

POSITIVE IMPACT PROPERTY FUND NAIROBI

ATTRACTIVE REAL ESTATE
OPPORTUNITY WITH A
POSITIVE SOCIAL IMPACT

truestone⁺
impact investment management

For Sophisticated Investors and
High Net Worth Individuals only

July 2015

Truestone Impact Investment Management has been asked by two charities based in Kenya to lead the development of their prime real estate in Nairobi, to help release capital and provide income streams for the charities to maintain and expand their educational missions.

The development projects will be placed within a fund targeted to deliver a **20% pre-tax annualised return** after fund charges, across two and a half years and with full security over the land.

20%
TOTAL PRE-TAX
ANNUALISED RETURN ON
DEBT AND EQUITY OVER
TWO AND A HALF YEARS

SECURITY
SECURITY OVER
LAND AND BUILDINGS





THE OFFER

A RARE OPPORTUNITY TO PARTICIPATE IN THE DEVELOPMENT OF TWO HIGH POTENTIAL SITES IN KENYA'S CAPITAL.

- **Increasing property values** – As an important commercial hub for East Africa, land values in Nairobi's key business and residential neighbourhoods have risen by an average of 535% in just seven years¹, and given the low base from which prices started, we believe an overheated market is unlikely. This makes real estate a potentially attractive investment for the right development opportunity in the right district.
Anticipated returns are founded on the value added from the development rather than the increase in property values
- **Experienced local partner** – Truestone together with our local Kenyan investment partner has secured the development rights for two properties in prime neighbourhoods (Kilimani and Westlands)
- **Local partner co-investment** – Our experienced Kenyan investment partner will be investing 10% of the required capital
- **Attractive returns targeted** – We are targeting a pre-tax, annualised return of 20% IRR across two and a half years, made up of a pre-tax return of 15% on the debt element, net of fund charges and currency hedging costs (hedging investor interest earned on the debt) plus targeted growth on the equity element
- **Security** – As advised by our local counsel, Kaplan & Stratton, security will be additionally reinforced using suitable legal instruments, in addition to taking charge over the land itself. This aims to enhance levels of enforceability and increase the legal protections available
- **Loan to value ratio** – On average, throughout the development the ratio will be 44%. This has been stress tested. **There is no expectation of using external bank debt**
- **Assistance for charities** – The land is owned by two charities, the Kenyan Students' Christian Fellowship and the Church Mission Society, which are both looking to create income streams to fund their continuing educational work in Kenya
- **Balanced approach** – Truestone was specifically appointed to provide a 'fair deal' management process for the project so that investors would be appropriately rewarded and the charities would have a secure sustainable source of income for the future, making them less dependent on donations
- **Understanding the risks** – Please be aware that this is an investment in two development projects, in a developing nation and will involve currency and other significant risks. It is therefore available to certified High Net Worth individuals, Professional and Sophisticated investors only. As an illiquid investment, it is not suitable for those requiring ready access to their capital or seeking lower levels of investment risk. **Please read the disclaimer at the back of this document.**

¹ Hass Property Index Q4 2014

FUND DETAILS

Fund size: £9.5 million (currency GBP)

The Fund will invest 80% debt and 20% equity, with a targeted annualised IRR of 20% (pre-tax) after fund charges.

- IRR 15% pre-tax on the debt element, paid six monthly
- Currency hedging in place on investor debt interest (Kenyan Shilling to GBP), included in the targeted IRR

Key Advisors

- Cash Management: Barclays (Kenya)
- Legal Advisers: Kaplan & Stratton, Uperhill, Nairobi and Macfarlanes LLP, London
- Valuers: Knight Frank, Kenya
- Quantity Surveyor and Project Management – Fanisi Consultants and HiH, Nairobi

Key Fund Charges and Term

Initial Charge: 3.1% (terms available for intermediaries)

Annual Charge: 2%

Performance Fees: 20% performance fee above a 10% IRR hurdle rate

Cash Management Annual Charge: 2% per annum on average cash balances managed

Truestone will hold a final equity stake in the development, expected to be in the region of 10%

Investment Period: two and a half years, with the option to roll-over to future developments. Truestone is presently working with a number of other charities in developing nations, planning similar developments to release income streams

Minimum investment: £100,000

DETAILS OF THE PROPERTIES:



KSCF Towers

Anticipated sale price £12.2million

Total development cost, excluding financing, of £ 7.6million (includes £1.65million of land value)*

Security over the land

Location – David Osieli Road, Westlands, Nairobi is a prime site just off Waiyaki Way, the main route to Nakuru. The area is popular with embassies and banks and is home to expat communities. Local businesses include PKF Accountants, Safaricom and three shopping malls.

Westlands is the third most expensive area of Nairobi per acre according to the Hass Property Index Q4 2014. We are developing 0.68 of an acre according to the title deed.

The development includes – 13 floors (four basement floors) across two towers, estimated sale price of £1,028 per square metre for commercial space, 258 parking spaces. There will also be a residential aspect to this development. Plans assume a minimum 85% of utilised floor space, allowing for communal areas, plant and machinery.

Social impact objectives

KSCF is an inter-denominational, Christian non-profit making and non-political organisation. The charity has a Memorandum of Understanding with the Kenyan Ministry of Education to work together, with the authority given to KSCF to go into schools and colleges within Kenya, to provide awareness and education across a range of important social issues such as social equality and responsibility, good health, environmental protection and moral and religious values.



CMS

Anticipated sale price £8.1million

Total development cost, excluding financing, of £5.2million (includes £1.0million of land value)*

Security over the land

Location – 850 Chania Avenue, Kilimani, Nairobi.

Kilimani is the second most expensive area of Nairobi per acre according to the Hass Property Index Q4 2014. We are developing 0.6815 of an acre according to the title deed.

The development includes – 15 floors (seven parking floors) across one tower, estimate sale price £1,028 per square metre, 177 parking spaces. Plans assume a minimum 85% of utilised floor space, allowing for communal areas, plant and machinery.

Social impact objectives

CMS–Africa is focused on transformation of society by working through the church, families and individuals. The Christian charity is passionate about creating an enabling environment in Africa and beyond so that the people build their own solutions and take ownership of their future. The charity runs numerous training and development programmes, including business skills, mentoring, youth development and women's empowerment. It is on this basis that the proposal to carry out a long-term capital investment will generate income to make the mission's work sustainable.

* Verification by Knight Frank is underway

INDICATIVE PROCESS

THE FLOW CHART BELOW SETS OUT HOW THE FUND AIMS TO GENERATE A SECURE INCOME DURING THE DEVELOPMENT PHASE AND CAPITAL GROWTH.



DEBT ELEMENT



Investors receive 15% (targeted) per annum, paid six monthly

Pre-tax after hedging of interest and fund charges



From pre-sales and interest from local deposits

EQUITY ELEMENT



Charity owns their percentage (land value at start/total dev cost) plus retains title of land



Investors receive equity growth to achieve the overall pre-tax 20% annualised IRR after fund charges



KENYA

OVERVIEW

Despite the recent Al-Shabaab terrorist attacks, Kenya and particularly Nairobi's prosperous economy continues to progress. The nation is predicted by Bloomberg to be the third fastest growing economy in the world in 2015, and the fastest in Africa. Kenya has steadily moved towards its target of being a successful low to middle income country with a balanced and ambitious plan to lift its people out of poverty over the medium to long term.

Kenya has seen steady growth in its economy (5.7% in 2013 and 5.3% in 2014) with projections showing significant growth of 6.9% (2015) and 7.2% (2016) over the next two years². Inflation is being controlled and the Shilling is seen as a relatively stable currency. The overall stability of the economy has been recently evidenced by the successful sovereign bond issue for \$2 billion – the largest so far in sub-Saharan Africa.

² IMF April 2015

The government has instigated a structured plan, running through to 2030 and addressing the main development targets for the country, with a focus on education, youth employment, an enhanced transport infrastructure and economic stability.

The country has a stable government with President Uhuru Kenyatta successfully overseeing the devolution of power to Kenya's 47 counties. This is being carried out to foster shared growth and aid social cohesion. Devolution is being accompanied by an overhaul of governance and the 'so called' parastatal organisations that administer government policy, so that they can operate at county level to provide an improved service.

THE INVESTMENT TEAM

WITH LOCAL KNOWLEDGE

Truestone is a leading UK based impact investment asset manager and has been working in frontier markets for ten years. We have extensive experience of developing relationships and business opportunities that generate attractive financial returns and important social impact in some of the most difficult business environments.

We apply Environmental, Social and Governance (ESG) screening as a key part of our due diligence process and set market leading standards in the accurate measurement and reporting of the social impact created by our investments. Truestone has put together a highly qualified team to manage the property development project, incorporating local property market expertise, construction experience and financial analysis and modelling skills specifically developed for frontier markets.



Grant Smith has undertaken Quantity Surveying services for thirty years in both the UK and Kenya. Grant has successfully completed many development projects across retail, business, residential and leisure sectors.



Peter Njeru owns Riva Petroleum which is a significant oil importer and exporter in Kenya. Peter has had extensive involvement in construction in Kenya, completing the largest supermarket (at the time) in Nakuru and many other significant housing and retail developments. Peter was a finalist in the prestigious Ernst and Young Entrepreneur of the Year, East Africa, award for 2011.



Neil Sandy is the CEO of Truestone and has been with the business for eight years, during which time, he has had a significant Africa focus. Previous to this Neil was Head of Operations & Risk at Barclays Wealth and a director at Barclays Funds Limited.



Guy Ruddle is a qualified accountant with more than ten years of experience within the financial services sector. Guy trained with Deloitte and spent over six years at Man Group PLC and three years with Morgan Stanley.



Paul Szkiler is the Chairman and founder of Truestone and has 15 years' cross-cultural experience. He has focused for the last 10 years on establishing companies with social impact as a key element, internationally and with an emphasis on Africa.

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PROPERTY FUND – NAIROBI AND RECEIVE THE FULL
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PLEASE CALL US ON **020 7135 2480** OR EMAIL
ENQUIRIES@TIIM.CO.UK OR REGISTER AT OUR WEBSITE,
WWW.TRUESTONEIMPACTINVESTMENT.CO.UK



TEN Lovat Lane
10/13 Lovat Lane
London EC3R 8DN

t +44 (0)20 7135 2480

f +44 (0)20 7135 2482

w www.truestoneimpactinvestment.co.uk