

## Sygnus Real Estate Finance Limited (SRF)

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INFRINGEMENT IN THE APPENDIX**

### Executive Summary

Sygnus Real Estate Finance Limited (SRF) is a real estate investment company whose primary goal is to create flexible financing solutions to monetise and unlock value in real estate assets across the Caribbean. SRF is inviting prospective investors to subscribe for 207,608,341 new ordinary shares of the Company, as it seeks to raise approximately J\$3.9B. The Company will use the proceeds of this Initial Public Offer (IPO), if successful, to: pay listing fees; repay debt; and invest in real estate investment assets.

**Applying the real estate peer group average P/B ratio of 0.94x to SRF's book value per share of \$20.19 produces a price of J\$18.97 per share or US\$0.1224. As such, we recommend both the J\$ and US\$ shares as MARKETWEIGH/MARKETPERFORM/HOLD as we believe they are being offered near to our estimate of their intrinsic value. This investment is suitable for investors with a medium to high-risk appetite who are seeking indirect exposure to the real estate sector.**

### Key Facts

<b>Issuer</b>	Sygnus Real Estate Finance Limited
<b>Lead Arranger</b>	Sygnus Capital Limited
<b>Joint Lead Brokers</b>	Sagicor Investments Jamaica Limited and Scotia Investments Jamaica Limited
<b>Securities</b>	Up to 207,608,341 ordinary shares (upsizable up to a further 38,857,193 ordinary shares) in two classes – J\$ shares and US\$ shares
<b>US\$ Subscription Limit</b>	Total US\$ subscriptions up to a maximum of US\$15,000,000.00
<b>Subscription Price</b>	a) <b>Existing shareholders and team members:</b> J\$17.90 per J\$ share or US\$0.1170 per US\$ share (First Priority Discount Price) b) <b>Key Investors:</b> J\$18.30 per J\$ share or US\$0.1210 per US\$ share (Second Priority Discount Price) c) <b>All other Subscribers:</b> J\$19.30 per J\$ share and US\$0.1270 per share US\$ share (the Standard Price)
<b>Minimum Subscription</b>	1,000 shares
<b>Share Pools</b>	a) First Priority Reserved Pool – 67,472,711 shares b) Second Priority Reserved Pool – 67,472,711 shares

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## Sygnus Real Estate Finance Limited (SRF)

**Basis of Allotment**
**Net IPO Proceeds**
**Use of Proceeds**
**Important Dates**
**Investor Time Horizon**
**Dividend distribution**

c) General Public Pool – 72,662,919 shares
If any reserved shares remain unsubscribed, those shares will be available for subscription by the general public. Reserve Share Applications whose subscriptions are not fulfilled will be included in the General Public Pool.
First come first served basis
Approximately J\$3,900,000,00.00
i) Pay IPO & Listing expenses – J\$175,500,00
ii) Partially repay vendor mortgages up to J\$1,000,000,00
iii) Invest and hold net funds raised in Real Estate Investment Assets, across a broad range of categories, including residential, commercial, industrial, infrastructure, and hospitality.
Opening Date – 9:00 a.m. on July 23, 2021
Closing Date – 4:30 p.m. on August 20, 2021 (subject to early closing once fully subscribed)
Minimum of 3 years
Dividend pay-out ratio of up to 85%

### IPO Pricing Breakdown

First Priority Reserve Pool		Second Priority Reserve Pool		Non-Reserved	
J\$ shares	US\$ shares	J\$ shares	US\$ shares	J\$ shares	US\$ shares
J\$17.90 per share	US\$0.1170 per share	J\$18.30 per share	US\$0.1210 per share	J\$19.30 per share	US\$0.1270 per share
Discount to Book Value					
11.4%	10.2%	9.4%	7.2%	4.4%	2.6%
Discount to Non-Reserved Pool Price					
7.3%	79%	5.2%	4.7%		
Reserved Shares		Reserved Shares		Non-Reserved Shares	
67,472,711 Ordinary Shares		67,472,711 Ordinary Shares		72,662,919 Ordinary Shares	
<ul style="list-style-type: none"><li>Up to a maximum of US\$15,000,000 for the US\$ share class</li><li>Up to 207,608,341 ordinary shares with the right to upsize by up to a further 38,857,193 ordinary shares</li><li>JMD/USD exchange rate – J\$154.9081 to US\$1</li></ul>					

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## Sygnus Real Estate Finance Limited (SRF)

### Company Background

SRF was incorporated in June 2018 as an international business company under the International Business Companies Act, 1999 of St. Lucia, under the name Sygnus Real Estate Investment Limited. The Company was subsequently renamed to Sygnus Real Estate Finance Limited on January 29, 2019. In August 2019, SRF raised approximately J\$2.08B, net of expenses, in an Exempt Distribution for ordinary shares denominated in JMD and USD and preference shares denominated in JMD. The Company further increased its share capital to J\$2.23B by issuing additional shares valued at J\$148.3M in November 2020. SRF on May 7, 2021 redeemed in full J\$79.1M of preference shares previously issued to institutional investors.

SRF is a special purpose investment company and does not require any permanent staff or employees. The Investment Manager, Sygnus Capital Limited (SCL), provides management services and operational oversight of SRF's business and affairs and general corporate services to SRF under a Corporate Services Agreement.

### Investment Strategy

Sygnus Real Estate Finance Limited is a specialty real estate investment company focused on investing in real estate assets across the Caribbean region. SRF seeks to finance real estate opportunities with a short to medium-term investment horizon, typically between 3 and 5 years. The Company's primary focus is capital appreciation, with a lesser focus on income generation. SRF invests in real estate assets using flexible financing instruments and structures including preference shares, equity, asset swaps, profit sharing debt, secured debt, asset-backed debt, mezzanine debt, and other forms of financing structures.

SRF targets real estate across a broad range of sub-sectors, including residential, commercial, industrial, infrastructure, and hospitality. The Company has the following exposure limits on each real estate sub-sector: Residential -65%; Commercial – 50%; Hospitality – 35%, Industrial – 45%. Investments are made at varying stages of the real estate life cycle: including greenfield, brownfield, distressed and opportunistic.

## Sygnus Real Estate Finance Limited (SRF)

Asset Class	Stages	Instruments
<b>Residential</b> – Homes, Condominiums and Apartments	<b>Greenfield</b> – New developments	<b>Private credit investments</b> – Secured Debt, Bridge
<b>Commercial</b> – Office & Retail	<b>Brownfield</b> – Acquisition, existing or unfinished projects,	Financing, Preference shares, Profit-sharing debt, Mezzanine
<b>Hospitality</b> – Hotels/Resort Properties	renovation	Debt
<b>Industrial</b> – Warehouse and specialised facilities	<b>Distressed</b> – Underfunded projects	<b>Equity</b> – Ordinary Shares, Land, Joint ventures, Asset
<b>Infrastructure</b> – Car parks and P3's	<b>Opportunistic</b> – Underperforming, event driven, fund vehicles, etc.	Swaps

SRF's investments are typically backed by first mortgages, second mortgages, guarantees; equity interest in property and assigned cash flows. The Company will also raise debt from time to time to execute its goals and may incur a leverage ratio of up to 2.5 times equity.

### Investment Manager

Sygnus Capital Limited (SCL), a wholly owned subsidiary of Sygnus Capital Group Limited, manages SRF's investment activities. Sygnus Capital Limited is licensed as a securities dealer under the Securities Act and is a non-traditional financial solutions firm operated by a group of experienced bankers and Caribbean entrepreneurs. SCL is focused on providing Caribbean clients with independent needs-based investment banking, alternative asset management and wealth advisory solutions.

SCL sponsors and actively manages alternative investment companies and asset classes across the Caribbean region, including private credit, private equity, and real estate assets. SCL is also the asset manager of Sygnus Group's non-traditional asset portfolios, including Sygnus Credit Investments Limited, Sygnus Deneb Investments Limited and Sygnus Real Estate Finance Limited.

SRF is liable for fees under its investment management agreement with SCL. Management fees are computed at 2% of total assets under management. Additionally, SRF will be charged a performance fee of 20% of the excess returns above a 6.5% return on equity hurdle rate. Performance fees are computed annually.

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## Sygnus Real Estate Finance Limited (SRF)

### The Special Share

Included in the authorised capital of SRF is one (1) Special Share. The Special Share is held by Sygnus Capital Group Limited and its purpose is to “ensure that the structure of the investment is not subverted by Shareholders who may acquire a substantial interest in the Company.” Essentially, for Sygnus Capital Group the Special Share ensures that SRF is able to retain control over the governance of the Company as it seeks to realize its objectives.

The holder of the Special Share has a right to cast 101% of the votes capable of being cast on a poll at any general meeting of the Company but on a show of hands, the holder of the Special Share shall only have one vote. The holder of the Special Share has the right to demand a poll under the Company’s Articles. A dividend may be paid on the Special Share in lieu of, or in addition to, the management fees payable to the Investment Manager.

In a winding up, the subscription sum of US\$1.00 is payable to the holder of the Special Share. The Articles of the Company contain provisions that stipulate that the rights attached to the Special Share or modification or termination of the Investment Management agreement would operate as modification of the rights attached to the Special Share and none of these things can be done without the consent of the holder of the Special Share

### Post-IPO Shareholdings

The table below assumes:

- all shares in the IPO are fully take up by the public and the reserved share applicants,
- the IPO is not upsized,
- reserved share applicants subscribe for a proportionate number of J\$ shares and US\$ shares according to existing shareholdings,
- members of the Public subscribed for a proportionate number of J\$ shares and US\$ shares according to existing shareholders’ proportionate holdings

## Sygnus Real Estate Finance Limited (SRF)

Shareholder	Shareholding		Approximate % Issued Capital
	J\$ Shares	US\$ Shares	
ATL Group Pension Fund Trustees Nominee Ltd.	42,930,579		10.6%
SJIML A/C 3119	26,814,744		6.6%
Dynamix Holdings Inc.		26,814,744	6.6%
JCSD Trustee Services Limited – Sigma Equity	21,749,762		5.4%
MF&G Asset Management Ltd. – Jamaica Investment Fund Trustee, Ja. Investment (Capital Growth) Fund	14,518,159		3.6%
MF&G Asset Management Ltd. – Jamaica Investment Fund Trustee, Ja. Investment (Income & Growth) Fund	14,518,159		3.6%
Lyttleton Ovel Shirley		13,373,636	3.3%
JCSD Trustee Services Limited – Sigma Global Venture		10,874,381	2.7%
First Ja./Nat'l Hsng Trust Pension Fund	8,995,072		2.2%
JMMB Fund Managers Ltd. – T1 Alternative Assets Fund	7,225,343		1.8%
Top Ten (10) Shareholders Sub Total (First Priority Reserve Share Applicants)	136,751,819	51,062,760	46.3%
Other Existing Shareholders (i.e. other First Priority Reserve Share Applicants)	37,158,595	40,627,369	19.2%
Sub Total First Priority Reserve Share Applicants	173,910,414	91,690,129	65.5%
Second Priority Reserve Share Applicants	43,084,463	24,388,248	16.6%
Non-Reserved Share Applicants	46,398,652	26,264,267	17.9%
<b>Total Issued Shares</b>	<b>263,393,529</b>	<b>142,342,644</b>	<b>100.00%</b>

### Dividend Policy

SRF's policy is to pay out up to 85% of earnings generated from its investment as dividends. The Company proposes to pay dividends semi-annually and may change to quarterly payments in the future if it is more appropriate to do so. Dividends payable on the J\$ shares will be paid in JMD and dividends payable on the US\$ shares will be paid in USD based on the USD currency equivalent of the JMD dividends paid on J\$ shares.

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### Corporate Structure

The Articles of Association of SRF allow for no more than eleven persons and currently the Board consists of seven directors. The Board is responsible for the strategic direction of SRF, which involves setting its business objectives and the plans for achieving them, the execution of the approved business objectives through adequate management and resources and monitoring the performance of the Company's investment portfolio with a view of achieving the strategic objectives and compliance with legal and regulatory regimes.

The particulars of the current Directors are as follows:

<b>Clement "Wain" Iton, BSc, MBA</b> Independent Chairman	Chairman of Sygnus Credit Investments; Former Chief Executive Officer of the Trinidad and Tobago Securities and Exchange Commission (TTSEC); Former Chief Executive Officer of the Trinidad and Tobago Stock Exchange (TTSE); Former General Manager of the Jamaica Stock Exchange (JSE); Former Project Manager and Corporate Planning Analyst at Grace Kennedy.
<b>Ike Johnson, PhD, CFA</b> Non-Executive Director	Executive Vice President and Chief Operating Officer, Sygnus Capital Limited; Director of Sygnus Credit Investments; Former Assistant VP of Business Analytics and Product Development at Scotia Investments Jamaica; former Senior Strategy Management Officer and former Market Risk Analyst at JMMB Group.
<b>Pierre, Williams, CFA, MSc</b> Independent Non - Executive Director	Investment Manager, ATL Group Pension Fund Trustees Nominee Limited; Former Equity Analyst at JMMB Group and Former Research Economist at Bank of Jamaica.
<b>Linval Freeman, JP, FCA, FCCA</b> Independent Non-Executive Director	Retired Assurance Partner of Ernst & Young and former Director of Internal Audit Services at PricewaterhouseCoopers; Currently serves as a member of the Public Accountancy Board and University of Technology Council; Director and Audit Committee Chairman of Sygnus Credit Investments Limited, Sygnus Deneb Investments Limited, Canopy Insurance Limited and Key Insurance Company Limited.
<b>Horace Messado, FCA, MSc</b> Independent Non-Executive Director	Financial & Regulatory Consultant practicing in the Jamaican and US markets; Former Director of Corporate Finance and Financial Controller at the Jamaica Public Service Company Limited; Former Group Controller at MaruEnergy Caribbean Limited; Former Audit Senior at Ernst & Young and former Senior Accountant at KPMG

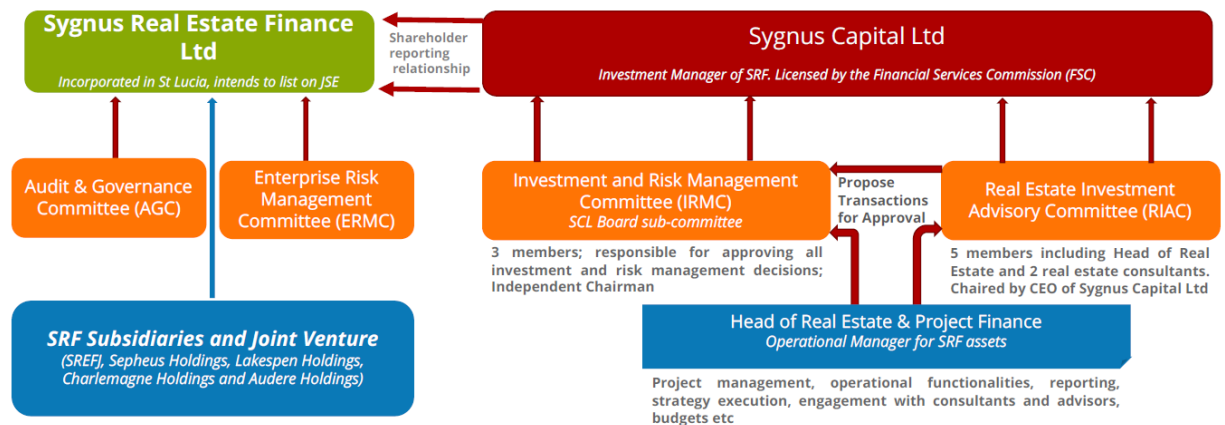
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<b>David Cummings, OD, JP, MDA, MMAS, BEng (Hons), MRAeS, PE, psc</b> Non-Executive Director	Sygnus Head of Real Estate; Former Director at Urban Development Corporation; Brigadier and former Deputy Chief of Defence Staff, former Colonel general staff, former Colonel Adjutant Quartermaster, former Staff Officer Finance and Logistics, and former Commanding Officer JDF Engineering Regiment in the JDF. Expertise in project management, construction engineering management, contract negotiations, risk management, operations management, and joint venture partnerships
<b>Elizabeth Stair, OD, JP, FRICS,</b> Attorney-at-Law Independent Non-Executive Director	Former Chief Executive Officer/Commissioner of Lands at National Land Agency. She is a fellow of the Royal Institution of Chartered Surveyors, United Kingdom (F.R.I.C.S) and is also a member of several other local and international professional associations, which include the Royal Institution of Chartered Surveyors (RICS), Honorary Member - Realtors Association of Jamaica; Honorary Member of the National Society of Real Estate Appraisers, USA.

The chart below outlines the corporate governance structure between SRF and its Investment Manager, SCL.



SCL is governed by two committees, the Real Estate Investment Advisory Committee (RIAC) and the Investment and Risk Management Committee (IRMC). The RIAC consists of five members, inclusive of two real estate consultant advisors, whose responsibility it is to make recommendations to IRMC. The IRMC is a 3-member board sub-committee that is responsible for approving investment decisions with an independent chairman. The RIAC is chaired by the Chief Executive Officer of the SCL. SCL's management team also includes a Head of Real Estate & Project Finance whose job it is to manage all the real estate projects and coordinates other

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operational activities. An independent panel of independent real estate advisors assists the RIAC on a case-by-case basis.

The Board of the Investment Manager is chaired by Milton Brady and is currently comprised of seven members, three of whom are independent, and are listed below.

<b>Milton Brady, BBA, MBA</b> Independent Chairman	Milton currently works as a Senior Advisor with Pan American Finance, where he uses his experience to provide advice and counsel to businesses and governments in the Caribbean region. Some roles that Milton has held includes: Director and Global Head of Credit at SEB Merchant Banking (Sweden); President of SEB, New York (USA); Managing Director, Corporate and Investment Banking at CIBC FirstCaribbean (Barbados); Managing Director, CIBC FirstCaribbean (Jamaica); Chief Commercial Officer, LIME (formerly Cable & Wireless Caribbean); and Chief Risk Officer, NCB Group (Jamaica).
<b>Simon Cawdery, CFA</b> Independent Non-Executive Director	Non-Executive Director, HLX Management/IPAF Group, Cayman. Founder/Director Helix Group, Cayman; Former Head of Investment Strategy/Senior Portfolio Manager at EFG Bank, Cayman; Former Head of Discretionary Investments/Senior Portfolio Manager at Butterfield Bank, Cayman. Former Credit 136 Analyst at Barclays, UK; Former President of the CFA Society Cayman Islands and the past Regional President of the CFA Institute for the Latin America and Atlantic Islands region.
<b>David McBean, PhD, BSc</b> Independent Non-Executive Director	Executive Director, Mona School of Business and Management. Former executive roles included Managing Director for the Spectrum Management Authority of Jamaica, Managing Director of Products & Services at LIME Caribbean, Regional Vice President Online Services at Cable & Wireless West Indies, CEO of the CVM Media Group in Jamaica and Vice President, Information Technology at the former Air Jamaica. Former Director of: the Jamaica Tourist Board, e-Learning Jamaica, Nutrition Products Limited, University Hospital of the West Indies, AJAS, Lascelles de Mercado Limited, Supreme Ventures Limited and Mayberry Investments Limited. David is a Jamaica Rhodes Scholar
<b>Gassan Azan Jr.</b> Non-Executive Director	Founder, Chairman and Chief Executive Officer of Bascho Trading Company Ltd and MegaMart Wholesale Club. He is also Chief Executive Officer of Sizzling Slots and SMWS Games Ltd. Awarded Prime Minister's medal of appreciation in Jamaica. He is also a Justice of the Peace.

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<b>Ike Johnson, PhD, CFA</b> Executive Director Executive Vice President and Chief Operating Officer	See above
<b>Jason Morris, CFA</b> Executive Director Executive Vice President and Chief Investment Officer	Director of Caribbean Alternative Investment Association (CARAIA). Former Vice President of Business Analytics, Portfolio Advisory & Product Development at Scotia Investments Jamaica; former Senior Investment Strategist & Portfolio Manager, and former Sovereign Risk Analyst at JMMB Group.
<b>Berisford Grey, MBA, MSc</b> Executive Director President and Chief Executive Officer	Former Managing Director of Corporate & Investment Banking at CIBC FirstCaribbean. Former SVP Origination and Capital Markets at Scotia Investments Jamaica where he established the capital markets as a strategic Business Unit within Scotia Investments. Former Managing Director of Corporate & Investment Banking at CIBC FirstCaribbean.

The RIAC is comprised of: Berisford Grey (Chairman); David Cummings; Jeremy Brown, FCA; Peter Rosseau; and Gregory Samuels. The IRMC is comprised of Milton Brady, BBA, MBA (Chairman), Simon Crawdery, CFA and Jason Morris, CFA.

### Financial Performance

#### 13-Month Period ended August 31, 2020

##### *Profitability*

For the 13-month period ended August 31, 2020, SRF reported total income of \$510.0M and expenses of \$89.85M, resulting in an operating profit of \$420.16M. The lion share of SRF's income stemmed from fair value gain on investment property of \$400.7M. This gain was driven by the acquisition of 29.4 acres of unimproved beachfront property in Mammee Bay, St. Ann, which was subdivided into two lots: one lot representing investment property and the other real estate asset held for sale. The structuring of the acquisition resulted in the revaluation gain of \$400.7M on the sub-division held for investment property. The entire property was acquired for J\$3.55B.

Additionally, net interest income amounted to \$65.23M while net foreign exchange gains totalled \$23.32M. Interest income of \$76.33M was generated on \$874.0M in real estate investment

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notes, with a fair value yield of 10.1%. Interest expense of \$11.1M stemmed from \$1.69B in loans and preference shares that carried a weighted average cost of funds of 5.2%.

SRF generates a fair value gain or loss on a portion of its real estate investment notes. These customized investments are structured as construction notes with a fixed interest rate and a percentage profit participation in the respective real estate project. The company generated a fair value gain of \$14.7M on \$382.4M in two investments measured at fair value through profit and loss.

SRF incurred \$27.07M in management fees while other expenses amounted to \$53.33M. SRF's efficiency ratio<sup>1</sup> for the 13-month period was 19.2%, versus a target ratio of 45%. The low outrun of the actual efficiency ratio versus the target threshold was because no management fees were charged during the first six months of the Company's operations. The management expense ratio<sup>2</sup> was 1.5% for the period, which compared to a target threshold ratio of 3.5%.

After accounting for a share of loss of joint venture of \$5.24M, SRF reported a net profit of \$414.92M. The operating profit margin stood at 82.4% while the net profit margin stood at 81.4%. The return on equity was 15.7% for the period.

### *Liquidity & Solvency*

SRF's total assets amounted to \$6.08B as at August 31 2020. At the end of the first financial year, SRF's real estate investment assets totalled \$5.96B, spread across nine investments and three separate types of investment assets. The real estate investments were distributed as such: \$4.68B in property investments, \$874.0M in real estate investment notes and \$405.5M in joint ventures. Property investment consisted mainly of \$2.5B in investment property and \$1.81B in property-held-for-sale. Investments in joint ventures represented SRF's 70% ownership stake in Audere Holdings, a subsidiary that is executing a commercial project on Belmont Road.

Cash and cash equivalents stood at 73.95M while other assets amounted to \$361.28M. Other assets consisted primarily of an advance payment for shares of \$350.11M. SRH entered into a share purchase agreement with a connected party for the acquisition of 1,000,000 ordinary shares in a Company incorporated in St. Lucia. The shares are in relation to the acquisition of land

<sup>1</sup> Efficiency ratio – total operating expenses as a percentage of total investment income

<sup>2</sup> Management expense ratio – total operating expenses as a percentage of total assets under management

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and the remaining consideration of US\$3.5M will become due and payable once certain conditions under the agreement are satisfied.

Total liabilities amounted to \$3.43B, driven by total debt of \$3.04B representing \$1.33B in notes payable and \$1.61B in loans and borrowings. SRF's leverage, as represented by the debt-to-equity ratio, stood at 1.15x. Due to related parties amounted to \$336.14M while preference shares stood at \$79.12M. The due to related party balance represents SRF further contribution to the Audere Holdings Limited joint venture.

Total equity amounted to \$2.65B, driven by \$2.08B in share capital, and \$148.3M in prepaid share reserve while retained earnings stood at \$414.92M. The Company raised capital in a private placement in August 2019 at J\$13.30 and US\$0.10 per share for JMD and USD ordinary shares respectively.

SRF's operations were cash flow positive in its first full year of operations as net cash provided by operating activities amounted to \$175.94M. This was possible due to cash inflows from related parties, increases in accounts payable and interest received. Net cash used in investing activities amounted to \$5.23B as \$2.1B was spent on the acquisition of property and \$1.8B on asset held for sale. Net cash provided by financing activities amounted to \$5.11B following a \$2.08B raise from the issuance of \$3.03B in debt securities.

	6 Months ended Feb 2020	6 Months ended Feb 2021	13 Months ended Aug 2020
<b>Summary of Investment Activity</b>	J\$ 000	J\$ 000	J\$ 000
<b>Fair Value of Real Estate Investment Assets*</b>	1,444,041	5,352,116	5,955,425
<b>New Commitments in Real Estate Investment Assets</b>	1,096,548	423,334	5,228,811
<b>Number of Real Estate Investment Assets</b>	6	11	9
<b>Dry Powder</b>	1,129,942	249,564	73,946
<b>Number of Investments Exited (#)</b>	-	2	-
<b>Value of Investments Exited</b>	-	2,112,580	-
<b>Number of Real Estate Investment Notes (#)</b>	3	5	4
<b>Fair Value of Real Estate Investment Notes</b>	538,976	992,351,000	873,996
<b>Fair Value Yield on Real Estate Investment Notes (%)</b>	11.7%	10.1%	0
<b>Total Acreage of Property Investments (Acres)</b>			85

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\*includes J\$304.0M in additional contribution to be made  
with JV partner

Six Months ended February 28, 2021

### *Profitability*

SRF reported impressive returns in the first half of the 2021FY, as profit for the period moved from \$19.81M in the prior year period to \$949.87M, a 4,695% increase year-over-year. The main driver behind this performance was the booking of \$913.4M in fair value gain on investment property, relative to no such gains in the prior year. The valuation gain on investment property was primarily driven by the Mammee Bay beachfront sub-division held as investment property, as the adjacent sub-division was sold to a third party that would use the property in such a way that would unlock additional value in the sub-division retained by the company.

Also contributing to this gain were transactions of comparable size being executed within a similar price range, technical and physical enhancements including development pre-approvals, joint agreement for design and development of drainage for the property, beach enhancement and other physical enhancements to the property. SRF was able to unlock \$762.5M in additional value was unlocked from the Mammee Bay beachfront investment property as well \$109.7M on the Mammee Bay sub-division that was sold for \$1.92B. The value of two other properties, Spanish Penwood and 56 LMR increased by a combined \$150.9M, driven by similar factors to the Mammee Bay property.

Total income amounted to \$1.11B, up \$1.08B from the \$35.94M reported in the prior year period. Driving this increase was the \$913.4M in fair value gain on investment property and \$109.7M in gain on disposal of asset held for sale. SRF also reported \$54.66M in fair value gains from financial instruments and net foreign exchange gains of \$21.75M.

SRF reported net interest income of \$11.69M for the first half of the 2021FY, down 60.1% year over-year-year, as interest income rose 42.5% to \$44.34M but interest expense rose 1,735.2% to \$32.65M. The sharp increase in interest expense reflected higher loan balances on SRF's book during the 6M2021 period, compared to the 6M2020 period. The weighted average yield on SRF's real estate investment notes were 10.1% for the period, while the weight average cost of debt was 5.0%.

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Total operating expenses amounted to \$157.75M, up 878.2% year-over-year, as the company recorded \$59.26M in management fees and \$48.57M in performance fees, relative to the no such fees for the 6M2020 period. No management fees were charged in the first six months of business operations. The average return on equity for the 13 months ended August 2020 was 15.7%, which resulted performance fees being booked in the 6M2021 period.

SRF's efficiency ratio during the first six months of the 2021FY stood at 15.3%, versus 52.6% for the 6M2020 period, and the target threshold of 45%. The management expense ratio stood at 2.8%, up from 0.6%, reflecting the normalizing of fees in 2021 following the waiver of management fees and no performance fees in the 6M2020 period.

### *Liquidity & Solvency*

As at February 28, 2021, total assets amounted to \$5.71B, up 114.8% year-over-year. Driving this increase was a 270.6% or \$3.91B increase in real estate investment assets to \$5.35B, partially offset by a 77.9% or \$880.4M decline in dry powder to \$249.56M. Dry powder consisted of \$144.03M in cash and cash equivalents, down 47.9% year-over-year, and securities purchased under resale agreements of \$105.54M, which was down 58.3%. SRF held \$600.0M in certificates of deposit as at February 29, 2020, a balance that fell to zero a year later. The fall in dry powder reflected SRF's deployment of cash into new investments.

Investment property amounted to \$3.54B, up 962.7% year-over-year, while investments amounted to \$992.35M, up 84.1% year-over-year. Advance payments for and the acquisition of strategic investment properties were the main drivers of the increase in investment property. Deployment of capital into new project financing transactions was the driving force behind the increase in value of investments. SRF also saw a 158.5% increase in other assets to \$425.52M.

Total liabilities amounted to \$2.11B, up 291.3% year-over-year, due to the booking of \$1.5B in loans and borrowings, compared to a debt balance of nil a year prior. Accounts payable and accrued liabilities amounted to \$104.63M, down 31.1% year-over-year, while the amount due to related parties rose 29.8% to \$398.36M. Shareholders' equity amounted to \$3.6B, up 69.8% or \$1.48B year-over-year. Share capital rose 7.1% to \$2.23B, while retained earnings moved from \$34.28M to \$1.36B. SRF's debt-to-equity stood at 0.45x, up from 0.04x a year prior.

Net cash used in operating activities during the six-month period amounted to \$71.13M, relative to net cash inflows of \$243.13M in the prior year period. Net cash used in financing activities



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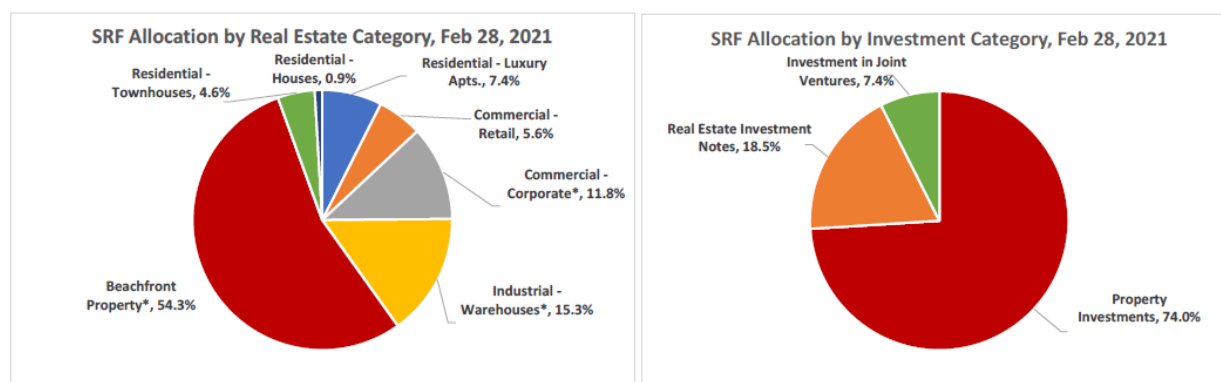
amounted to \$1.44B, as the company repaid \$1.33B in notes payable. However, \$1.57B in net cash was received from investing activities following the disposal of asset held for sale for \$1.92B.

Subsequent to the end of the period, SRF secured a two-year revolving credit line for US\$3.9M accessible in JMD and USD at a rate of 5.0% in USD and 6% in JMD from a major commercial bank. The Company is currently in negotiations with multiple banking partners to secure additional revolving credit facilities as it seeks to achieve a minimum of J\$1.5B or US\$10M in dual currency credit lines. In addition to the credit line, SRF has secured indicative terms for a J\$2.45B construction note in relation to the financing of the One Belmont project.

SRF has a minimum required investment deployment of between J\$5.5B and \$6.0B over the next 12 to 18 months. Approximately J\$1.5B of the pipeline is earmarked for deployment in real estate investment notes. SRF intends to partially finance these investments from capital raised in this IPO.

### Real Estate Portfolio

As at February 2021, SRF's investments were allocated across seven sub-sectors of real estate, with the largest allocation to beachfront property with 54.3%. The allocation to industrial-warehouses only included the deposit on the Lakespen asset, an acquisition that was closed post quarter end. Additionally, the commercial-corporate category did not reflect the full value of the former French Embassy asset, whose acquisition was also closed after the reporting period, nor the full value of 56 LMR. SRF's capital is allocated 74.0% to property investments, 18.5% to real estate investment notes and 7.4% to investments in joint ventures.



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As at February 2021, SRF was invested in 11 different real estate assets, which are summarized in the tables below:

Summary of Property Investments	
Name	Property Description
One Belmont	<u>Investment Type</u> - Investment in Joint Venture (SRF owns 70% of JV) <u>Location</u> - 1 acre on Belmont Road, Kingston <u>Sector</u> – Commercial (corporate offices) <u>Property Overview</u> – 78,790 sq. ft. office area, 9-storey commercial tower; 5 levels of office space; 4 level of parking spaces (310) <u>Funding Requirement</u> : J\$3.5B – J\$2.45B construction loan (banks) + J\$450M convertible preference shares (SRF and/or co-investors) + J\$600M equity (JV partnership)
Spanish Penwood	<u>Investment Type</u> – Property Investment (USD) <u>Sector</u> - Industrial (Warehouses) <u>Location</u> – 2.85 acres at 443-445 Spanish Town Road, Kingston <u>Property Overview</u> – 32,553 sq. ft. warehouse and commercial office facilities <u>Funding Requirement</u> : 100% equity financing; J\$550M total construction cost fully committed by SRF
Mammee Bay	<u>Investment Type</u> – Property Investment (USD) <u>Sector</u> – Hospitality/Residential (villas hotel, spa, restaurant, condos, apartments) <u>Location</u> – Mammee Bay, St. Ann, minutes from attractions such as Dunn’s River Falls, Mystic Mountain and Chukka Cove <u>Property Overview</u> –Strategic property investment; 29.4 acres of beachfront property with 1,700 ft. of beach; subdivided into two portions with the beach split 50/50 between subdivisions. 15 acres was sold to third party. SRF is exploring options for the most optimal path to unlocking maximum value <u>Funding Requirement</u> : US\$6.0M to US\$10.0M estimate in first phase over next 24 months
Lakespen	<u>Investment Type</u> – Property Investment (USD) <u>Sector</u> – Industrial (warehouses) <u>Location</u> – Lakespen, St. Catherine

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	<p><u>Property Overview</u> – 55-acre industrial property in logistics and industrial hub. Sits at the start of the North-South highway. SRF is exploring options for the most optimal path to unlocking maximum value</p> <p><u>Funding Requirement</u>: US\$6.0M to US\$10.0M estimate in first phase over next 18 months.</p>
<b>Former French Embassy</b>	<p><u>Investment Type</u> – Property Investment (USD)</p> <p><u>Sector</u> – Commercial/Residential (corporate office, townhouses)</p> <p><u>Location</u> – 3 Hilcrest Avenue, Kingston</p> <p><u>Property Overview</u> – 3.2 acres, close proximity to major shopping areas, business districts and hospitals. SRF is exploring options for the most optimal path to unlocking maximum value</p> <p><u>Funding Requirement</u>: US\$2.0M to US\$4.0M in first phase over the next 12 months</p>
<b>56 LMR</b>	<p><u>Investment Type</u> – Property Investment (USD)</p> <p><u>Sector</u> – Commercial (corporate offices)</p> <p><u>Location</u> – 56 LMR</p> <p><u>Property Overview</u> – 0.63 acres, located in the desirable LMR corridor, close proximity to all major shopping areas, business district and hospitals. SRF is exploring options for the most optimal path to unlocking maximum value, including building build-to-suit corporate headquarters for a single entity</p> <p><u>Funding Requirement</u>: US\$1.0M to US\$1.5M depending on value creation path selected</p>

### Summary of Property Investments

Name	Location	Asset Type	Project Description	Real Estate Investment Note	Notes
Ocean's Edge	Discovery Bay, St. Ann	Residential	16 Luxury Ocean Front Townhouses	Mezzanine Debt	Capital drawdown ongoing
Surreal at the Sugar Mill	Montego Bay, St. James	Residential	28 Luxury Apts. & Townhouses	Mezzanine Debt	Capital drawdown ongoing
Norbrook Wasser	Norbrook, Kingston	Residential	8 Luxury Apts.	Medium Term Construction Notes	Capital drawdown ongoing

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Sigren	Kingston, Jamaica	Commercial	Portfolio company developing residential; SRF investment backed by commercial asset	Medium Term Construction Notes	Capital drawdown 100%
Project Trinity	St. Catherine, Jamaica	Residential	Phase 1 - 50 Single Family Houses; Phase 2 – 22 Townhouses and Phase 3 – 24 Apts.	Short Term Construction Bridge Notes	SRF to exit after Phase 1 is completed

**A short term bridge note for a residential development of 56 serviced lots in St. Ann, Jamaica was successfully exited with full repayment during 6M2021**

### Outlook

In its first 19 months of operations, SRF has generated a significant value for shareholders. Retained earnings stood at \$1.36B as at February 2021, with total shareholders' equity of \$3.6B. The return on equity for the year ended Aug 2020 was 15.7% while the annualized return on equity for the six months ended February 2021 was 66.4%. We expect the company to continue to unlock value given the performance of the Investment Manager thus far, which has come notably during a global pandemic, as well as the performance of Sygnus Credit Investments Limited.

If this Offer is fully subscribed as expected, the net proceeds should provide approximately J\$2.7B in working capital, after listing fees and debt repayment. The Company has outlined a robust pipeline of opportunities (see below) it intends to target over the 12 to 25 months that it anticipates will lead to further value creation.

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#	Name	Location	Description	Stage	SRF Participation	Funding Type	Timeline
1	Project Ocean View	Western Jamaica	Middle Income Ocean View Houses	Discussions ongoing	~J\$245.0M	Bridge Notes	6 - 12 months
2	Project Ocean Bay	North Coast Jamaica	Ocean View Apartments	Mandated	~J\$450.0M	Mezzanine Debt	6-12 months
3	Project Manitoba	Kingston, Jamaica	0.5 Acre Strategic Property Investment: Commercial Property in Prime Location	Sale Agreement	US\$1.2M	Equity / Mezzanine Debt	0 - 6 months
4	Project Manitoba	Kingston, Jamaica	Joint Venture: Commercial Offices in Prime Location. JV Partner Putting in ½ Property to be combined with ½ strategic acquisition by SRF	Advanced Discussions	US\$2.0M	Equity + Mezzanine Debt	12 -24 months
5	Project Ventura	Kingston, Jamaica	Joint Venture: 9 Luxury Villas in Prime Location on 1 Acre. JV Partner Putting in the Property	Letter of Intent	US\$1.5M	Equity / Mezzanine Debt	12-36 months
6	Project Honeycomb	Kingston, Jamaica	Joint Venture: 32 Ultra Luxury Apartments in Prime Location with Bank Financing. JV Partner Putting in the Property	Reviewing of JV Terms	US\$3.0M	Equity / Mezzanine Debt	12-24 months
7	Project Winnipeg	Kingston, Jamaica	Joint Venture: Commercial Offices in Prime Location. JV Partner Putting in the Property	Initial discussions	US\$2.0M	Equity / Mezzanine Debt	12-36 months

The current pipeline is focused on targets within Jamaica; however, SRF intends to begin exploring opportunities in other Caribbean countries over the next 12 to 24 months.

The construction sector continues to lead the charge in Jamaica's economic recovery as it expanded an estimated 12.6% in the January to March 2021 quarter, relative to the 3.0% growth reported for the entire Goods Producing industry. This performance follows growth of 7.0% for the sector in the July to September 2020 quarter and 6.3% in the October to December 2020 quarter. The Construction sector was not spared the impact of the coronavirus, having contracted 14.5% in the April – June 2020 quarter.

However, the sector was one of the first to receive exemptions to the curtail measurements implemented to mitigate the spread of the COVID-19 virus and has produced standalone performances in real GDP growth. Additionally, real estate professionals have maintained throughout the pandemic that demand remains strong for housing solutions, even with a significant pick up in housing starts. Housing starts rose 202.5% in 2019 to 11,682, from 3,862 in 2018. Data for 2020 housing starts was not yet available at the time of this report.

In its Financial Stability Report 2020, the Bank of Jamaica assuaged fears of a bubble in the local housing market. The central bank undertook an empirical assessment of the housing market and concluded, "there was no evidence of a bubble in housing markets at this time." However, the

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central bank did go on to state that given the deterioration in macroeconomic conditions, a softening in home prices are expected in the near term.

The BOJ stated that this expectation was consistent with statistical evidence of a falloff in prices with Kingston & St. Andrew in light of the COVID-19 pandemic. The central also stated that its scenario assessment showed that the real estate market may be facing increase exposure to credit risk, and urged banks and building societies to closely monitor the potential risk that might emerge from exposure to real-estate price changes.

In 2019, the Government reduced the stamp duty on real estate transactions to a flat fee of \$5,000 while the transfer tax was reduced to two percent from five percent. This move has coincided with a gradual reduction in mortgages fees due to a downward trend in general interest rates and increased competition in the banking sector. These moves have made home ownership a bigger reality to prospective homeowners. In 2019, the number of NHT mortgage issued amounted rose 4.7% while the total number of mortgages rose 2.4%.

### Investment Positives & Negatives

Positives	Negatives
SRF provides real estate exposure at the entry point where the greatest upside potential exists – the development phase	SRF intends to predominantly invest in the development phases of real estate ventures. As such, the significant risk exposure is construction risk as projects may encounter cost and time overruns that diminish actual returns
SRF is an indirect real estate investment which allows investors to gain real estate exposure without having to take on property management responsibilities	SRF has a relatively short track record with less than two years of operations
As an indirect real estate investment that is to be listed, investors benefit from greater liquidity than direct real estate investment and will have lower barriers to entry to real estate exposure due to the pooling of funds for portfolio investments. The pooling of funds allow for investors to access large scale	The real estate sector is becoming increasingly competitive as investors look for greater returns in the current low-interest rate environment. Over the past few years, several entities have begun to or expressed the desire to create real estate ventures which could lead to a reduction in investment yields as supply increases faster than initially estimated

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development projects that they would not otherwise have access to.

SRF's portfolio is not geographically diversified. The Company has stated its intention to expand into the Caribbean in the medium term but in the short term, concentration risk is significant. This risk is partially mitigated by diversification across real estate sub-sectors.

### Valuation

We utilized a Price Multiples approach to estimate the fair value of the shares of SRF. We were unable to use a Dividend Discount Model as the company has not yet built a history of paying dividends nor were we able to utilize a Discounted Cashflow Model with no track record of positive cash flows. As such, a Price-to-Book Value (P/B) Multiple Approach was utilized.

First Priority Reserve Pool		Second Priority Reserve Pool		Non-Reserved Pool		Peer Group Valuation
J\$ shares	US\$ shares	J\$ shares	US\$ shares	J\$ shares	US\$ shares	Peer Group P/B ratio average – 0.94x
J\$17.90 per share	US\$0.1170 per share	J\$18.30 per share	US\$0.1210 per share	J\$19.30 per share	US\$0.1270 per share	
Discount to Valuation: 5.6% (J\$)/4.4% (US\$)		Discount to Valuation: 3.5% (J\$)/1.2% (US\$)		Premium to Valuation: 1.8% (J\$)/3.7% (US\$)		
						J\$18.97 per share/US\$0.1224

Applying the real estate peer group<sup>3</sup> average P/B ratio of 0.94x to SRF's book value per share of \$20.19 produces a price of J\$18.97 per share or US\$0.1224. This valuation ranges from a discount of 5.6% on the J\$ share for the first priority reserve pool to a premium of 1.8% for the non-reserved pool. On the US\$ share side, this valuation yields a discount of 4.4% for the first priority reserve pool to a premium of 3.7% for the non-reserved pool.

<sup>3</sup> Peer Group – Stanley Motta Limited, Kingston Properties Limited, Eppley Caribbean Property Limited, First Rock Limited

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### Recommendation

We recommend both the **J\$ and US\$ shares as MARKETWEIGH/MARKETPERFORM/HOLD** as we believe they are being offered near to our estimate of their intrinsic value. This investment is suitable for investors with a medium to high-risk appetite who are seeking indirect exposure to the real estate sector.

**Source:** <http://www.Jamstockex.com>, *JMMB Investment & Research, Bloomberg, Company Financials, Offering Term Sheet*



## Sygnus Real Estate Finance Limited (SRF)

### APPENDIX

#### Abridged Financials

	6M Feb 2020	6M Feb 2021		19M ended Aug 2020
<b>Abridged Financials</b>	<b>J\$ 000</b>	<b>J\$ 000</b>	<b>% change</b>	<b>J\$ 000</b>
Interest income	3,168,047	5,382,777	69.9%	76,332
Interest expense	-	(890,759)		(11,099)
<b>Net interest income</b>	<b>3,168,047</b>	<b>4,492,018</b>	<b>41.8%</b>	<b>65,233</b>
Fair value gains from financials instruments at fair value through profit or loss (FVTPL)	6,606	54,664	727.5%	14,653
Net foreign exchange gains	-	21,753		23,324
Fair value gain on investment property	-	913,396		400,704
Gain on disposal of asset held for sale	-	109,695		-
Other	-	3,190		6,090
<b>Total Income</b>	<b>35,936</b>	<b>1,114,391</b>	<b>3001.0%</b>	<b>510,004</b>
<b>Operating expenses:</b>	-	-		-
Management fees	-	59,255		27,073
Performance fees	-	48,571		-
Corporate service fees	3,174	12,170	283.4%	9,442
Impairment allowance on financial assets	363	-	-100.0%	-
Net foreign exchange loss	333	-	-100.0%	-
Other expenses	12,257	37,758	208.1%	53,334
<b>Total expenses</b>	<b>16,127</b>	<b>157,754</b>	<b>878.2%</b>	<b>89,849</b>
<b>Operating profit</b>	<b>19,809</b>	<b>956,637</b>	<b>4729.3%</b>	<b>420,155</b>
Share of loss of joint venture	-	(6,764)		(5,237)
<b>Profit for the period</b>	<b>19,809</b>	<b>949,873</b>	<b>4695.2%</b>	<b>414,918</b>

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Total assets	2,657,764	5,708,658	114.8%	6,075,312
Total debt	79,123	1,582,923	1900.6%	3,026,814
Shareholders' equity	2,118,163	3,596,970	69.8%	2,647,097
Efficiency ratio	52.6%	15.3%		19.2%
Management expense ratio	0.6%	2.8%		1.5%
Net profit margin	55.1%	85.2%		81.4%
Debt to equity (x)	0.04	0.44		1.14

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### IMPORTANT DISCLOSURES

**ABSTRACT**—As a part of our new Portfolio Strategy we are recommending strict adherence to the following Portfolio Allocation **DEFINITIONS/RECOMMENDATIONS**.

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**OUTPERFORM/OVERWEIGHT/BUY**—EXPOSURE TO THIS ASSET SHOULD BE UP TO 10% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

**MARKETPERFORM/HOLD/MARKETWEIGHT**—EXPOSURE TO THE ASSET SHOULD BE EQUAL TO 5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB.

**UNDERPERFORM/UNDERWEIGHT**— ADJUST EXPOSURE IN YOUR PORTFOLIO HELD AT JMMB TO BETWEEN 2.5% AND 4.9% FOR THIS PARTICULAR ASSET

**STRONGLY UNDERPERFORM/UNDERWEIGHT**—REDUCE EXPOSURE TO THIS ASSET TO BELOW 2.5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

**SELL**—REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO (0%).

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