feature of the results season was the continued strength of the Swedish commercial property market. Most Swedish results surprised to the upside, with eight of the ten top performing European REITs in July being Swedish. EPRA Sweden added 10.7% for the month and is the top performing European REIT market year-to-date, with a total return of 19.4%.

European REITs, as measured by EPRA [(1)] gained 1.1% in July, taking their year-to-date return to +2.9%. The Eurostoxx 50 [(2)] gained 3.9% and is up 2.9% year to date. The Fund Euro share net asset value increased by 2.8%, taking the year-to-date return to +4.9% and the return over the last twelve months to +15.9% (compared to +10.6% for EPRA, the fund benchmark).

(1) EPRA refers to the FTSE/EPRA NAREIT Developed Europe Net Total Return Index, an index of the 103 largest and most liquid real estate companies in Europe. The index is sponsored by the European Public Real Estate Association (EPRA) and calculated by FTSE. EPRA is the official benchmark of the fund (before 29 September 2017 the official benchmark was the European Harmonised Index of Consumer Prices plus 4% per annum).

(2) Eurostoxx 50 refers to a market capitalisation weighted index of the fifty largest European companies listed in 12 Eurozone countries, measured on a total return basis. The index is sponsored and calculated by Stoxx Limited.

### Return summary




EPRA and Eurostoxx 50 returns stated in Euro, on a net total return basis.

Performance data for GBP and USD share classes are shown on page 5.

Please refer to the disclaimer on the last page of this report regarding the disclosure of performance displayed in the chart.

Source: Northern Trust, Bloomberg, July 2018

| Market performance | Month | Year to date |
|---|---|---|
| EPRA [(1)] | +1.1% | +2.9% |
| Eurostoxx 50 [(1)] | +3.9% | +2.9% |

| Portfolio statistics | |
|---|---|
| Level of investment | 100% |
| Number of holdings | 29 |
| Average holding size | 3.4% |
| Top 10 holdings | 63% |
| Liquidity [(2)] | 86% |
| Weighted average lease expiry (years) [(3)] | 4.3 |
| Weighted average loan-to-value [(3)] | 38.8% |
| Weighted average loan maturity (years) [(3)] | 6.4 |
| Weighted average cost of debt [(3)] | 2.8% |
| Fund AUM (in Euro million) | 40.8 |
| Firm AUM (in US$ million) | 353.8 |

| Risk statistics [(4)] | |
|---|---|
| Annualised volatility | 11.9% |
| Sharpe ratio | 1.24 |
| Correlation with EPRA | 95% |
| Upside capture | 96% |
| Downside capture | 81% |

| Currency exposure | |
|---|---|
| Euro | 60% |
| Sterling | 28% |
| Other [(5)] | 12% |

(1) Source: Bloomberg, net total return index
(2) % of portfolio which can be sold in ten trading days assuming 25% of average trading volumes
(3) Of the underlying holdings of the fund
(4) Over the last five years
(5) Swiss Francs, Swedish Krona, Norwegian Krone

Clearance
Camino Fund

# Monthly investor update - July 2018

## Market performance

| Global REITs: | Month | Year to date |
|---|---|---|
| European REITs (in €) | 1.1% | 2.9% |
| US REITs (in US$) | 0.7% | 1.6% |
| Global REITs (GPR 250 - in US$) | 1.0% | 2.7% |

| European REITs: (in home currency) | | |
|---|---|---|
| Sweden | 10.7% | 19.4% |
| Spain | -1.0% | 11.7% |
| Germany | 1.4% | 9.9% |
| UK | -1.5% | 0.8% |
| Switzerland | -0.5% | -0.8% |
| France | 1.0% | -1.7% |
| Italy | 2.0% | -2.0% |
| Ireland | -0.2% | -2.8% |
| Netherlands | 0.2% | -4.2% |

| European sub-sector: (in home currency - companies in our coverage universe only) | | |
|---|---|---|
| Nordics | 5.5% | 9.2% |
| German residential | 1.2% | 9.0% |
| UK specialists | 1.2% | 7.8% |
| UK property trusts | -1.1% | 5.8% |
| UK small & mid caps | -3.8% | 5.8% |
| Continental offices | -0.1% | 0.1% |
| Recovery markets # | -0.6% | -0.4% |
| UK diversified majors | -1.4% | -3.8% |
| Continental retail REITs | -1.0% | -6.2% |
| UK developers | -6.3% | -7.5% |

# - Spain, Ireland, Italy

| Fixed income: | | |
|---|---|---|
| 10 year UK gilt yield (bps) | 7 | 14 |
| 10 year German bund yield (bps) | 8 | -10 |

Source: Bloomberg, Clearance Capital, June 2018

## Market overview

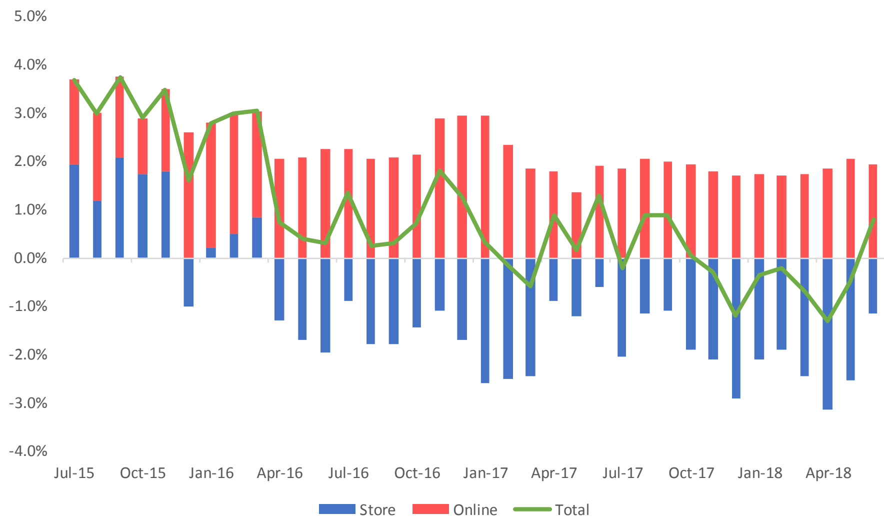
The beginning of the month saw the UK government decamp to the Prime Minister's country residence at Chequers, to try to agree to a unified approach to the Brexit negotiations. The White paper that emerged from the meeting expressed a desire for a free trade area in goods with a harmonised rule book to provide frictionless trade at the border, a facilitated customs arrangement that involved UK importers collecting tariffs and re-distributing to the EU and a broader aim of an 'Association Agreement' with the EU that is more than just a trade deal.

The deal caused discontent on both sides of the ruling Conservative Party, with the euro-sceptics favouring a complete break and those favouring a closer relationship all airing their grievances. The discontent culminated in several high-profile resignations from the cabinet and an amendment to the text being pushed through by the euro-sceptic MPs under threat of a vote of no confidence in the Prime Minister. Given the division within the government, it is hard to imagine there won't be many more fraught moments before the UK formally leaves the EU in March 2019. The risk of a no-deal exit has increased in the last month, but the greater likelihood remains that the divided Conservative Party would reach a compromise rather than risking another general election which will likely result in defeat.

## Real estate markets

Following the failed merger between UK shopping centre landlords Hammerson and INTU, both reported their half-year results. While Hammerson reported broadly stable valuations, with small valuation declines in the UK offset by gains in Ireland and their European outlet centres, INTU wrote down the value of their UK shopping centre portfolio by 6.2%, with the valuation yield moving out by 33 basis points to 4.69%. The revaluation deficit resulted in an 11.9% decline in the reported net asset value, driving the loan-to-value ratio to an unsustainably high 49%. While the shares were already anticipating a negative revaluation result, trading at a 50% discount to the last reported net asset value, the shares still declined by 8% on the day. Investors realise that the loan-to-value, perilously close to 50%, will continue to rise with an expectation that values will fall further, driven by retailer insolvencies, falling underlying retailer sales and trading densities, which will lead to rental declines. As values fall further, leverage will increase, forcing INTU to dispose of assets into a non-existent investment market. While the shares appear cheap, at 50% discount to reported net asset value and an 8.2% dividend yield, investors have realised that income is overstated because the balance sheet is over-stretched. INTU needs to dispose of £2 bln of assets to get the loan-to-value down to sustainable levels. There is no market for these large shopping centres today and these sales will create valuation evidence to drive their own valuations down further. At the same time the disposals will be income dilutive and probably result in a dividend cut. The chart below shows that overall UK retail sales have declined over the last twelve months, as consumers have tightened their belts. The decline hasn't been dramatic, but the shift from store-based sales to online has.

**UK retail sales: store vs online**




Source: British Retail Consortium

On the other hand things couldn't be better for logistics and industrial landlord Segro. Their results, released on the same day as those of INTU, were a stark reminder of the current sheds v shops dichotomy in the market. The portfolio was revalued by +5.9% during the period, leading to an increase in net asset value of 8.5%. The equivalent yield on the portfolio came in at 4.8%, compared to the initial yield of 4.69%

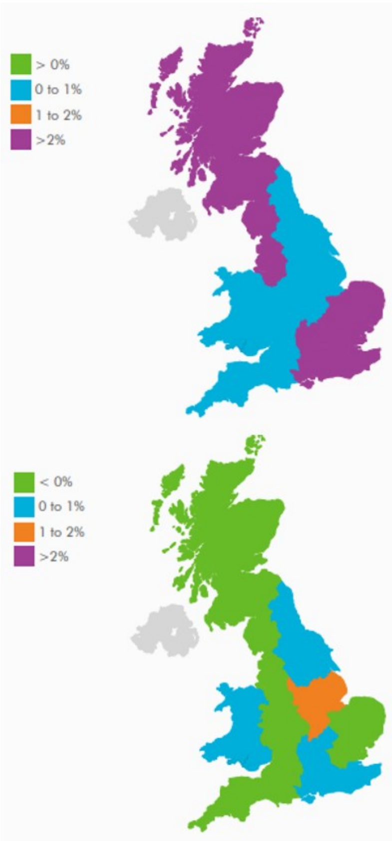
on the INTU shopping centre portfolio. Given the divergent paths in rents for the two asset classes, one can probably be more confident in the rental assumptions behind the Segro equivalent yield than the INTU initial yield. These relative dynamics have been priced in by the equity markets for some time, but while rents are heading in opposite directions it is hard to bet against the trend continuing.

The sheds versus shops trend was further highlighted by recent CBRE research showing their estimates of prime rents and yields across the UK. The maps below show their estimate of prime rental growth for industrial and retail assets, showing that rental growth is positive across the UK for industrial and above 2% in most locations, but on the flip side rents are declining for retail assets across the majority of the UK. With the recent spate of insolvencies amongst retailers this is only likely to continue in the near term.

**CBRE UK rental growth expectations for prime industrial and prime retail**

**Prime industrial growth expectations**

**Prime retail growth expectations**

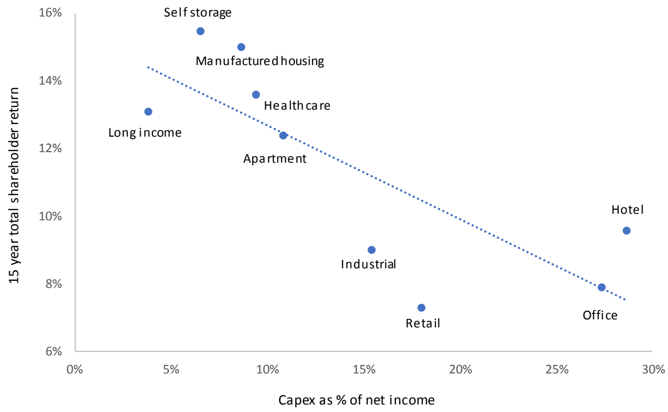



Sweden was the strongest European property share market in July, adding 10.7%. For the year-to-date the Swedish property stocks have generated a return of 19.4%. Spain is the second best performing market year-to-date, adding 11.7%. The Netherlands, Ireland, Italy, France and Switzerland make up the bottom of the list, all having returned negative total returns year-to-date.

## Chart of the month

Over the long term capital expenditure is a major driver of real estate returns. Estimating the capex requirement and its impact on listed property returns is notoriously difficult, as companies provide very little disclosure on capex incurred. Capital expenditure is typically capitalised to the value of the asset and the asset is then "fair valued" based on the valuation provided by the independent appraiser. Therefore, capex is never visible "above the line" in the income statement and is always expensed "below the line" in the property revaluation number. While property values are rising, the capex disappears into the revaluation result, but when property values are falling the capex will exacerbate the movement and become visible to everyone. Shopping centres and offices are notoriously "capex heavy" as these assets need constant refurbishment in order to attract new tenants. On the other hand self storage is "capex lite" as it requires very little ongoing maintenance or refurbishment. Green Street Advisors recently published a report showing long term total returns by sector against capital expenditure. Their analysis confirmed that the "capex heavy" sectors generate lower returns over the long term. Successful investment in these sectors is all about timing.

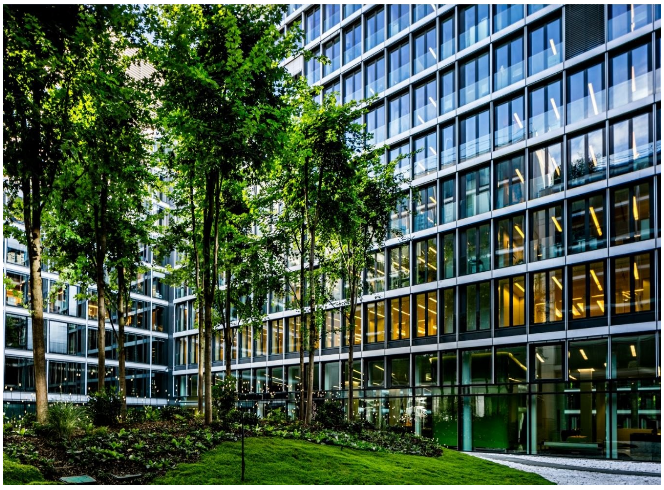
**Long term total returns vs capex as % of net income**




Source: Green Street Advisors, July 2018

## Property of the month

During the month, Invesco Real Estate agreed its largest ever European asset deal, with the acquisition of a €789 mln office property in Paris from Unibail-Rodamco-Westfield (URW). Capital 8 is an office building with a gross lettable area of over 45,000 sqm, located in the heart of the central business district of Paris, near the Champs Elysees, occupying a freehold site of close to one hectare. Following the refurbishment program started by URW in 2016, the building is now fully let to 17 Grade A tenants. This transaction is part of the €3 bln of disposals to be made by URW during the next several years as part of its previously announced European asset rotation programme. The office building consists of four interconnected buildings over 11 floors with 500 parking spaces, 3 restaurants and numerous conference rooms. While URW is principally a shopping centres business, they have successfully used their balance sheet over the years to develop large-scale office buildings in and around Paris. The Paris CBD office investment market continues to attract investor interest, despite yields for prime office stock approaching 3%. URW acquired the property in October 2001 for €183 mln and it was extensively refurbished during 2016, leaving them with a total cost price of c. €400 mln.

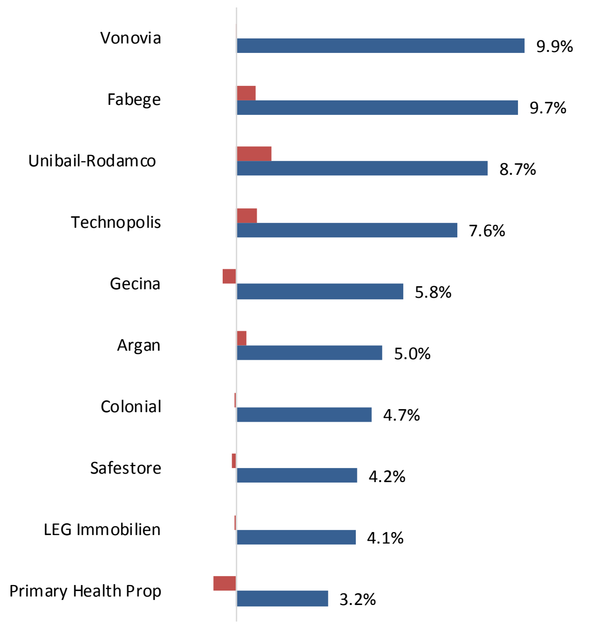


Capital 8 office building, Paris

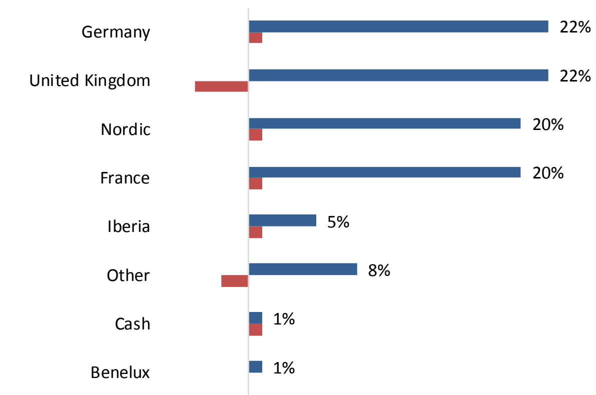
Clearance
# Camino Fund

## Monthly investor update - July 2018

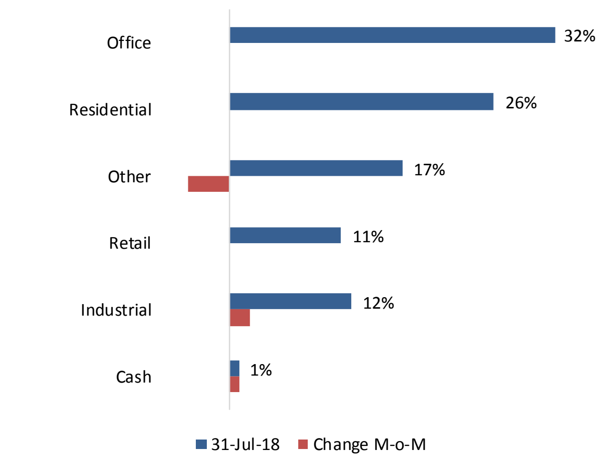
### Largest holdings




### Geographic exposure




### Asset class exposure




## Investment portfolio

During the month our UK exposure declined from 26% to 22%. Germany (22%), the UK (22%), Nordics (20%) and France (20%) make up the fund's largest geographic concentrations. At 32% of the portfolio, office property makes up the majority of the underlying see-through assets, followed by residential at 26%, industrial at 12% and retail at 11%.

The top and bottom performers (1) for the month were:

| | | |
|---|---|---|
| **Top performers:** | Patrizia | +16.8% |
| | Fabege | +16.5% |
| | Immofinanz | +10.3% |
| | Urban Exposure | +8.2% |
| | Empiric Student Property | +7.2% |
| ***EPRA (net total return)*** | | ***+1.1%*** |
| **Bottom performers:** | Instone | -2.4% |
| | Glenveagh | -2.6% |
| | Colonial | -2.6% |
| | Primary Health Properties | -2.9% |
| | Cairn Homes | -4.3% |

*(1) - Performance in Euro*

During the month we accepted Blackstone's public takeover offer for Hispania, the Spanish hotels owner, thereby disposing of our 5% interest.

Fabege, the Stockholm office landlord, reported solid second quarter results, with highlights including strong like-for-like rental growth of 5%, echoed by a 29% average uplift for renegotiated rents. Project gains and slight yield compression led to a property revaluation surplus of 4.2% for the quarter, which continued to drive the net asset value growth of the business. While the numbers were in line with our expectations, consensus estimates have risen post the results, confirming that many analysts were underestimating the rental and earnings growth. We expect Fabege's earnings per share to grow by 42% over the next 12 months, driven by continued rental growth, new projects coming on stream and the refinancing of expensive swaps that matured at the end of June. This growth is being achieved without increasing financial leverage. The shares performed strongly in July, adding 16.5% over the month and 44% for the year-to-date. We continue to see significant upside and it remains one of our core holdings at 9.7% of total fund net asset value.

## Outlook

The ongoing global trade dispute is likely to continue to contribute to market volatility in the months ahead. Within this volatile and risky environment there is a strong likelihood of real estate securities outperforming the broader equity market, given the defensive nature of the asset class and its typically domestic focus. Trends in underlying real estate markets are only serving to confirm equity market valuations; industrial and residential remaining the strongest sectors, whilst Sweden, Germany and Spain remain the strongest geographies. This trend looks set to continue in the near term.

Clearance
Camino Fund

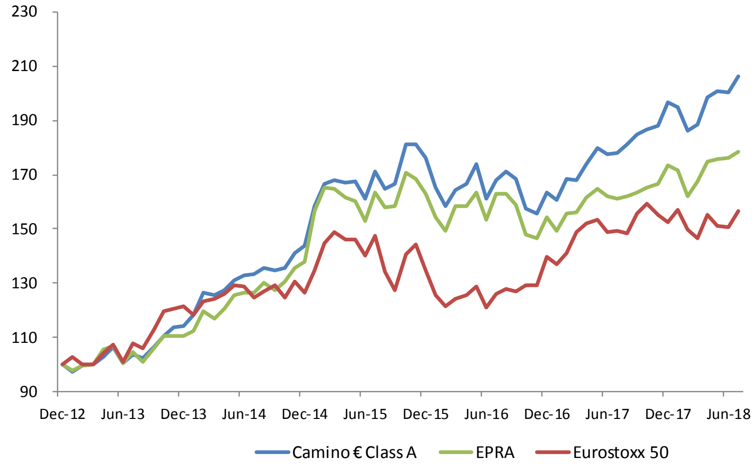
# Monthly investor update - July 2018

## Historic performance

| | Month | 2018 YTD | 2017 | 2016 | 2015 | 2014 | 2013 | Two years annualised | Three years annualised | Five years annualised |
|---|---|---|---|---|---|---|---|---|---|---|
| Camino EUR Class A | 2.8% | 4.9% | 20.4% | -7.3% | 22.3% | 25.9% | 14.3% | 10.8% | 6.4% | 14.8% |
| Camino GBP Class A | 3.4% | 5.2% | 23.3% | 7.0% | 17.6% | 18.2% | 17.2% | 13.3% | 14.1% | 15.2% |
| Camino USD Class A [1] | 2.8% | 1.8% | | | | | | | | |
| EPRA Net Total Return (Euro) [2] | 1.1% | 2.9% | 12.4% | -5.3% | 18.0% | 25.0% | 10.4% | 4.7% | 2.9% | 11.3% |
| Eurostoxx 50 Net Total Return (Euro) | 3.9% | 2.9% | 9.2% | 3.7% | 6.4% | 4.0% | 21.5% | 11.4% | 2.0% | 7.8% |

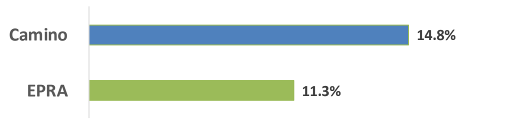
[1] US$ shares first issued in November 2017 [2] FTSE EPRA/NAREIT Developed Europe Net Total Return Index (EPRA) is the fund benchmark. The index is Euro denominated.

**Net performance versus EPRA and Eurostoxx 50 [1]**
Indexed to 100

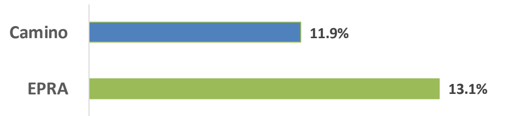



Source: Bloomberg, fund records, July 2018

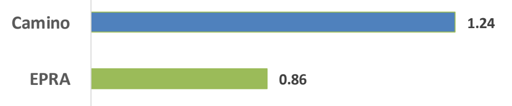
**5 Year annualised return**




**5 Year annualised volatility**

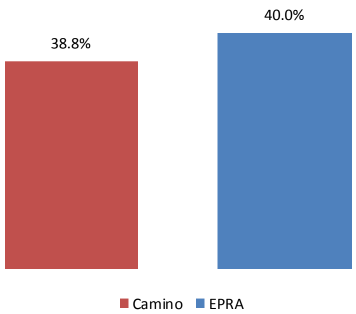



**Sharpe ratio (5 years)**

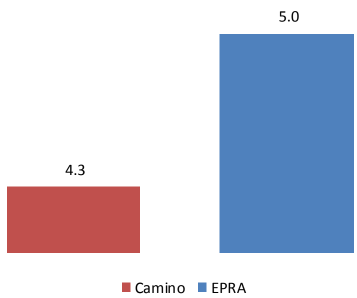



## Comparison to the benchmark

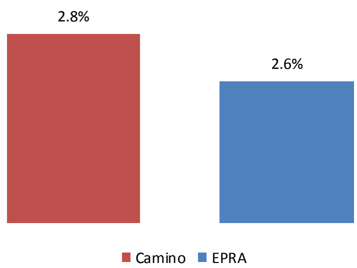
**Weighted average loan to value**




**Weighted average lease expiry**




**Weighted average cost of debt**



Clearance
Camino Fund

# Monthly investor update - July 2018

## Fund terms

| | |
|---|---|
| Fund objective | The Fund aims to deliver attractive long-term total returns by trading and investing in European listed real estate companies. The Fund adheres to a conservative investment style with long-only exposures, no leverage, concentration limits of 10% and a robust investment process |
| Compliance with objectives | The Fund has consistently adhered to its investment objectives since launch |
| Benchmark | FTSE EPRA/NAREIT Developed Europe Net Total Return Index [1] |
| Target Markets | The fund targets real estate companies globally, but with a focus on Western Europe, including the United Kingdom |
| Launch date | 4 August 2010 |
| Currency share classes | Euro, Sterling, US Dollar |
| Shares in issue | Euro 12,015,934 shares<br>Sterling 14,238,859 shares<br>US Dollar 1,621,308 shares |
| Dealing | Weekly |
| Domicile and legal status | Guernsey, Class B Collective Investment Scheme regulated by the Guernsey Financial Services Commission |
| Listing | The International Stock Exchange<br>http://www.tisegroup.com/market/companies/3342 |
| Dividends | Non-distributing |

| | |
|---|---|
| Initial charge | Zero |
| Management fee | Class A: 1.5% per annum<br>Class B: 1.0% per annum<br>Class C: 0.7% per annum |
| Incentive fee | 15% above the benchmark, subject to positive absolute performance and high watermark [1] |
| Investment Manager | Clearance Capital Limited<br>www.realestatealternatives.com |
| Custodian | BNP Paribas Trust Company (Guernsey) Ltd |
| Administrator | Northern Trust International Fund Administration Services (Guernsey) Ltd |
| Auditor | Deloitte |
| ISIN | GG00B4YR6B71 (Euro Class A share)<br>GG00B55CC870 (Sterling Class A share) |
| Net asset value per share | Euro Class A: €2.1618<br>Euro Class B: €1.0664<br>Euro Class C: €1.1197<br>Sterling Class A: £2.2231<br>Sterling Class B: £1.0804<br>Sterling Class C: £1.1197<br>US$ Class A: $1.0983<br>US$ Class B: $1.0390 |
| Total expense ratio | 2.25% for the most recent financial year for the Class A shares |
| Annualised total returns | Annualised return is the weighted average compound growth rate over the period measured. |

(1) The Fund was previously named the Stenham Real Estate Equity Fund and on 29 September 2017 the name, benchmark and performance fee changed. Before 29 September 2017 the performance fee was 10% of the excess return over the European Harmonised Index of Consumer Prices plus 4% per annum. Historic returns are shown based on the old performance fee basis until 29 September 2017 and on the new basis thereafter.

**Please read this monthly investor report in conjunction with the Fund's Minimum Disclosure Document.**

### Regulatory information, notes on the calculation of performance data and risk warning



CLEARANCE CAPITAL
Real estate alternatives

**Clearance Capital Limited**
26 Throgmorton Street, London, EC2N 2AN
Tel. +44 (0) 203 002 7685
www.realestatealternatives.com
**Authorised and regulated by the UK Financial Conduct Authority**

**Contact the Investment Manager:**
Clearance Capital Limited
Wessel Hamman or Charl Cloete
+44 203 002 7685
whamman@clearancecap.com or ccloete@clearancecap.com

**Contact the Administrator:**
Northern Trust
Andrew Bonham
+44 1481 745 302
cab9@ntrs.com