



Real Estate Investments

Media Training

October 6, 2016



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I: Introduction to Cytonn Investments Management Limited

What We Stand For



Our Mission

We deliver innovative & differentiated financial solutions that speak to our clients' needs



Our Vision

To be Africa's leading investment manager by consistently exceeding clients' expectations



Our Values

People

Passionate and self-driven people who thrive in a team context

Excellence

Delivering the best at all times

Client Focus

Putting clients' interest first at all times

Entrepreneurship

Using innovation and creativity to deliver differentiated financial solutions

Accountability

We take both corporate and personal responsibility for our actions

Integrity

Doing the right things

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**Strategy is
straightforward –
just pick a general
direction and
implement like hell**

— Jack Welch

About Us

Cytonn Investments is an alternative investment manager with presence in East Africa, Finland and the US. We provide investors with exposure to the high growth East Africa region. Our investors include global and local institutional investors, individual high net-worth investors and the diaspora. We also service retail investors through our Cytonn Co-operative

FACT FILE

74

Over Kshs. 73 billion under mandate

3

Three offices across 2 continents

150

Over 150 staff members

12

12 investment ready projects

A unique franchise differentiated by:

Independence & Investor Focus

Focused on serving the interest of clients, which is best done on an independent platform to minimize conflicts of interest

Alternative Investments

Specialized focus on alternative assets - Real Estate, Private Equity, and Structured Solutions

Strong Alignment

Every staff member is an owner in the firm. When clients do well, the firm does well; and when the firm does well, staff do well

Committed Partners

Strong global and local partnerships in financing, land and development affiliate

Why We Exist

Africa presents an attractive investment opportunity for investors seeking attractive and long-term returns. Despite the alternative markets in Africa having high and stable returns, only a few institutional players serve the market. Cytonn is focused on delivering higher returns in the alternative markets, while providing the best client service and always protecting our clients' interests.

WE SERVE FOUR MAIN CLIENTS SEGMENTS:

- Retail segment through Cytonn Co-operative membership
- High Net-worth Individuals through Cytonn Private Wealth
- East Africans in the Diaspora through Cytonn Diaspora
- Global and Local Institutional clients

WE INVEST OUR CLIENT FUNDS IN:

- Real Estate
- Private Equity
- Fixed Income Structured Solutions
- Equities Structured Solutions



Our Business

Where We Operate



Our Business Lines

Investments

Alternative investment manager focused on private equity and real estate

Real Estate

We develop institutional grade real estate projects for investors

Diaspora

We connect East Africans in the diaspora to attractive investment opportunities in the region

Technology

We deliver world-class financial technology solutions

Co-operative

Provides access to attractive alternative investment opportunities for members

Our Solutions

To unearth the attractive opportunity that exists in alternative markets in Africa, we offer differentiated investment solutions in four main areas:

HIGH YIELD SOLUTIONS

Our expertise in the alternative markets enables us to offer investors high yielding investments. Our robust credit analysis coupled with our quick dealing capabilities, our extensive research coverage and our innovative structuring helps to ensure consistent and above market returns to investors.

REAL ESTATE INVESTMENT SOLUTIONS

Our comprehensive real estate capabilities enable us to find, evaluate, structure and deliver world-class real estate investment products to our investors in the East African region. Our capabilities include fundraising, market research and acquisition, concept design, project management and agency and facility management.

PRIVATE REGULAR INVESTMENT SOLUTIONS









Attractive returns in the alternative segments have typically been accessible to institutional and high net-worth investors. Our regular investment solutions provide access to the alternative investments to members of the Cytonn Co-operative.

PRIVATE EQUITY

We seek to unearth value by identifying potential companies and growing them through capital provision, partnering with management to drive strategy and institutionalizing their processes. Our areas of focus are Financial Services, Education, Renewable Energy and Technology Sectors.

Our Products

We serve three main types of clients namely, high net-worth individuals, institutions and retail, each with diverse needs. Below are the suitability criteria for the various products.

	INSTITUTIONAL CLIENTS	HIGH NET WORTH INDIVIDUALS (HNWI)	RETAIL CLIENTS
Cash Management Solutions			
Regular Investment Plan <ul style="list-style-type: none">• Education Investment Plan• Regular Investment Solution• Co-op Premier Investment Plan• Land Investment Plan			
Real Estate Development <ul style="list-style-type: none">• Real Estate Developments• Sharpland			

Our People



If you could get all the people in an organization rowing the same direction, you could dominate any industry, in any market, against any competition, at any time.

— Patrick Lencioni



We are focused on one agenda:
THE CLIENT

Board of Directors

To ensure that we remain focused on the clients' interests, we have put in place proper governance structures. We have a board of directors consisting of 10 members from diverse backgrounds, each bringing in unique skill-sets to the firm.



Non-Executive Director
Chairman

Prof. Daniel Mugendi Njiru, PhD



Non-Executive Director

Madhav N. Bhalla, LLB



Non-Executive Director

Antti-Jussi Ahveninen, MSc



Non-Executive Director

Nasser J. Olwero, MPhil

For bios, visit www.cytonn.com



Non-Executive Director

James M. Maina, MA



Non-Executive Director

Michael Bristow, MSc



Non-Executive Director

Rose Kimotho, M.B.S.



Executive Director

Managing Partner

Edwin H. Dande, CPA, MBA



Executive Director

Senior Partner

Elizabeth N. Nkukuu, CFA, MBA



Executive Director

Partner

Patricia N. Wanjama, CPS (K), MBA

For bios, visit www.cytonn.com

Governance



If you have leadership without governance you risk tyranny, fraud and personal fiefdoms. If you have governance without leadership you risk atrophy, bureaucracy and indifference.

— **Mark Goyder**

INVESTMENTS & STRATEGY COMMITTEE

The committee oversees and provides strategic investment direction, including the implementation and monitoring process.

The committee consists of five directors with three non-executive directors namely: James Maina (Chairman), Antti-Jussi Ahveninen, Madhav Bhalla, Edwin Dande and Elizabeth Nkukuu.

AUDIT RISK & COMPLIANCE COMMITTEE

The committee establishes and oversees risk and compliance, including the implementation and monitoring process.

The committee consists of four directors with two non-executive directors namely: Madhav Bhalla (Chairman), Nasser Olwero, Edwin Dande and Patricia Wanjama.

GOVERNANCE, HUMAN RESOURCES & COMPENSATION COMMITTEE

The committee establishes, oversees and implements governance structure, human resource policies and firm wide compensations.

The committee consists of four directors with three non-executive directors namely: Antti-Jussi Ahveninen (Chairman), Prof. Daniel Mugendi, Michael Bristow and Edwin Dande.

TECHNOLOGY & INNOVATION COMMITTEE

The committee establishes, oversees and implements technical expertise and innovative processes as a driver towards competitiveness.

The committee consists of three directors, with two non-executive directors namely: Nasser Olwero (Chairman), Michael Bristow and Patricia Wanjama.

Summary Financials

Consolidated Audited Financial Statements For The 15 Month Period Ended December 31, 2015

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	GROUP	COMPANY
	Kshs	Kshs
Revenue	185,704,917	144,273,112
Cost of sales	(18,922,644)	-
Gross profit	166,782,273	144,273,112
Other income	59,064,923	2,389,125
Operating expenses	(214,645,530)	(113,061,388)
Operating profit	11,201,666	33,600,849
Investment revenue	26,337,509	780,407
Fair value adjustments	611,437,265	-
Finance costs	(4,206,735)	(2,579,399)
Profit before taxation	644,769,705	31,801,857
Taxation	(13,999,682)	(13,999,682)
Profit for the 15 months period	630,770,023	17,802,175
Other comprehensive income	-	-
Total comprehensive income for the 15 months period	630,770,023	17,802,175
Profit attributable to:		
Owners of the parent	389,276,745	17,802,175
Non-controlling interest	241,493,278	-
	630,770,023	17,802,175
Total comprehensive income attributable to:		
Owners of the parent	389,276,745	17,802,175
Non-controlling interest	241,493,278	-
Total profits	630,770,023	17,802,175

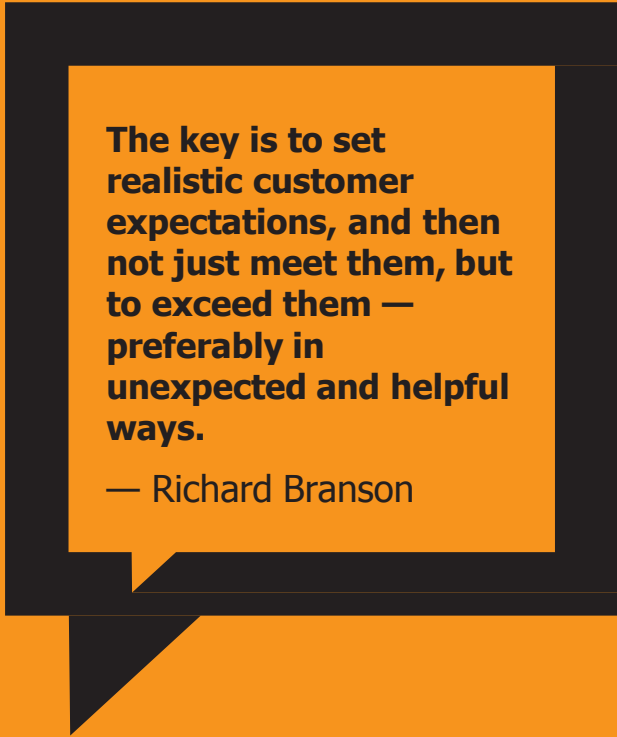
STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2015			GROUP	COMPANY
			Kshs	Kshs
Assets				
Non-Current Assets				
Property, plant and equipment			22,792,417	21,291,986
Investment property			5,756,259,819	-
Investments in subsidiaries			-	200,000
Investments in associates			10,736,600	10,736,600
			5,789,788,836	32,228,586
Current Assets				
Inventories			94,026,126	-
Trade and other receivables			97,089,424	129,248,232
Investments			528,304,889	30,236,572
Prepayments			3,312,051	-
Cash and cash equivalents			19,709,519	5,886,581
			742,442,009	165,371,385
Total Assets			6,532,230,845	197,599,971
Equity and Liabilities				
Equity				
Equity Attributable to Equity Holders of Parent				
Share capital			23,867,290	23,867,290
Accumulated profit			389,276,745	17,802,175
			413,144,035	41,669,465
Non-Controlling interest			3,229,808,278	-
Total Equity			3,642,952,313	41,669,465
Liabilities				
Non-current Liabilities				
Land owners contribution			175,000,000	-
Borrowings			3,313,275	3,313,275
Other financial liabilities			431,307,502	-
			609,620,777	3,313,275
Current Liabilities				
Trade and other payables			187,793,626	82,689,481
Borrowings			1,934,758,039	1,029,160
Current tax payable			15,106,229	15,106,229
Unallotted share capital			53,792,361	53,792,361
Other liabilities			88,207,500	-
			2,279,657,755	152,617,231
Total Liabilities			2,889,278,532	155,930,506
Total Equity and Liabilities			6,532,230,845	197,599,971

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Our Core Businesses

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The key is to set realistic customer expectations, and then not just meet them, but to exceed them — preferably in unexpected and helpful ways.

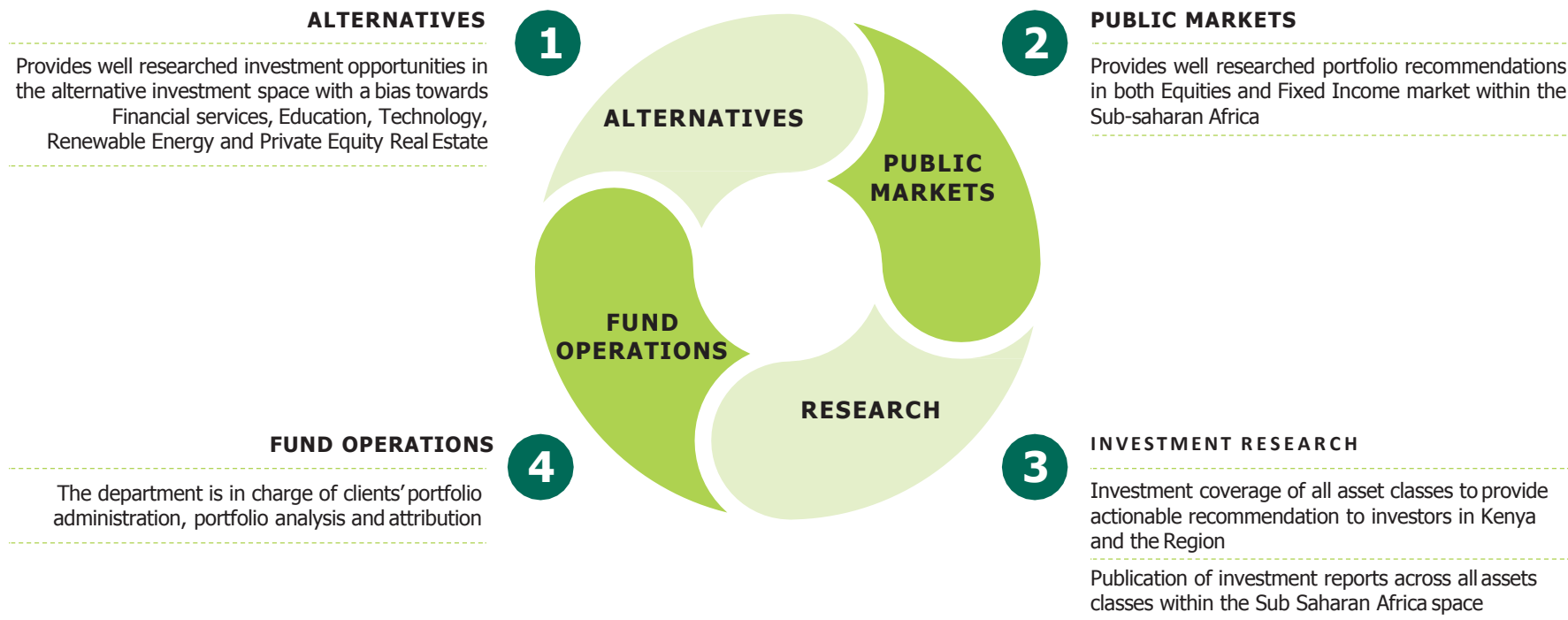
— Richard Branson

Investments



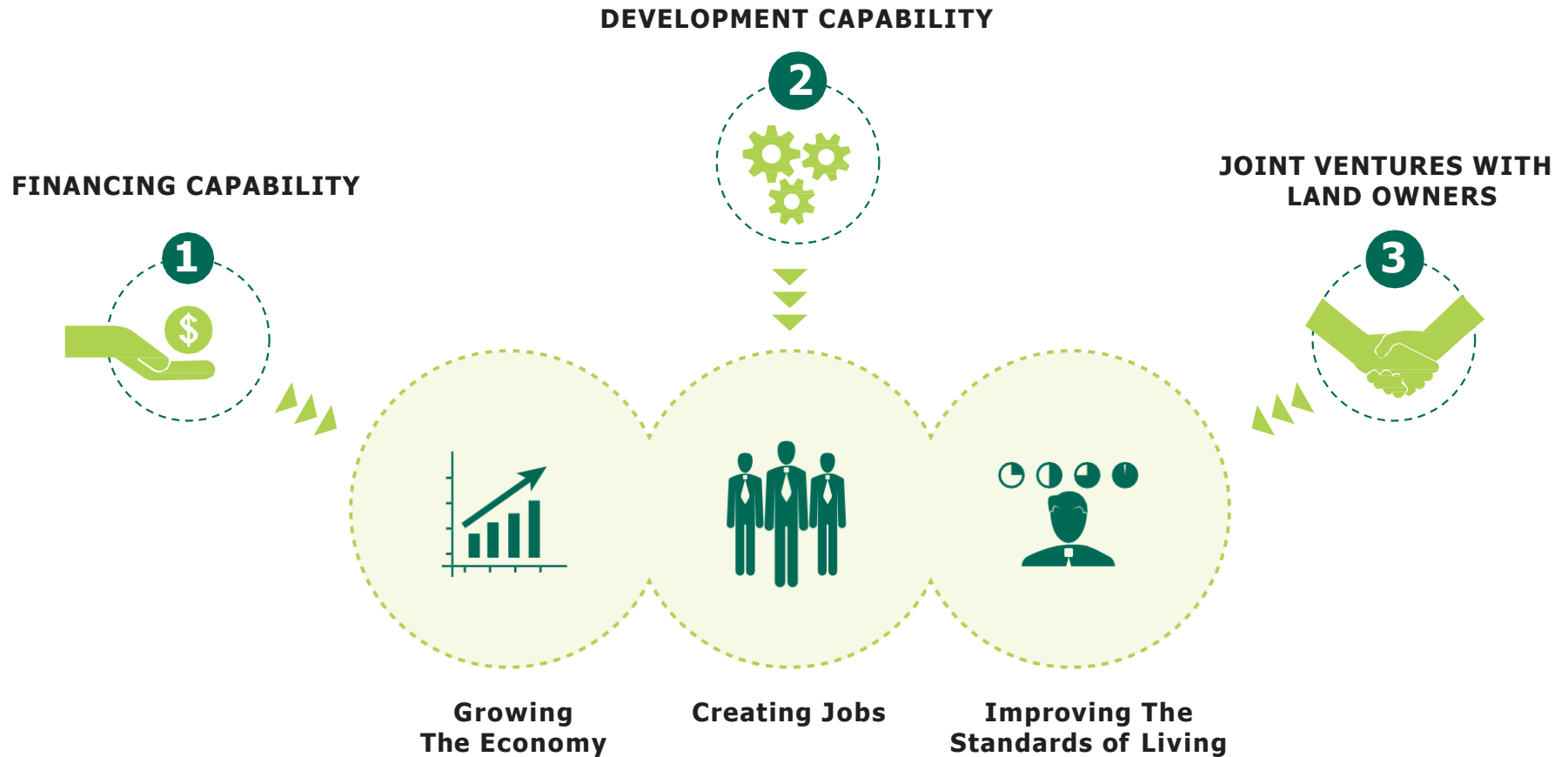
No one in his right mind would walk into the cockpit of an airplane and try to fly it, or into an operating theater and open a belly. And yet they think nothing of managing their retirement assets. I've done all three, and I'm here to tell you that managing money is, in its most critical elements (the quota of emotional discipline and quantitative ability required) even more demanding than the first two.

— William Bernstein



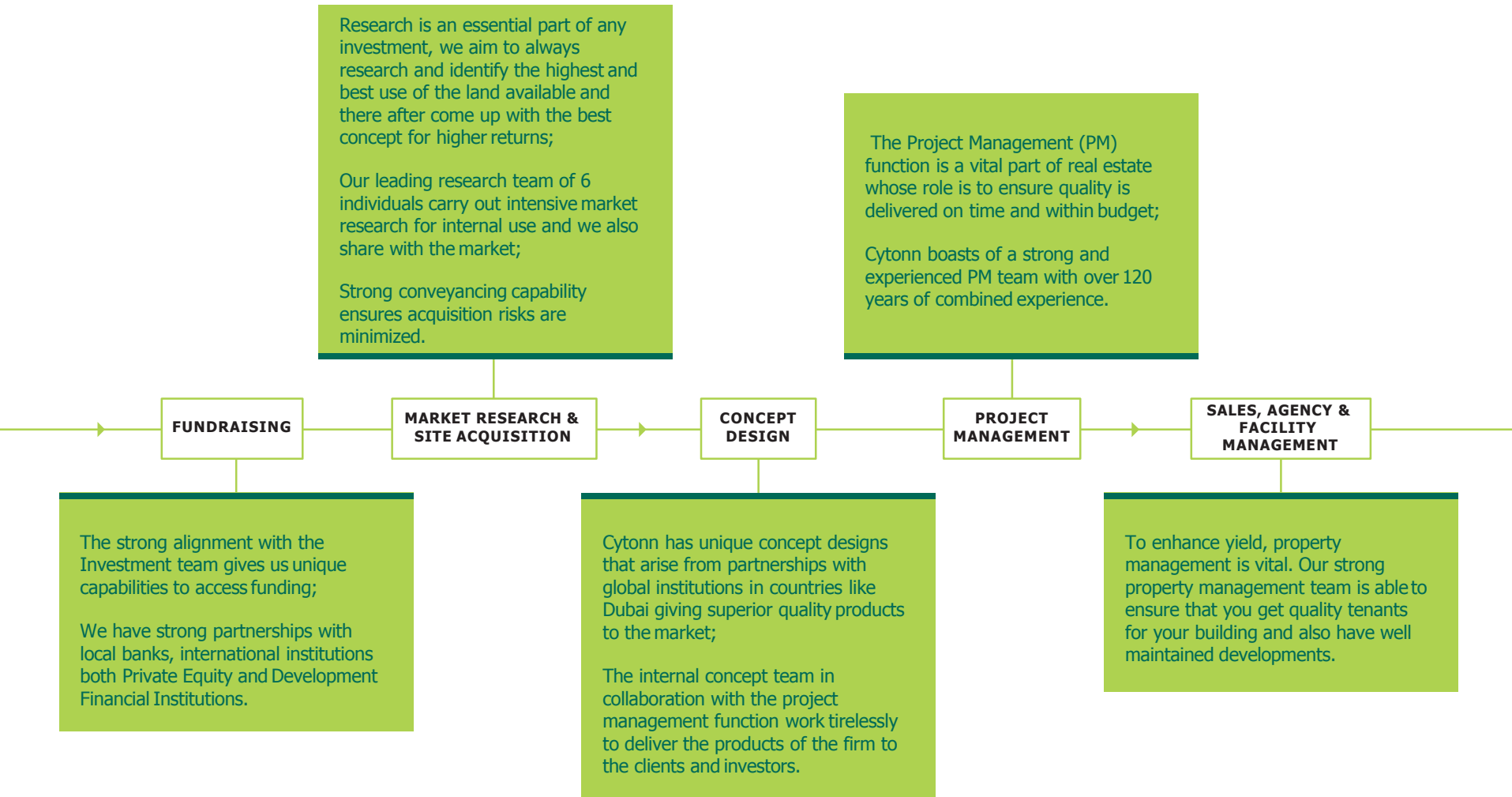
Real Estate

Cytonn's strategy brings three key pillars together:



Cytonn Real Estate's Unique Capabilities

Cytonn has all the necessary capabilities to deliver the very best Real Estate for investors.



AMARA RIDGE



SITU VILLAGE



THE ALMA

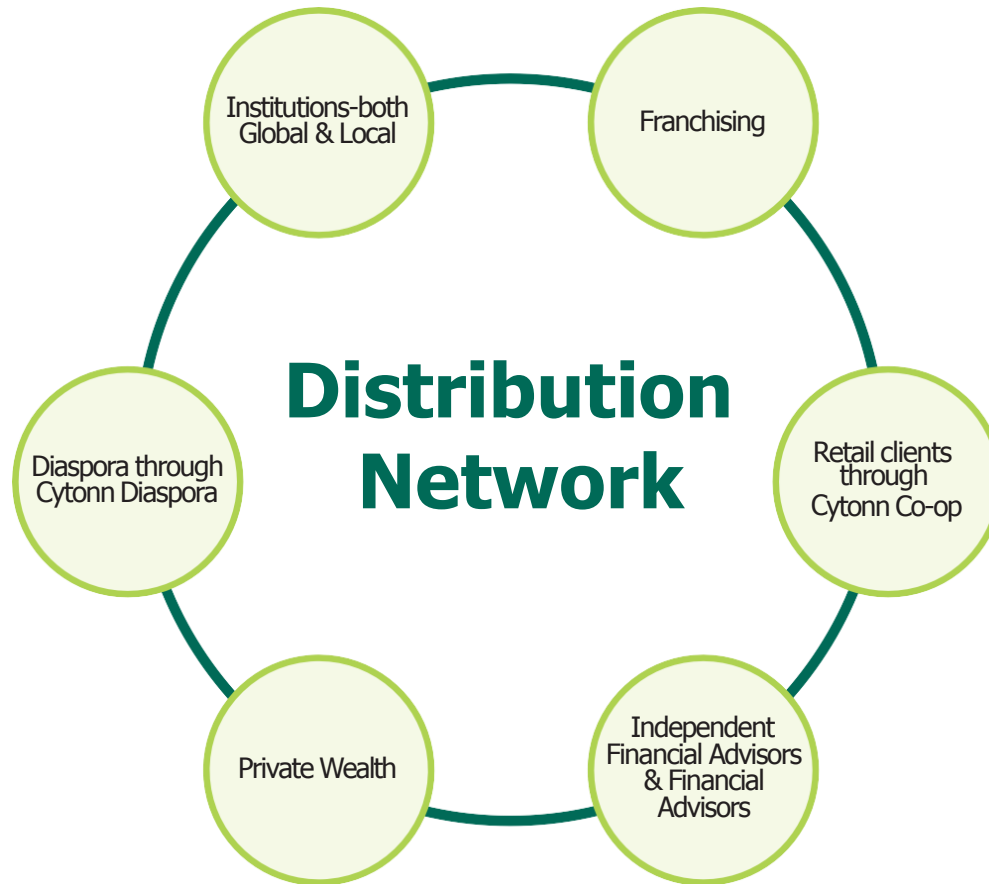


NEWTOWN



Comprehensive Distribution Model

Comprehensive market reach for investment and real estate solutions.



Diaspora

Diaspora remittances are a significant contributor to the growth of the economy. Cytonn Diaspora seeks to partner with East Africans in the Diaspora looking to invest safely back home.

Are You Looking For?

Trusted partner with on ground presence
Efficient investments transaction processes
Attractive returns

CYTONN DIASPORA



Increased diaspora investor confidence



Happy diaspora clients

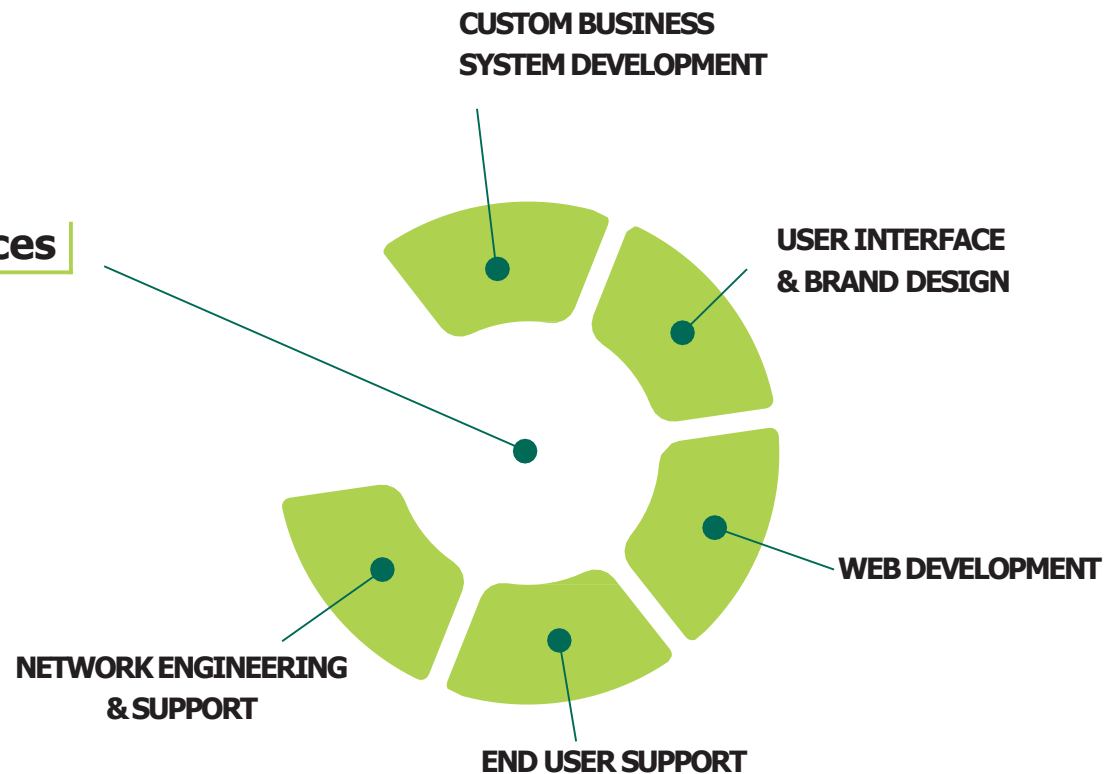


Increased diaspora remittances in the country

Technology

Cytonn Technologies provides design, software and networking solutions that focuses on building identities and experiences to elevate and empower organizations.

Our solutions & services



Investment Co-operative

Cytonn Investment Co-operative Society Limited (Cytonn Co-op) is a platform that brings together like-minded individuals to invest and grow their wealth.

“**Turning Ordinary Savings into Sharp Investments**”

The Benefits Include:



DELIVERING ATTRACTIVE RETURNS

Delivering stable attractive returns to members by investing in high yielding Alternative Investment.



FINANCIAL INCLUSION FOR ALL

Providing financial solutions that speak to members financial needs.



NURTURING COMMUNITY SPIRIT

Pooling financial resources together to give members access to financial solutions with stable and attractive returns.

SECTION



Community & CSR

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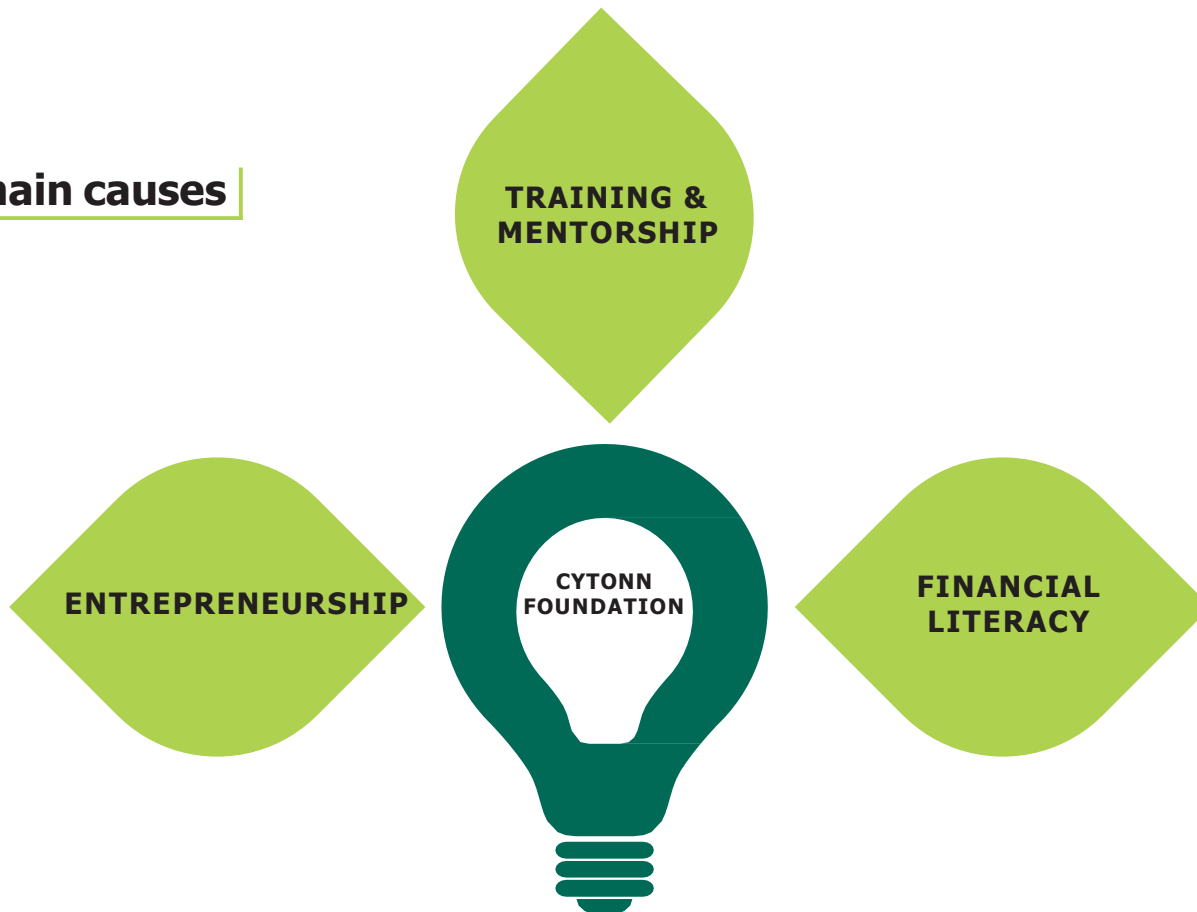
The successful companies of the future will be those that integrate business and employees' personal values. The best people want to do work that contributes to society with a company whose values they share, where their actions count and their views matter.

— Jeroen van der Veer

Cytonn Foundation

Cytonn Foundation is an initiative of Cytonn Investments focused on giving back to the society through skill development.

We have 3 main causes



Our Main Causes

Entrepreneurship

- + **The Cytonn Entrepreneurs Hub (Cytonn eHub)** - This is a 12-week training and mentorship programme for young and upcoming entrepreneurs that seeks to enhance knowledge and capabilities on how to start, develop and run successful enterprises.
- + **The Cytonn Entrepreneurs Forum** - This is an initiative which brings together budding and experienced entrepreneurs to learn from each other's entrepreneurial journey through periodic forums.

Financial Literacy

Cytonn Foundation aims to enhance financial knowledge and empower individuals with skills and knowledge that allow them to make informed and effective decisions with their financial resources. We do this through training sessions at universities, conferences and at our forums.

Training & Mentorship

- + **Media Training** - This is an initiative aimed at training media professionals on various areas across Investments, Finance and Real Estate so as to enhance financial journalism.
- + **Cytonn Young Leaders Programme (CYLP)** - This is an intensive and competitive 12-week training programme that exposes fresh university talent to the office environment and culture.

For more information, please visit <http://www.cytonn.com/foundation>



Cytonn Young Leaders Programme (CYLP)

At Cytonn, CYLP is our primary recruitment tool. CYLP has partnered with various universities and always takes the opportunity to mentor university students on areas revolving around career growth and leadership.

To date, we have run over 30 internship programs that had over 180 young leaders participating. We have offered employment to over 60 CYLP graduates.

II: Introduction to Investments

Introduction to Investments – Broad Classifications

There are two main broad classifications of investments based on the ease of accessibility

- **Investments:** This is the purchase of an asset with the aim of generating income in future or the asset appreciating hence being able to sell it at a profit. It is classified into two broad categories;

Description		Characteristics
Traditional Investments	i. Equities	<ul style="list-style-type: none">• Liquid• Price visible on stock exchange
	ii. Fixed Income	<ul style="list-style-type: none">• Liquid• Highly sensitive to interest rates• Returns made of both coupon and principal
Alternative Investments	i. Private Equity	<ul style="list-style-type: none">• Illiquid• Difficult to price• Lack of availability of transaction data
	ii. Real Estate	<ul style="list-style-type: none">• Illiquid• Provides inflation hedge (have their own value)• Low correlation with traditional investments• Lack of availability of transaction data

Types of Investments and their Characteristics

Depending on the client's need each asset class offers a unique solution for them

Investment Type	Asset Class	Returns	Volatility	Liquidity	Suitability	Examples
Traditional	Equities	Dividends and Capital appreciation	High Volatility	Relatively Liquid	For long term Investors	NSE listed stocks e.g. Safaricom
	Fixed Income	Interest Income	Low Volatility	Moderately Liquid	Short to medium term investment requirements	Deposits, Bonds and Commercial Papers
Alternative	Property	Rental Income and Capital Appreciation	Relatively Stable	Illiquid	Long term Investors with a semi fixed horizon	Project Notes , REIT's
	Private Equity	Dividends and Capital Appreciation	Relatively Stable	Illiquid	Long term	Investments into a private company

III: Real Estate Investments

Factors to consider when investing into Real Estate

Market performance is the key factor to consider while investing in real estate as it helps determine expected returns

- Real estate investment involves a relatively favourable risk/reward profile, but with relatively low liquidity as compared to other types of investments
- When considering investing into real estate, one should put into consideration the following factors;
- **Market performance** – One should analyse on the real estate trends over a given period, e.g five years to measure the expected future returns on the investment based on the following factors:
 - **Uptake** – Find the historical and current records of the market uptakes, as this is directly related to the future expected gains in terms of price appreciation and demand hence a better cash conversion period for the projects
 - **Occupancy** – This informs on the rental market performance, in terms of expected rental yields and annual rental escalations
 - **Rental yields** – Rental yield is a key factor to long term project profitability as its related to the time needed to recover your initial investment. Thus a market or real estate theme with a higher rental yield is more attractive. For example its more profitable to invest in commercial office at 10% rental yields as compared to residential at 6% rental yield in Nairobi market, all other factors held constant
 - **Capital Appreciation** – This informs mainly on land investment. It helps investors make a decision based on whether to buy land for speculations and developers too can consider land banking for future gains

Factors to consider when investing into Real Estate

Location is a key factor to profitability in real estate as it is directly related to property valuations

- **Location** – This is the key factor to profitability in real estate as it is directly related to property valuations. Proximity to amenities, neighbourhood status and scenic views are major factors for residential property valuations; while proximity to markets, warehouses, transport hubs, freeways, tax-exempt areas, play an important role for commercial property valuations.
- **Infrastructure** – Investors should consider factors such as road network, sewer line , electricity and water connections among others in the area to enable accessibility and for convenience as they directly increases the value of the project as well as demand
- **Security** – Security in the area is directly affects the uptake of the projects as clients have more confidence for areas associated with safety
- **Supply and competition** – This are key factors to consider whether the type of investment you want to venture into has been exhausted by other developers and the type of the competitors you expect into the industry. This will help prevent you from being locked in a project

Challenges Facing Real Estate Sector In Kenya

Inadequate funds, high land costs, inadequate infrastructure and high construction costs are the key challenges facing real estate sector

High cost of Funding

- Absence of a proper finance mechanism, for real estate developments has resulted in excessive debt financing, resulting in increased financing costs owing to the extended project time frames
- High interest rates, by financial institutions hence incurring high financing cost that pushes up project cost

High land cost & Cumbersome Acquisition processes

- High land prices, which results to high development costs translated to the buyers
- Complex tenure mechanism. i.e. the cumbersome, lengthy and expensive processes involved in registration, due diligence and acquiring land and properties
- Land fraud among the land owners and land agents, where a land is sold to different developers hence putting developments in stalled conditions

Inadequate Infrastructure

- Inadequate supply of infrastructures such as sewerage, water supply and other social amenities have greatly hampered supply of housing and commercial developments
- In availability of basic infrastructures, increase the development costs since the developers have to cater for the costs of putting them up

High Construction cost

- Construction costs have been relatively high owing to the high costs of construction materials which constitute 70% of the total construction costs

Real Estate Investments – How the Smart do it

Traditionally Kenyans have been investing in Real Estate via Brick and Mortar

- There are two ways to access real estate in any market,
 - **Brick and mortar:** this is the development of a building or the purchase of a parcel of land, aiming to benefit from future capital appreciation and rental income
 - **Real estate investments:** this is the conversion of the physical real estate asset into a liquid investable product. This can either be public markets tradable like REITs or privately placed
- Traditionally, Kenyan's have been investing through the brick and mortar way. However they have been facing the following challenges;

How Kenyans Used to Invest in Real Estate

Summary

- Traditionally, Kenyans used to invest in real estate through brick and Mortar. They would purchase a piece of land and then embark on developing a building
- Financing for these investments is typically personal savings and expensive bank debt

Challenges

- The traditional way of investing in Real Estate had the following challenges;
 1. Illiquidity – Exiting brick and mortar Real Estate is hard as there lacks an official platform for transactions and pricing is opaque
 2. Delays in land titling process
 3. Brick and mortar Real Estate is expensive hence people resort to expensive bank debt

Real Estate Investments – The “Sharp” way

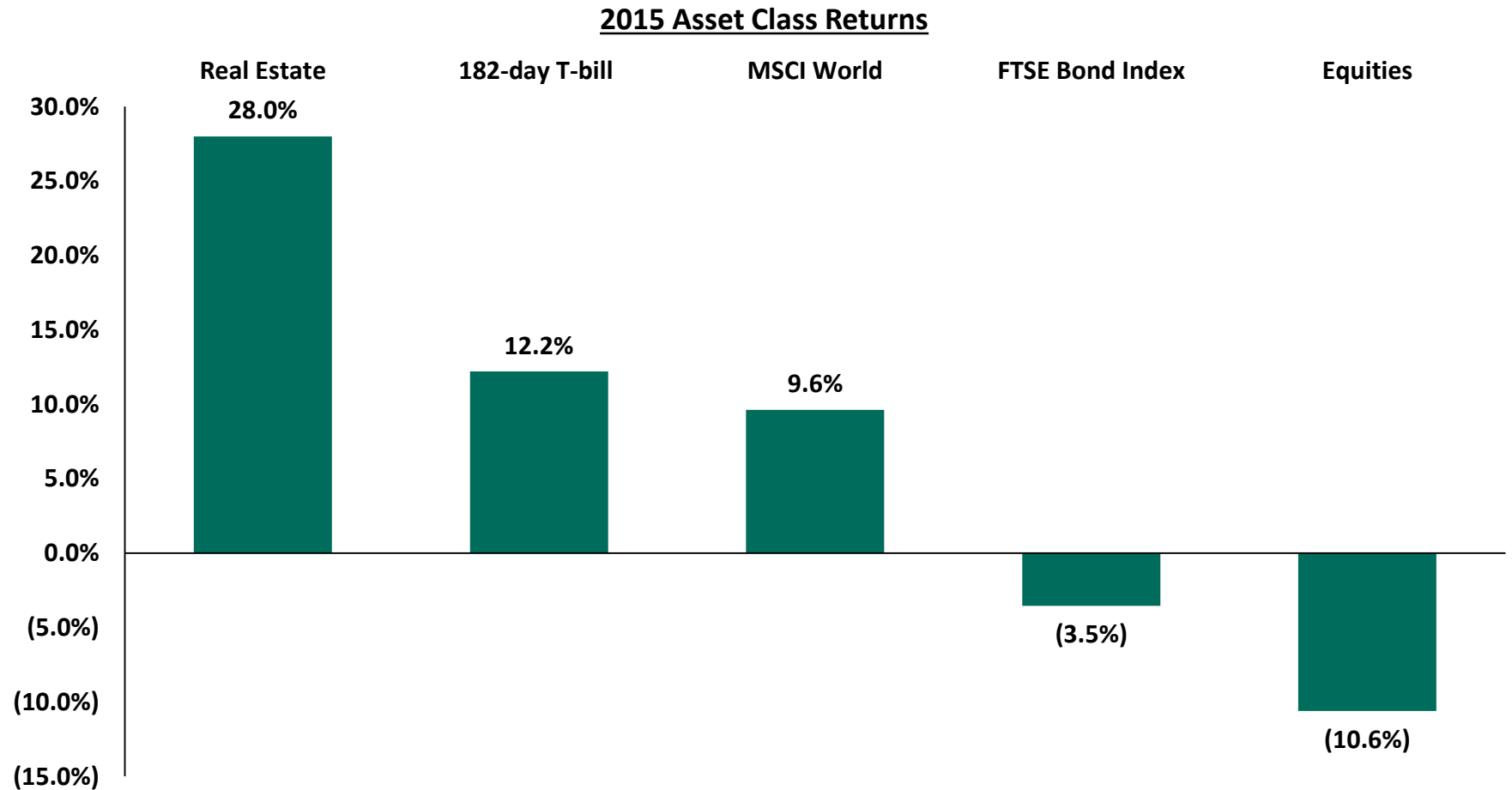
There are two broad way through which one can invest in Real Estate

- Apart from the traditional ‘smart’ way of investing in Real Estate, investors can opt for the following ‘sharp’ investment options, depending on the investors’ investment needs, risk/return profile, time horizon and liquidity needs;

Investment Type	Description	Investment Horizon	Risk Appetite/Return Profile
Equity	Purchasing partial ownership of a vehicle owning real estate developments and using a professional developer to manage the development activities	3-5 Yrs	Risk appetite is high hence they demand returns in excess of 25.0%
Mezzanine	Providing subordinated financing to a real estate development. The financing is junior to bank debt, hence gets paid only after the bank but senior to equity, hence gets paid before equity investors	1-3 Yrs	Risk appetite is moderate hence demand returns of between 14-15%
Project Notes	This involves financing for construction by investing in a fixed income note backed by Real Estate.	1 Yr (Depends on set milestones)	Risk appetite is low, however they demand returns on average of 18.0% due to the leverage they hold. They usually finance 60.0% of the project

2015 Asset Class Returns

In 2015, Real Estate was the best returning asset class at 28.0%



Portfolio Allocation and Returns – Case of 2015

Portfolios with allocation to alternatives outperformed those without alternative investment exposure

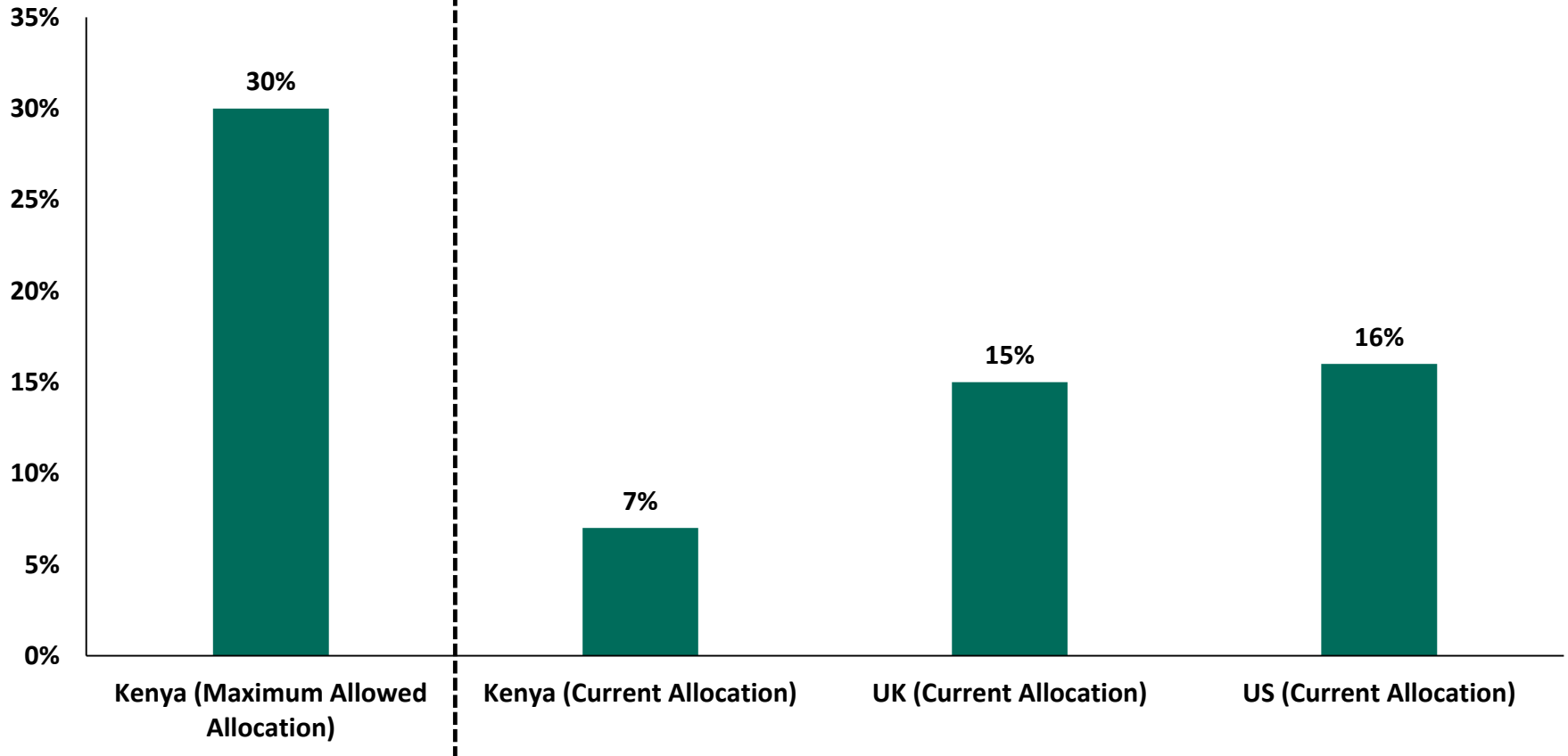
- We consider a typical conservative moderate portfolio with 65:30:5 allocation in fixed income, equities and offshore (all traditional investment portfolio) and another with 45:25:25:5 allocation in fixed income, equities, alternatives and offshore
- As indicated below, taking 2015 as a case, portfolio with purely traditional investments recorded a negative return of 5.0% compared to a positive return of 3.2% in a portfolio with exposure in alternatives

		Portfolio	
Asset Classes	2015 Asset Class Return	Without Alternatives	With Alternatives
Fixed Income	(3.5%)	65.0%	45.0%
Listed Equities	(10.6%)	30.0%	25.0%
Offshore	9.6%	5.0%	5.0%
Real Estate	28.0%	0.0%	25.0%
Weighted Return		(5.0%)	3.2%

However, institutional investors are not fully invested

Current allocation to alternatives is below statutory limit set by RBA

Pension Investment in Real Estate



IV: How to get exposure into Real Estate

Real Estate Exposure

Despite being capital intensive, there are several ways how one can get exposure into Real Estate

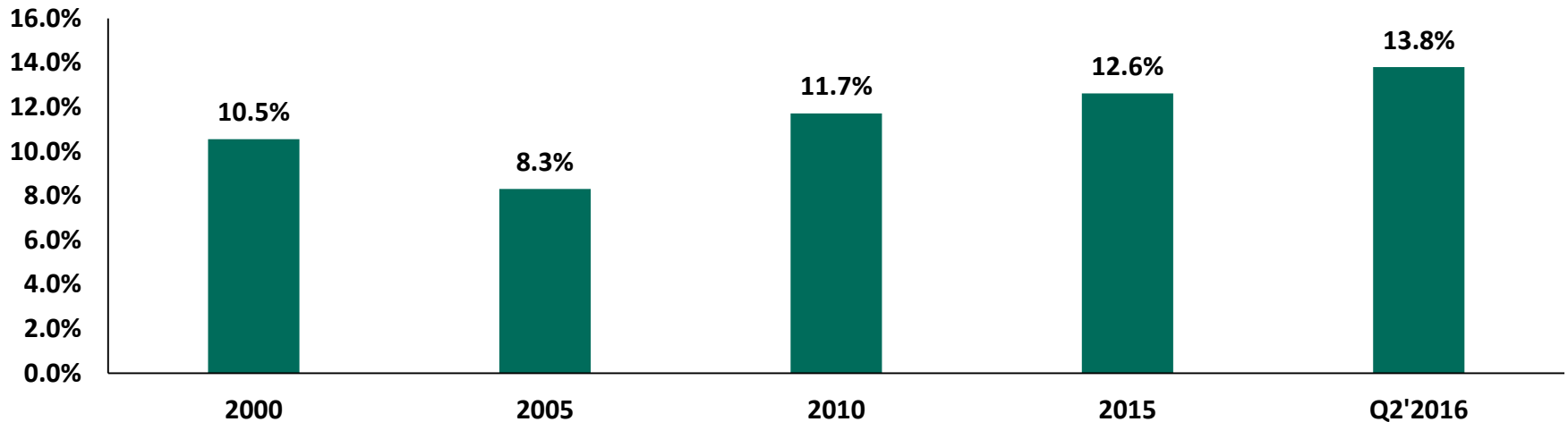
- Real Estate is capital intensive and therefore, not everyone can get into this kind of investment. However, there are several ways through which one can invest in Real Estate namely
 - **Real Estate Investment Trusts (REIT's)** - A REIT is a company that mainly owns and operates income producing real estate such as apartments, shopping centers, offices, hotels and warehouses. REITs were created in order to make investments in large scale income producing real estate available to average investors. There are 2 kinds of REITS,
 - **Investment REIT (I-REIT)** – This is an investment in an income generating Real Estate such as residential or retail developments where 90% of the income is distributed among the REIT holders as dividends. In Kenya, The Fahari I- REIT is the first of its kind having achieved only 29% subscription at issue
 - **Development REIT (D-REIT)** – This is an investment in an development company where the REIT Holders will receive their returns once the company exits the development. In Kenya Fusion D-Reit would have been the first of its kind but however failed to get the minimum requirements in terms of subscriptions and number of individual investor
 - **Project Notes** – This is a structured debt instrument backed by a Real Estate project where investors buy into the note which guarantees them a return. The notes can be structured in a way that the minimum amount investable is favorable for people with fewer funds at their disposal
 - **Shares in a Real Estate company** – A Real Estate company, either a developer or an investing company, can list on the main bourse allowing common investors to have a chance to tap into the high returns from Real Estate. As the company derives value for Real Estate, so will the investors realize value through share price appreciation and dividend payments

V. Recommendation

Conclusion

Real Estate has delivered the best returns over the past years with a 5-year average of 25.0%

Real Estate and Construction Contribution to GDP



- Real Estate and Construction industry's contribution to GDP has been on the rise since 2000 from 10.5% to 13.8% in Q2'2016. It has also been the consistent asset class in terms of performance delivering a 5-year average return of 25.0%
- With continued government expenditure in improving infrastructure and energy provision, the sector is expected to continue to grow. With this positive outlook, it is imperative that fund managers should have an exposure to Real Estate to achieve high and stable returns in future

Q&A