

AGM 2020 SPEECH – CEO, ILAM Fahari I-REIT

20th August 2020

GREETINGS

Chairperson, Board of Trustees of ILAM Fahari I-REIT

Trustees

ILAM Board Members present,

Distinguished investors

All protocols observed

Good Morning!

INTRODUCTION

My name is Einstein Kihanda and I have the honor and privilege to serve as the CEO of ILAM Fahari I-REIT. I will start by giving you a brief introduction of ICEA LION Asset Management (ILAM). ILAM is an investment management firm that has been in existence for the past 35 years, making it the oldest asset manager in Kenya. We are part of the ICEA LION Insurance Holdings, which is a non-operating holding company of the ICEA LION Group, a one-stop financial services provider offering innovative products and services in insurance, pensions, investments and trusts. The group is one of the largest providers of insurance and financial services in East Africa with well-established operations in Kenya, Uganda and Tanzania. True to our Group's mission to protect and create wealth, we pride ourselves in having one of the strongest balance sheets in East Africa empowering all our stakeholders.

The Chairman of the ILAM Board is Andrew Ndegwa, whom I am glad to note is in this call. Other Board members, also on this call, are Kairo Thuo and Steven Oluoch. I also recognize the presence of Dr. Caesar Mwangi, the CEO of ICEA LION Insurance Holdings and Paul Muthaura, Chief Operating Officer of ICEA LION General Insurance Company.

ILAM is in strong financial health, with respect to all key parameters, including Turnover, Profitability, Shareholder Funds and Liquidity Ratio. Our results for the half-year ended 30th June 2020 are published in the newspapers today.

As at 31st July 2020, Assets under Management were Kshs 204 bn, having grown impressively over the years, from Kshs 13 bn in 2003, as more clients entrust us with their portfolios to manage owing to a strong track record of investment performance and excellent client service. ILAM has deep expertise and experience in managing real estate assets for both internal and external clients in excess of KES 15 billion.

The REIT Team, which I am privileged to lead, is comprised of highly competent, experienced and passionate individuals, who have the drive and ambition to grow the REIT to its greatest heights.

Allow me to give you a brief highlight of the significant developments that we undertook in order to enhance the performance of the REIT in 2019.

Firstly, in October 2019 we launched a modern 300-seat capacity 3-screen cinema at Greenspan Mall in conjunction with Crimson Cinemas Limited. The REIT Manager successfully converted an underutilized exhibition hall into a modern 3-screen cinema, showcasing the Manager's property development capability. The cinema operator has signed a 10-year lease and is expected to strengthen the mall's entertainment offering and increase footfall. We also sank a new borehole and installed steel tanks and other accessories. This was to reduce the cost of water and improve reliability of supply. The cost reduction benefits were realised immediately.

Secondly, from a regulatory perspective, in November the Finance Act No. 23 of 2019 was gazetted. This Act includes the introduction of section 20(1) (d) to the Kenyan Income Tax Act to exempt investee companies of REITs from income tax. The gazettelement aligns the objectives of the REIT with those of the tax regulations and ended years of uncertainty about the tax exemption status of REIT subsidiaries.

Finally, in November STANLIB Kenya Limited together with The Co-operative Bank of Kenya Limited, in their respective capacity of REIT Manager and REIT Trustee, issued a joint statement to the effect that STANLIB Kenya had entered into a sale of business agreement with ICEA LION Asset Management Limited (ILAM).

STRATEGIC FOCUS

Having taken over as REIT Manager for the last three months, I would like to briefly touch on 4 strategic areas of focus for the ILAM Fahari I-REIT:

i. GROWTH

The first one is growing the size of our portfolio. There is an urgent need to scale up our property portfolio, which currently comprises of only 4 properties valued at KShs 3.46 billion. The growth will help improve the economies of scale and ultimately drive down costs and improve returns for unitholders.

ii. OPTIMIZING THE EXISTING PORTFOLIO

The second area of strategic focus is optimizing the existing portfolio in a way that will unlock revenues, increase efficiencies and significantly improve returns. This talks to how we reduce

vacancies, improve tenant mix through applying effective lease strategies, enhance vibrancy within the portfolio, manage tenant arrears and control costs.

iii. RESOLVING THE TAX EXEMPTION STATUS

At establishment the REIT was, and still is, exempt from income tax in line with section 20 (1) (c) of the Kenya Income Tax Act. However, the REIT wholly owned subsidiaries were not explicitly exempt. The amendment to the Finance Act mentioned earlier exempted the investee companies. The Kenya Revenue Authority (KRA) is expected to publish subsidiary legislation or rules within the Income Tax Act to provide detailed provisions and guidelines on the new Section 20 (1) (d). These rules are expected to result in the REIT's wholly owned subsidiaries not incurring any tax liability as a result of the delay in the introduction of tax legislation that aligns with the CMA REITs regulation. There is still some more work to do and have been following up both as an industry and with the regulator so as to close this matter.

iv. INVESTOR RELATIONS

The fourth area of focus is building stronger investor relations with our current investor base but also continuing to form strong relations with other stakeholders, including our regulators. We seek to ensure that clear, consistent, timely and compliant information is disseminated to our stakeholders. Also, importantly, we intend to engage in investor education programmes to enhance understanding of REITs in the market through partnering with like-minded stakeholders in the fulfilment of this objective.

PERFORMANCE HIGHLIGHTS

Let me now move on to performance highlights for the 2019 financial year.

ILAM Fahari I-REIT has realized a net profit for the year ended 31st December 2019 amounting to KShs 175.2 million, down 9.4% from the prior's net profit of KShs 193.5 million, mainly due to a decline in fair value gain on revaluation of property. This was in line with the general depression experienced in the market in preceding years whereby the real estate sector had been characterized by oversupply of stock especially in the retail sector, putting downward pressure on rentals as well as depressed private sector credit.

The new lettings and recent successful renewal of key tenant leases is expected to support future cash flows, expiry profile and counter the challenge of vacancies in the portfolio.

However, despite the decrease in net profit, distributable earnings **increased by 13% to KShs 144 million** compared to KShs 127.9 million in 2018 as a result of the decrease in fund operating costs occasioned by the recovery of VAT input, which had previously been capitalised to fund expenses.

Rental and related income increased by 11% to KShs 344.3 million while interest income decreased by 55% to KShs 25 million. The increase in rental and related income is due to a full year's revenue from 67 Gitanga Place. The property only contributed eight months of revenue during the comparative period. The decrease in interest income is due to surplus cash being utilized in acquiring 67 Gitanga Place in May 2018. This has been offset by rental income received from the property.

Property expenses increased by 5% to KShs 114.3 million due to recognition of expenses from 67 Gitanga Place for the full year whilst only eight months were included in the comparative period. In addition, provision for irrecoverable withholding tax amount increased by 19% to KShs 16.5 million (2018: KShs 13.5 million).

Fund management expenses decreased by 15% to KShs 111.3 million due to recoupment of input VAT on all the expenses for the full year supported by Services Recharge agreement between the REIT and its subsidiaries. During the comparative period, management only utilized input VAT from asset management and trustee fees for five months effective August 2018. There was also a saving of about KShs 8 million on one-off expenses relating to acquisition costs for 67 Gitanga Place.

At 31st December 2019, investment property accounted for 90% of assets under management while the balance of the funds was invested in cash and other instruments in compliance with the regulatory requirement to invest at least 75% of net assets in investment property.

COVID-19

We are still in the middle of the Covid-19 pandemic, which was first confirmed in Kenya in March 2020 and is expected to shape the future of the real estate sector given its implications on the economy and health leading to an abrupt change in the way people live. This is expected to continue over a sustained period thus influencing our business in real estate in unprecedented and unique ways. The Government has put in place the containment measures that are expected to slow down the spread. As a business, we have also played our part by carrying out the following:

- Allowing and supporting our non-essential staff to work remotely while property management staff work on rotation
- Extensively coordinating with our service providers to ensure enforcement of published guidelines
- Improving our hygiene by providing hand sanitizers, washing points within the buildings as well as monthly anti-viral fumigation of common areas
- Supporting our tenants with conditional temporary rent rebates to support business continuity

CONCLUSION

Overall, we are pleased with ILAM Fahari I-REIT's performance for the year ended 31st December 2019 and look forward to ensure that ILAM Fahari I-REIT generates long term, sustainable and growing returns into the future.

Thank you