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## YEAR-END NOTE TO INVESTORS

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It has been a landmark year for Grit on many levels. As 2017 draws to an end, please allow me to reflect on our journey to date, and more importantly, on how this year's developments have positioned the Company for the years ahead.

### Calendar year highlights:

-  **Company rebranding**
-  **Successful capital raise of US\$121.2 million by way of rights offer**
-  **New strategic institutional investors, as well as a more diversified shareholder base**
-  **Inclusion in the SEM-10 index**
-  **Increase in average daily volume traded and frequency of trading on both exchanges**
-  **Reduced cost of debt to 5.5%**
-  **Total property investments increased to over US\$570 million**
-  **Increase in Weighted Average Lease Expiry (WALE) to 7.2 years**
-  **Portfolio occupancy rate maintained at 96%**
-  **Dividend distribution of US\$12.07 cps for FY 2017 (+2.7% growth from last year's distribution)**
-  **Dividend yield of 8.9% on the SEM and 10.2% on the JSE<sup>1</sup>**

Our rebrand from Mara Delta Property Holdings Limited to Grit Real estate income group Limited and a US\$121.2 million capital raise – one of the largest for African real estate – were effectively our coming of age. The name change positioned us as a standalone brand and reinforced our corporate DNA; whilst the support from current and new strategic shareholders, expressed through their subscription to our rights offer, has helped us change the growth trajectory of Grit exponentially. The capital raise allowed us to close a number of pipeline acquisitions, boosting our asset portfolio to over US\$570 million in value, and our market capitalisation to more than US\$281 million.

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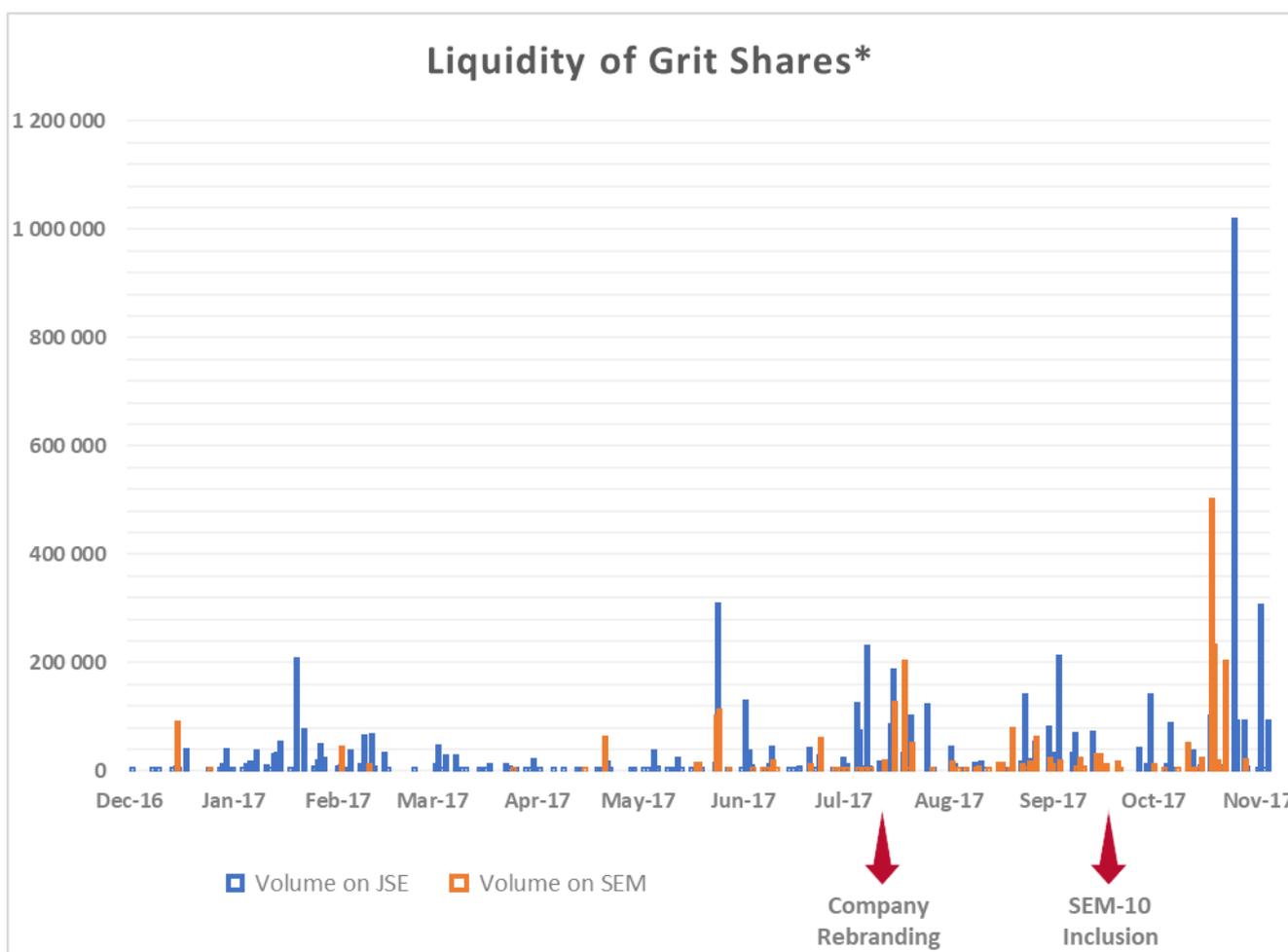
<sup>1</sup> As at November 30<sup>th</sup> 2017

From our interactions with investors and financiers alike, it is remarkable to see the increased interest from our source capital markets (Mauritius and South Africa), as well as growing interest from capital markets in the US, Europe and the Middle East.

### IMPROVEMENTS IN LIQUIDITY

Interest in the stock has translated into marked improvements in the liquidity of Grit shares. It is encouraging to see that our team’s continuous and relentless efforts to market the investment case for Grit is now starting to pay off, both at home and abroad. A number of new investors entered the Grit family of shareholders this year with significant investments into our business. Notably, these included UK institutional investors and African national pensions funds, illustrating the continued trust and support Grit enjoys from African parastatals and the traction gained in first world markets.

A milestone on the liquidity front was Grit’s inclusion in the SEM-10 Index, which comprises of the ten largest eligible shares of the Official Market of the SEM – measured in terms of average market capitalization, liquidity and investibility criteria. Since our name change in August, daily volume traded for Grit shares improved to 43,620 on the JSE (+224% compared to H1 2017) and 23,487 on the SEM (+558% compared to H1 2017). Our shares now trade on average every other day on the SEM, and almost daily on the JSE.



\* As at November 30<sup>th</sup> 2017

As liquidity begets liquidity, and given our growing market capitalisation, we are confident in Grit’s ability to enter the FTSE/JSE All Share Index, a prerequisite for inclusion in South African property indices, and which will subsequently

attract investment flows from tracker funds. In time, we foresee Grit qualifying for inclusion in globally renowned and tracked indices, such as the MSCI Emerging Frontier Markets Africa ex-SA, the S&P SA Composite Property Index, and the S&P Africa Frontier Index.

We are expecting the imminent launch of an Africa ex-SA property ETF on the JSE, the first of its kind; Grit will have a significant weight in the composition of the underlying index. This will further support the liquidity of Grit shares, as the ETF attracts investment funds, some of which are not allowed to invest directly into single stocks.

## **BENCHMARKING**

Grit represents a truly unique investment offering, and as such, investors have had a hard time to find suitable comparables to evaluate the Company's investment merits. For this reason, my team and I dedicated a considerable amount of time and effort in benchmarking Grit's performance against other asset classes, as well as against 'direct' peers.

To achieve this, we have worked closely with RisCura Solutions and MSCI Real Estate<sup>2</sup>. RisCura Solutions has provided data and insights for a comparative total return analysis of Grit against other listed REITs on the JSE, as well as against South African and African benchmarks. It is interesting to note, for instance, that Grit has outperformed the MSCI EFM Africa ex-SA index since the Company's listing on the JSE in July 2014, in both South African Rand and US Dollar terms.

With a dividend yield of in excess of 10% on the JSE, Grit sits above the average 8.2% dividend yield for listed REITs. It is important to highlight at this point that Grit itself is not a REIT. The Company is however actively involved in advising regulators and governments across the continent on the benefits of REIT-like structures. Currently, only six countries on the continent have REIT legislation. Over time, REITs will provide Grit with more efficient and value-enhancing structures for its investments, and ultimately benefit its shareholders.

MSCI Real Estate meanwhile has performed a comparative analysis of Grit's portfolio of assets against that of other real estate assets globally, and in South Africa alone. Given the relatively young track record of the Company and its recent acquisitions, it is difficult to perform a full comparative analysis. Having said that, it is worth noting that Grit's assets have a much higher USD/sqm/month income and a lower cost base when compared to South African real estate assets.

In addition to the above, we are working closely with several rated, sell-side analysts to initiate coverage of our stock. The more knowledgeable that analysts become on Grit's business model and the more coverage our stock receives, the more investors will be able to source data and investment recommendations from independent sources<sup>3</sup>.

## **FUNDING AND GROWTH STRATEGY**

Grit remains opportunistic in its approach to growing its portfolio of assets, while respecting a soft exposure limit of 25% to any country. We believe that diversification on the basis of countries, sectors and tenants is key to providing a sustainable stream of income to our investors, within a level of risk with which they are comfortable.

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<sup>2</sup> Peer analysis reports will be published in due course and information will be available on request.

<sup>3</sup> All existing analyst reports are, and future coverage on the Company will be, published on our website.

To this end, we have identified several strategic opportunities, both in current operational jurisdictions and new territories. We anticipate future capital raises to be spread over time, with fresh issuances coming at or around our prevailing NAV per share. It is important to highlight that fresh equity raises allow us to finance accretive acquisitions, that maintain or improve our US\$ dividend distribution in a sustainable manner. These are fundamental pre-conditions for any new investment.

The increase in the scale of our portfolio, together with the relationships we enjoy with financiers on the continent, allow us to negotiate competitive rates for debt funding. An important development this year was the introduction of Euro debt facilities, in line with our acquisitions of Euro income generating assets. The lower cost of funding on these bank loans has allowed Grit to reduce its average cost of debt to 5.5% as at 30 September 2017.

To increase the scope and reduce the cost of our funding further, we are contemplating pursuing a credit rating, with a view to tapping the bond market as an alternative source of capital. We believe bonds provide the opportunity to unlock capital from African pension funds, stimulate investment into real estate in Africa, and deepen the corporate debt capital market on the continent.

## **PORTFOLIO PERFORMANCE AND DISTRIBUTION**

Frontier markets are perceived as high risk, and rightly so. Many African economies remain vulnerable to external shocks, political whims, security risks, acts of nature, and despite progress in recent years, are still in their infancy stage of development. Yet, it is comforting to see that our portfolio of assets has shown some exceptional resilience; a prime example being our Mozambique assets, where key tenants have extended their leases this year and have requested for expansion projects.

Grit's average weighted lease term remains one of the longest in the listed sector at 7.2 years, which gives us reassurance in our ability to sustain our income distribution. Occupancy rates across the portfolio meanwhile stands at a healthy 96%.

The above bears testimony to the robustness of our investment criteria and process, as well as to the ability of our asset management team to 'sweat the assets'.

## **GUIDANCE**

Grit distributed a total of US\$12.07 cents per share for the 2017 financial year, a growth of 2.7% on 2016's full year distribution of US\$11.75 cents per share.

As at November 30<sup>th</sup> 2017, the Company's dividend yield on the SEM was 8.9% and 10.2% on the JSE. Based on a stable environment, we foresee a growth in US\$ dividend distribution in the range of 3% - 5% for the current financial year, and a growth in Net Asset Value (NAV) of around 3.75%.

## CONCLUSION

With the support of our shareholders, our team has worked diligently in 2017 to build a solid platform for future growth. In 2018, we expect to capitalize on this platform, while selectively adding to our asset base as opportunities across the continent arise.

As the year comes to a close, the Grit team and I wish to thank you for your continued support and invaluable guidance, and for sharing the same passion for our beloved continent.

I wish you a blessed festive season and look forward to new milestones together in 2018.

**Bronwyn Corbett**

CEO

Grit Real estate income group



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