

First World Hybrid Real Estate Plc

Dec 2023



First World Hybrid Real Estate

A **Regulated** Fund,
invested mainly in **UK distribution warehousing**,
offering a **reliable income yield**,
with **better liquidity and pricing certainty** than a typical direct
property investment and
with **lower volatility** than publicly quoted and traded property.

Please note that all investment involves risk.

Past performance is not necessarily a guide to future performance; please refer to the last slide and the Offering Document for further information



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Investment offering

- Dividend yield around 4% in sterling – underpinned by **long leases and strong tenants**
- Modest capital growth over time – **with rental growth being an important driver of capital appreciation**
- **Weekly pricing**, and **trading**, based on appraised values of the direct property portfolio by independent valuers, and quoted REIT performance, provides **liquidity with relatively low volatility**.



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Trading update for quarter ended 31 December 2023

- 100% of rental collected
- Positive and portfolio enhancing leasing activities
- Quarterly div payment of 1.3p declared and paid on A class
- Total return for Q4 2023 of 1.8% (Q3 of -0.4%, Q2: -0.9%, Q1: -2.4%)
- Share price (A Class) slightly firmer (0.6%) from 112.41p at beginning of quarter to 113.18p at 31 December 2023
- REITs have shown strong price recovery while property valuations have stabilised.
- The inflation and interest rate outlook has improved considerably.



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Corporate structure

- FWHRE is an Isle of Man domiciled plc and is not a UK Situs asset.
- FWHRE is an IOM Regulated Fund under the Collective Investment Scheme Act 2008 and associated legislation (CIS).
- FWHRE is also listed on The International Stock Exchange (TISE) and subject to their listing requirements.
- FWHRE has a board of directors, an Investment Committee and a Risk, Audit and Compliance Committee.
- FIM Capital Limited (FIM) is Fund Manager and Property Manager. FIM is licensed by the Financial Services Authority in the IOM and authorised and regulated by the Financial Conduct Authority in the UK.
- FWHRE's Fiduciary Custodian is EFG Fund Services, a division of EFG Wealth Solutions (Jersey) Limited.
- FWHRE is approved for sale in SA by the Financial Sector Conduct Authority (FSCA).
- Marriott markets the Fund and is registered with the FSCA in SA.



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Corporate structure

- Share classes and distributions
 - Distributing and accumulating share class options
 - Quarterly distributions (for Class A Income Shares)
- Pricing and trade
 - The Fund is priced and trades weekly, based on NAV (Net Asset Value)
 - The NAV is determined based on the market price of the REITs and the independent valuation of the property portfolio
 - There are no fees on redemptions



First World Hybrid Real Estate's assets

Direct Real Estate

- UK commercial real estate, yielding approximately 6%
- Robust income - FRI, long leases (WAULT +/- 9 years)
- Low volatility - each property is independently valued twice per annum on a rolling basis



REITs

- UK listed REITs, yielding approximately 4.9%
- Priced on stock market therefore readily tradeable and liquid
- Pricing volatility, esp. in times of elevated uncertainty
- Primarily to provide liquidity for redemptions



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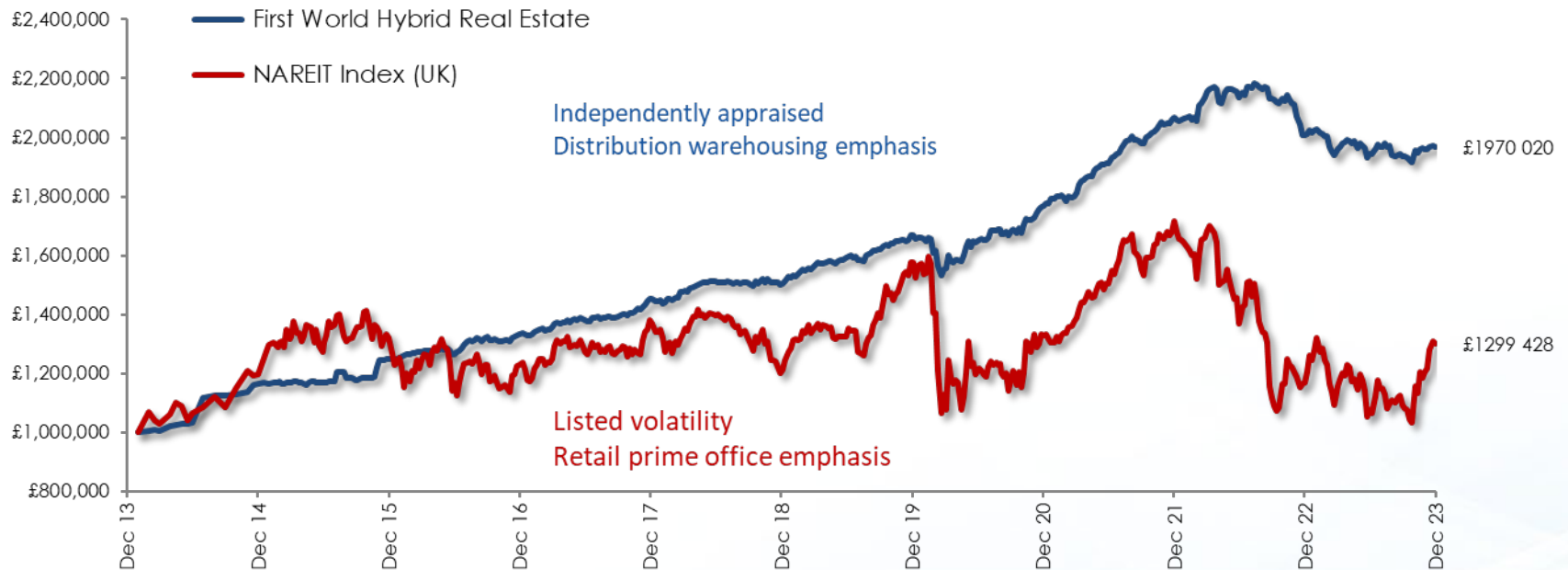
Solid track record – expansion

	Dec 2014	Dec 2015	Dec 2016	Dec 2017	Dec 2018	Dec 2019	Dec 2020	Dec 2021	Dec 2022	Dec 2023
No. of properties	2	7	12	16	18	20	20	24	26	25
Gross asset value £m	15	37	78	113	137	163	177	238	263	244

The Fund's Net Asset Value is circa £157m

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Performance - **without the volatility**



Source: Bloomberg and Marriott

FWHRE based on A class (distributing) before investment management fees, up to 29 Dec 2023

There may be additional IIP or other product charges applied, which may affect the net yield.

Pricing of FWHRE was temporarily placed on hold between 19 March 2020 and 21 August 2020 due to uncertainty around direct real estate valuations in the UK and material uncertainty conditionality adopted by valuers. As a result, the returns for this specific period utilised indicative pricing for FWHRE. The Fund reopened for trade on 24 August 2020 at a price of 112.79p (A class).

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Performance – Comparative calendar year returns

Calendar years	2015	2016	2017	2018	2019	2020	2021	2022	2023
First World Hybrid Real Estate	7.2%	6.7%	9.1%	3.3%	11.1%	6.0%	17.0%	-2.9%	-1.8%
UK REIT Index – NAREIT	10.4%	-7.4%	12.7%	-13.3%	31.8%	-16.6%	28.8%	-31.6%	11.1%

Source Bloomberg and Marriott

FWHRE A class (distributing), before investment management fees, based on last published price for period (29 Dec 2023 NAV).

There may be additional IIP or other product charges applied, which may affect the net yield.

Past performance cannot be a guarantee of future performance

The Fund has performed comparatively well, especially compared to the NAREIT index



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Performance – Quarterly return analysis (GBP)

Returns – per quarter	Q4 22	Q1 23	Q2 23	Q3 23	Q4 23
3-months	-6.0%	-2.4%	-0.9%	-0.4%	1.8%
12-months	-2.9%	8.2%	-10.0%	-9.3%	-1.8%
5-year annualised	6.7%	5.8%	5.1%	5.1%	5.6%

Source Bloomberg and Marriott

A class (distributing), before investment management fees, based on last published price for period (29 Dec 2023 NAV)

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Short term returns are stabilising

Longer term returns are within 4.0% to 6.5% guidance, in sterling



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Performance – Return composition (GBP)

Annualised returns – period ending 31 December 2023	1 Year	5 Years
Total Return	-1.8%	5.6%
Capital growth	-6.2%	1.1%
Income	4.4%	4.5%

Source Bloomberg and Marriott

A class (distributing), before investment management fees, based on last published price for period (29 Dec 2023 NAV)

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Income return – predictable

Price return – based on property valuations and REIT prices



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Performance – Comparative returns (GBP)

Annualised returns – Periods ending 31 December 2023	1 Year	5 Years
FWHRE	-1.8%	5.6%
UK REITs (NAREIT index)	11.1%	1.5%
UK EQUITIES (FTSE 250 index)	8.0%	5.1%

Source Bloomberg and Marriott

FWHRE A class (distributing), before investment management fees, based on last published price for period (29 Dec 2023 NAV).

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Property sector - long term targets

75% warehousing / 25% regional offices

Geographic

Institutional locations – sector driven

Ticket size

£5 to £25m

ESG – commercial relevance

flooding, contamination, tenant usage & energy
EPC's : 100% are A, B & C

Lease term & type

Min > 8 years unexpired term
FRI , upwards only reviews

Tenant

Low Risk CreditSafe
(rating score >60)
>£20m TNA

Rental growth

Yield

Property acquisition filter

- Clear
- Focused
- Disciplined approach



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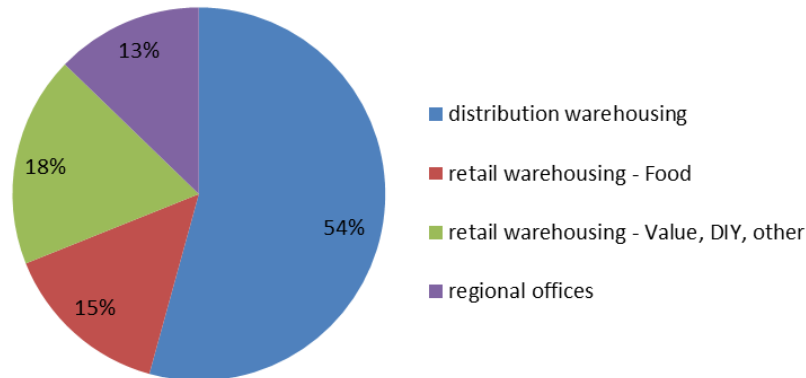
Quality - 25 institutional grade modern properties



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Quality – property type

**Portfolio analysis:
property sector type by value**
LT Target: 75% warehousing 25% regional offices



- Distribution warehousing dominant at 54% weighting
- 15% 'recession proof' food weighting
- 18% Retail warehousing tenanted by value retailers
- Decentralised, single tenanted regional offices underweight long term target at 13%

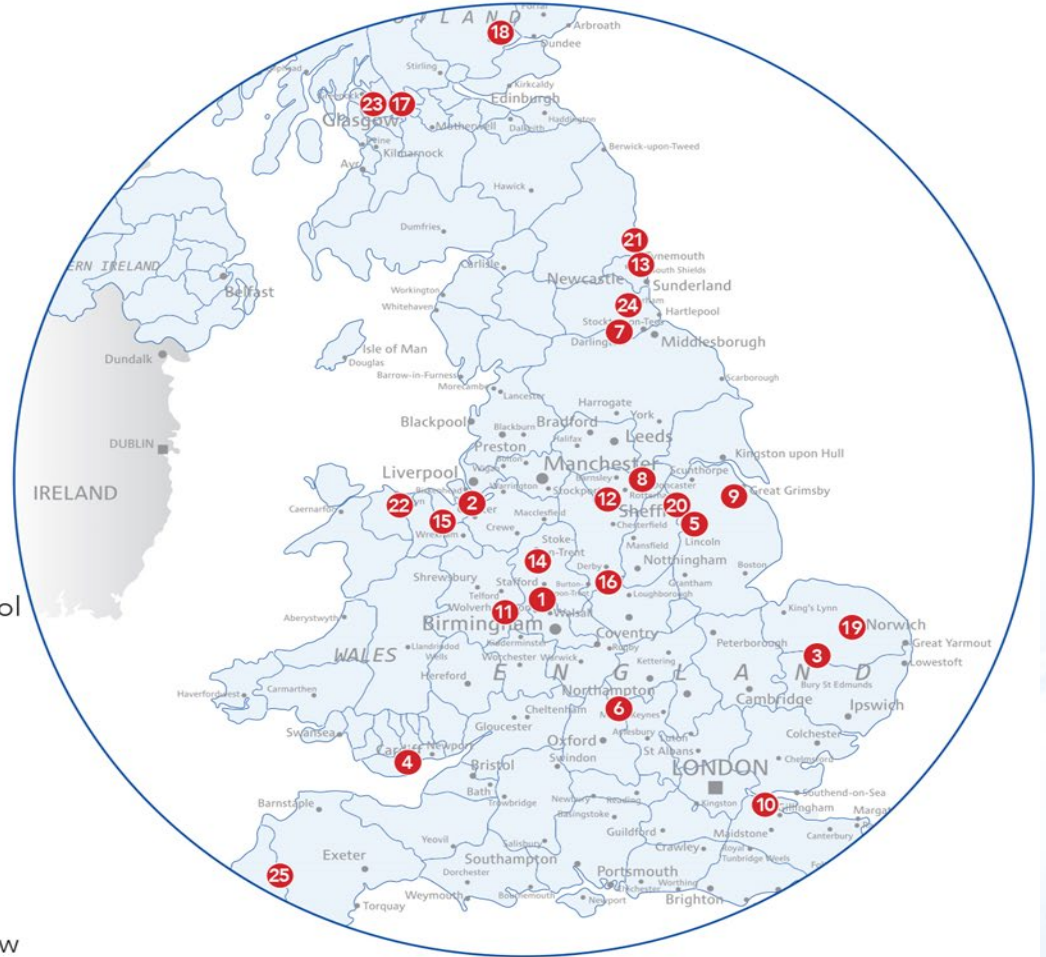
No high street retail / traditional shopping centres, leisure or student accommodation



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Defensive – geographical spread

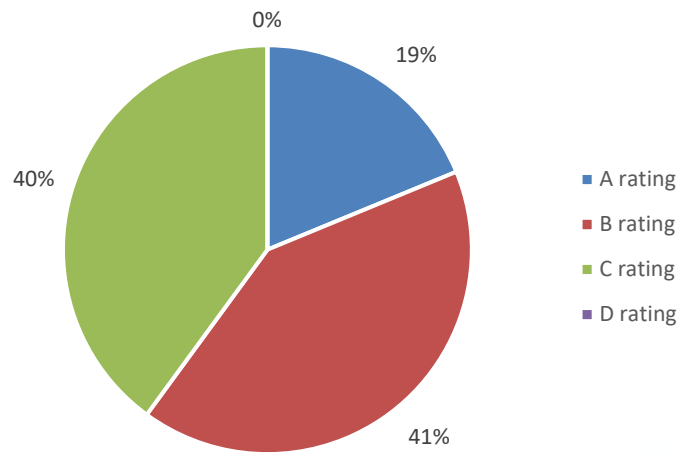
- 1 Bidfood – Cannock, Birmingham
- 2 Matthew Clark – Runcorn, Liverpool
- 3 DPD – Snetterton, East Anglia
- 4 SIG – Cardiff, Wales
- 5 Booker Cash and Carry – Lincoln, Midlands
- 6 B&M Retail – Towcester, Northamptonshire
- 7 FPE Seals – Darlington, Durham
- 8 Keepmoat – Lakeside, Doncaster
- 9 Wickes – Grimsby, East Lincolnshire
- 10 Vanquis Bank – Chatham, Kent
- 11 Spectrum Brands – Wolverhampton
- 12 SIG – Sheffield, Yorkshire
- 13 Barratt – Gateshead, Newcastle
- 14 B&M Retail – Leek, Staffordshire
- 15 Great Bear Distribution – Deeside, South of Liverpool
- 16 Crown Packaging Manufacturing – Leicester
- 17 B&M Retail – Stenhousemuir, Glasgow, Scotland
- 18 Brake Bros Limited – Dundee, Scotland
- 19 Marsh McLennan – Norwich, Norfolk
- 20 DHL Supply Chain – Bawtry, Doncaster
- 21 Eviosys Promotional Packaging UK – Newcastle
- 22 Marina Quay Retail Park – Rhyl, Wales
- 23 Aldi Stores and Home Bargains – Milngavie, Glasgow
- 24 North Durham Retail Park – Pity Me, Durham
- 25 Tesco – Tavistock, Devon



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Quality – ESG & Environment impact

EPC ratings (based on property values)



- The acquisition filter requires that consideration be given to the nature of the tenant's operations, flood risk, contamination, energy consumption etc
- All properties already have valid EPC ratings which meet the proposed new targets to be attained by Dec 2027

ESG is integral to the Fund's acquisition and investment strategy

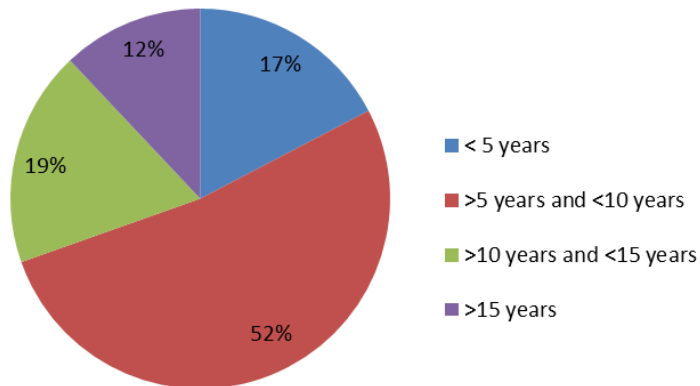


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Defensive – leases

Portfolio analysis: lease expiry profile by lease value

WAULT target >10 yrs
Actual = 8.9yrs (8.1 to TOBs)



- Long lease portfolio, let on FRI leases, with upwards only rent reviews
- 38 leases in total
- Portfolio fully let, 1 lease due for renewal in 2024
- WAULT of 8.9 years to expiries, 8.1 years to tenant breaks.
- Excellent spread with 1/3rd of leases having 10 years or longer to expiry

Lease structure and length enhances income predictability



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Rental growth – leases

- 36% of leases are indexed with either fixed or RPI linked rent reviews (including 48% of the office portfolio) ensuring increased rentals on review
- Open market rental growth in the warehousing sector has been strong, meaning that there is inherent upside in those leases that are subject to OMRRs (open market rent reviews)
- Inherent rental upside across the portfolio is estimated to be 7% above current passing portfolio rent (based on current levels / ignoring any future guaranteed or forecast rental growth)
- 12 leases - 11 rent reviews and 1 renewal (comprising 25% of passing portfolio rent) come up for rent resetting during 2024. These comprise a mix of guaranteed rental increases and OMRRS. Rental upside is estimated at 13%

Lease review terms and market rental growth underpin portfolio rental growth



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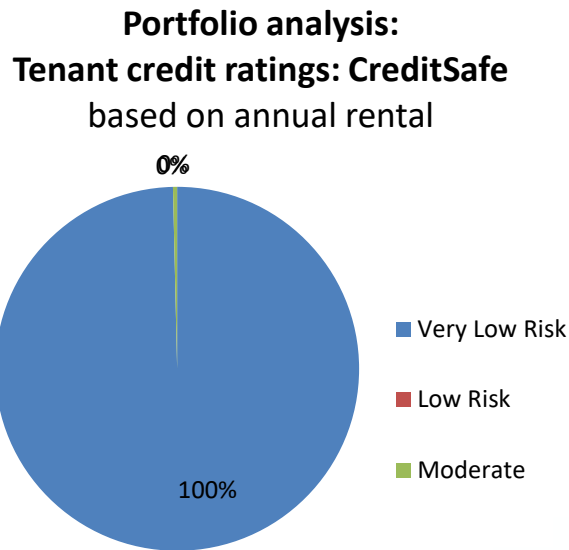
Defensive – tenants

- **Diversified tenant base, substantial tenants**
 - Crown 12% (2 properties) - UK leading can manufacturer, £621m tangible net assets.
 - DHL 10% - leading postal and logistics company, £447m tangible net assets.
 - B&M 9% (4 properties) – UK leading variety goods value retailer. FTSE 100 company with £5.7bn market cap and £595m tangible net assets.
- **Mainly UK consumer facing businesses**
 - No London or international head offices
 - No export focussed
 - No automotive

Tenant selection and financial standing underpins income certainty

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Defensive – strong tenants with substantial balance sheets and good credit track records



- Strong tenants allow for good rent collections - 100% of rental received
- Stringent investment criteria regarding tenants when considering a property for acquisition
- Acquisition filter requires tenants to have min CreditSafe score of 60 (being midpoint in Low Risk band) & TNA (tangible net assets) of > £20m
- 99.6% of tenants, by lease value, have Very Low Risk ratings

Tenant selection and financial standing underpins income certainty



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Defensive - valuation policy

- Each property is routinely **independently valued** at the time of acquisition and every 6 months thereafter. This is by design with the objective of ensuring the portfolio is fairly priced and with reduced volatility.
- Given **market uncertainty and the impact of higher interest rates**, the valuations of several large properties in the portfolio were brought forward and updated in Dec 2022 resulting in 89% of the property portfolio being revalued in Q4 2022, and a consequent 4.6% reduction in overall portfolio value.
- During 2023,
 - Q1 - 23% of the portfolio was routinely revalued with a 1.5% write-down in portfolio value
 - Q2 - 35% of the portfolio was routinely revalued with a 0.8% write-down in portfolio value
 - Q3 - valuation of every property was reviewed by the independent valuers on 31 Aug (being the Fund's financial year end), with a 1.0% reduction in portfolio value
 - **Q4 - 44% of the portfolio value was routinely revalued with a 0.3% write down in portfolio value**

There is good evidence of valuation yields having stabilised

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Defensive - valuation trend

# of Direct Property Valuations	Up	Flat/ Immaterial*	Down
Q4 2022	0	12	13
Q1 2023	2	0	7
Q2 2023	1	6	2
Q3 2023	2	21	2
Q4 2023	0	9	1

* Valuation adjustment within 3%

Source: Marriott

There is good evidence of valuation yields having stabilised



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Portfolio transaction activity

- There have been no property acquisitions during 2023.
- Various capex and income generating projects to enhance existing properties, including
 - Matthew Clark, Runcorn – additional lorry parking completed at cost of circa £400k, with yield of 5% on capex investment.
 - Burger King at Marina Quay – planning approval being sought for a new drive thru unit at a cost of circa £1.1m, completion expected Q2 24, with yield of 8.5% on the capex investment.
- Consideration is being given to disposing of B&M Leek – where the lease has recently been extended by an additional 10 years. The Fund currently has four B&M leases. Disposal proceeds will enhance the Fund's liquidity level and will be invested in REITs and / or the repayment of debt

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Property portfolio debt - well placed, defensive

- Term loans with both Barclays and HSBC, total of £80.8m.
- In addition, there is a £5m Revolving Credit Facility (RCF) of which £1.5m has been temporarily drawn down. The remaining £3.5m is unutilised and fully available should the need arise.
- Loan-to-Value (LTV) across property portfolio is 42% (approx. 35% on Fund basis), well below the bank maximum of 60%.
- WA (Weighted Average) all in cost, inc. RCF reserving, is circa 4.9%, with an Interest Cover (IC) ratio of circa 3.1 times.
- Board policy is for the interest rates of between 50% and 75% of the debt to be hedged. There are 3 interest rate swaps (£42.3m), 51% of the debt.
- The WA term to expiry of the swaps is 5.3 years, with WA fixed interest rate of 89 bps

Debt funding has enhanced portfolio returns

Hedges increase predictability of income yield for investors



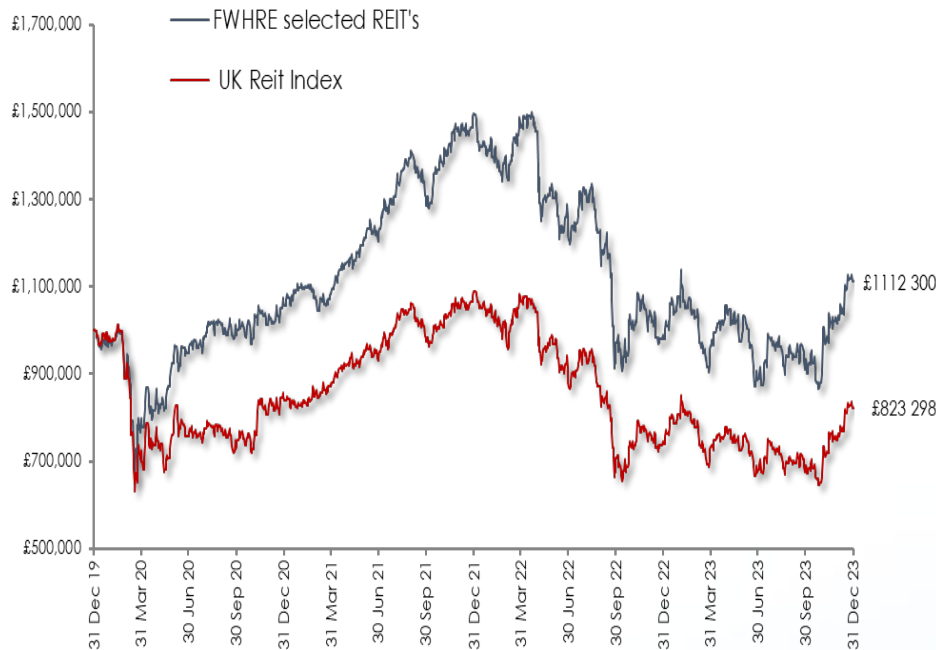
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Quality – large warehousing dominant REITs



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Defensive – large warehousing dominant REITs



Source: Bloomberg & Marriott

- REITS **fundamental part of structure for liquidity**
- Being publicly quoted and traded investments **pricing is inherently volatile and interest rate sensitive**
- **REIT prices fell sharply in 2022 and into 2023 driven by rising interest rates but have firmed strongly in Q4 2023 following the release of encouraging inflation and interest rate data**
- The REITs held by the Fund have performed relatively well – which provides support for the type of property selected by the Fund

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Liquidity & Redemptions – **defensive approach**

- **Liquidity target levels**

- 20% Minimum Liquidity Level (MLL) of NAV, reviewed quarterly based on market conditions, redemption trends and expectations.

- **Flows and actual liquidity**

- Inflows for Q4 2023 were £2.2m while redemptions were £7.7m, circa 4.8% of average NAV. (2023 calendar year: £9.7m, £20.4m, and circa 12.3% respectively).
- The current liquidity is circa 21%.

- **Gating and suspension provisions**

- As with all open ended funds, there are standard provisions to deal with extraordinary circumstances in order **to protect the interests of all investors**.
- Gating – maximum weekly redemption is 5% of shares in issue, excess c/f.
- Suspension circumstances - where pricing is not reflective of underlying property valuations or where not practical to realise an investment.



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Quality, Defensive, Dividends

- UK is a **1st world economy** with **entrenched property rights** and **good levels of governance and transparency** and can be expected to remain an **attractive destination to store wealth**.
- The Fund is structured to offer better **liquidity and pricing certainty** than typical direct property investments but with **less volatility** than publicly quoted and traded property, this with the **comfort of a Regulated Fund**.
- The Fund remains **well positioned** due to the **type of properties selected, the structure and length of the leases**, and the **nature and financial strength of the tenants**.
- The Fund's leases and tenant strength can be expected to underpin a **robust dividend yield in Sterling**.



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Quality, Defensive, Dividends

- Interest rates have risen sharply, and the Fund's cost of debt funding has increased. However, the full impact of this has been mitigated in that the **property portfolio LTV ratio is at 41%, with > 50% of the debt hedged, at very favourable rates for a WA remaining period of >5 years.**
- Higher interest rates have also impacted on property valuations. The Fund's properties have been fully revalued and reflect the sharp outward yield movement seen in 2022. More **recent valuations show evidence of stabilisation.**
- REITs which tend to be interest rate sensitive are known for **greater volatility than direct property.** They are **now considered to be trading at attractive yields** and offer good investment value.
- FWHRE is not immune to **extreme volatility and market uncertainty** but remains well positioned to be **resilient.**



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Quality, Defensive, Dividends

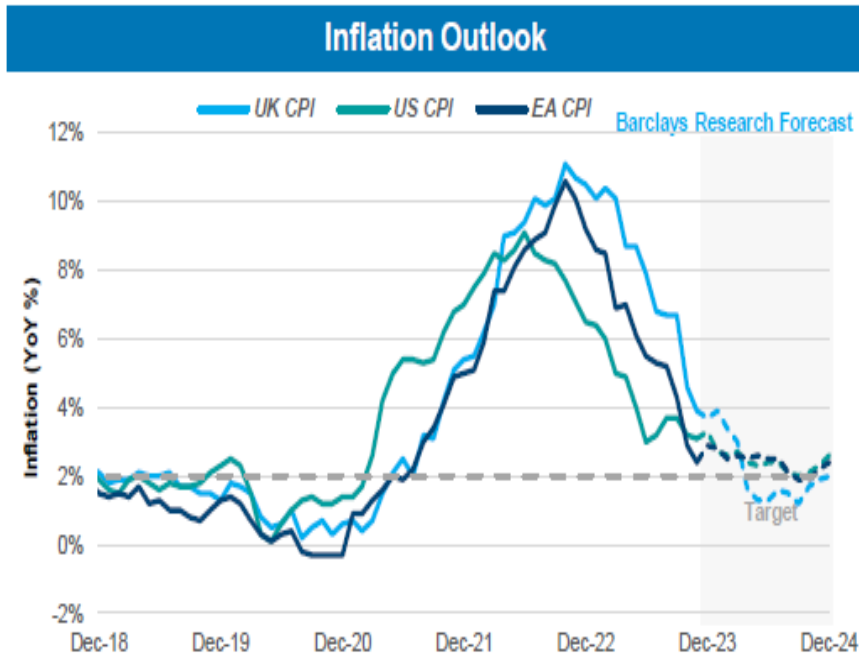
The impact of high inflation and consequent interest rate increases

- **In less than 2 years, the Bank of England increased the UK base rate by 5%,** from 0.25% at the beginning of 2021 to the current 5.25%.
- **An obvious and direct impact is that the Fund's cost of debt has increased.**
However, this has been mitigated in that > 50% of the Fund's debt had been hedged at very favorable rates, with a WA remaining period of >5 years.
- **Higher interest rates have also impacted on investment pricing.** (Higher 10-year bond yields require higher yield thresholds elsewhere, especially for property)
 - The pricing of REITs, which are interest rate sensitive, fell sharply as interest rates rose.
 - Property yields also adjusted upwards, with a consequent weakening in valuations.
- **FWHRE is not immune to extreme volatility and market uncertainty but has been relatively resilient.**



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Inflation outlook, interest rates and property investment



Source: Barclays Research & Bloomberg as of 4th January 2024.

- **Inflation is falling** and is expected to be at or close to target levels by end 2024.
- **5-year interest swap rates have already come off sharply** in Q4 23 – from 4.7% on 1 Oct to 3.4%, indicating that the base rates will fall. **Barclays Research forecasts a base rate of 3.25% by end Q1 25.**
- As anticipated, REIT prices have started firming on the positive data. **The Fund's REITs were up 17% during Q4 23.**
- **Lower interest rates can also be expected to support property valuation yields.**

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LONGER TERM RETURN EXPECTATIONS

4.0% to 6.5% pa (in Sterling) underpinned by:

- **Reliable rental income** from long leases underpinned by strong financial covenants
- **Portfolio rental growth to continue**, underpinned by RPI linked leases and upcoming open market reviews with inherent rental upside
- **Lower inflation - a lead indicator** for interest rates, bond yields and **supportive of property pricing** (both REITs and direct)



Before making a decision about investing, you should read the following information and make sure you are comfortable.

All investment involves risk. Past performance is not necessarily a guide to future performance. The value of investments can go down as well as up and investors may not receive back the original amount that they invested. Where investment is in a different currency, movements in exchange rates can have an effect that is unfavourable as well as favourable.

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