INVESTMENT STRATEGY

Key Principles of the Investment Strategy

Etaireia Investments PLC strategy is to provide shareholders with strong investment returns and a balanced exposure to lower risk income generating assets and opportunities that will provide a higher capital return.

In implementing its investment strategy, Etaireia will contemplate available opportunities and future undertakings that will yield real returns at acceptable risk levels. In making investments Etaireia will seek to achieve a reasonable level of diversification across a spread of property based assets and geographies.

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Investment Criteria

- Etaireia will focus on property investments which provide a stable, predictable and low risk income stream, with opportunities to enhance value through active management;

- Etaireia will also selectively pursue development or redevelopment opportunities where they can be pre-let to businesses with strong rental covenants, or in order to protect, enhance or extract additional value from existing investments;

- Etaireia will invest in distressed property investments where opportunities arise as markets recover. Investments outside the above criteria will only be made where risk adjusted returns to Shareholders are satisfactory and Etaireia has the reserves necessary to extract an above-market return from the investments.

- Etaireia will make investments in property via a number of methods which include:

  - acquisition of the real estate assets or portfolio of assets;
  - direct investment in or acquisition of the holding company of the real estate asset or portfolio of assets;
  - direct investment in or acquisition of a joint venture vehicle which has a direct investment in or holds the real estate assets or the holding company of the real estate asset or portfolio of assets; and
  - investments in property securities (debt and/or equity securities), which are acquired when their value is considered superior to physical property.

Background

A Great Source of Income

We live in a low income world and this is likely to remain the case for some time yet as the global economic recovery slowly establishes itself. Low inflation and a continued relaxed monetary stance by the Bank of England are expected to keep a lid on bond yields and bank base rate rises remain years, not months, away according to many market commentators. Stock markets have been generating competitive yields, but the downside is the ever-present threat of volatility. With property, by contrast, you not only get one of the most attractive yields of all asset classes, but also reliability. In short, property offers just about the most dependable source of income there is.

Real Scope for Capital Growth

Historically, the bulk of performance from property has come from the income generated rather than rapidly rising capital values. We believe, however, there are genuine grounds for optimism towards the UK economy and that there is every chance that capital performance will start to make a stronger contribution to total returns over the next few years. London is already seeing higher capital values and commercial property outside London are showing signs of improvement given the green economic shoots that are now emerging.

Residential and Land

A chronic shortage of homes in the UK, has seen the Government set a housing target to develop 4.2 million homes over the next 20 years, however with the combined supply issues and the sluggish delivery the rental sector in both private and social housing is becoming a very attractive asset class.

Current demand and supply drivers in the housing market are making institutional investment in residential a more attractive option. The Private Rented Sector (PRS) has grown substantially in recent years and this growth is anticipated to continue, with Government support.

In terms of total returns, residential investment stands up well against alternative investments. It also allows for better diversification of portfolios. The future outlook for house prices and rent levels (and therefore yields) also looks positive over the short to medium term at least.

Etaireia Investments PLC will target a diverse investment within this sector and also land for further developments.

The private rented sector (PRS) in the UK has grown substantially over the past few years and now accounts for 15% of the UK's homes (3.6 million households) and 12% in Scotland (260,000 households). In some of the main UK cities, its share is even higher, for example in Edinburgh around 25% of the housing stock is in the PRS.

The demand for housing is being driven by population and household growth, but problems in the sales market, particularly the lack of mortgage finance, is increasing demand in the PRS, compounded by the lack of new build housing.

Sir Adrian Montague carried out a review of the barriers to institutional investment in the PRS, published in August 2012. The clear message from his report is that there is a significant amount of potential for large-scale development of purpose build-to-let housing in the UK, helping to provide the housing that the country requires, while also generating the type of returns that investors need.

The UK Government are keen to encourage institutional investment into the PRS as a way of delivering additional housing stock and creating an appropriate choice of tenure for our growing population. The UK Government recently announced that it would provide £10 billion of lending guarantees in a bid to expand the PRS and spur activity in the affordable new homes market.

Why Invest in Residential Stock

There are a number of good reasons for institutional investors to consider residential stock.

- The performance of residential as an asset class
- The levels of current and future demand for rented accommodation
- The ability to diversify portfolios.

We examine each of these in turn.

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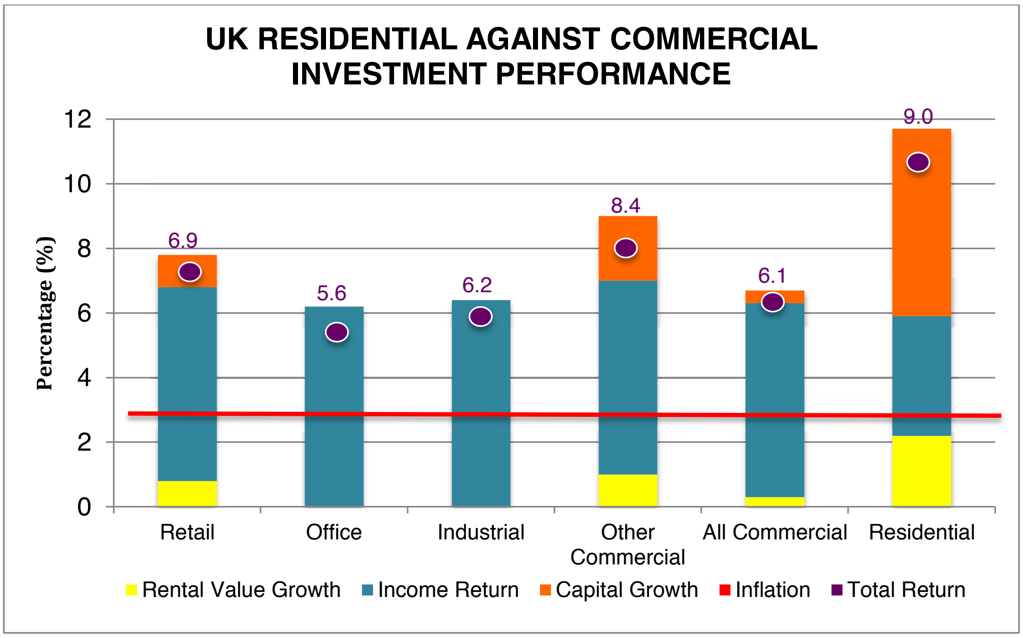
Performance

Over the past 10 years, total residential returns have averaged 9%:

- 3.4% income return
- 2.6% rental value growth
- 5.4% capital growth

For many investors, the stronger income return of commercial has seen it favoured, particularly with concerns about future falling house prices.

However, the income return is only one part of the total return and stories of significant house price depreciation have proved to be largely unfounded, with stronger house price growth now anticipated by many credible forecasters (see table below).



Source IPD : 20 November 2013

Housing Demand

In the UK, it is estimated that around 250,000 new houses need to be created each year to keep up with demand.

With approximately 115,000 housing units being constructed per annum in England and 15,000 per annum in Scotland, figures well below all estimates of the required amount, especially with the rate of household growth being maintained. As well as demonstrating the demand for new housing stock, this is likely to mean that there will be upward pressures on rental values and house prices over the long-term.

The investment sector has the capacity to build 'big', i.e. in lot sizes of hundreds or thousands of units and capture this market demand much more effectively than the buy-to-let sector.

With Social Housing

Investment in affordable housing provides a more stable and secure form of investment opportunity.

Housing association waiting lists continue to grow. At 31 March 2013, there were 184,487 households on local authority housing lists across Scotland. Of these, 151,100 people were on waiting lists and 29,800 were on transfer lists. As of 1 April 2013 1.7 million households were on the housing waiting lists in England. The pressures on social housing landlords have increased with recent changes to the benefits system. One change from welfare reform is that tenants now receive housing benefit based upon their housing requirement. The desired outcome of this strategy is to have people living in appropriately sized homes. The consequence of this strategy is that there is a 460,000 shortfall in the number of one bedroom properties within the UK. One solution to the challenges of providing adequate social housing is increasing involvement of private companies. Whilst social housing does not in general provide considerable capital value appreciation, the large waiting lists provide for consistent occupancy. Moreover tenancy turnover is also lower. Social housing voids are typically between 1%-4%. It is this level of consistent occupancy and secure revenue streams that, when Social Housing providers obtain bond finance debt, these capital market investments achieve A ratings from Moody's, Standard & Poors and Fitch.

Diversification

Residential rental income has a relatively low correlation with economic cycles. In times of uncertainty, with equities and commercial property not performing as well, the diversification benefit of residential is being recognised and introduced to large portfolios seeking fuller diversification.

Land

Although development land values have shown some increase in values the opportunities in 'shovel ready' distressed sites for development purposes still represent excellent growth potential. Etaireia will seek investment in this sector linking in with end users and adding capital growth from planning game for our shareholders.

Etaireia Investments PLC

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