



SYGNUS

REAL ESTATE
FINANCE

MANAGEMENT DISCUSSION & ANALYSIS

FOR THE
YEAR ENDED

AUG
31ST
2023

SYGNUS

REAL ESTATE
FINANCE



FYE 2023 EARNINGS CALL

WEDNESDAY

NOVEMBER 1ST

@10:00AM

JOIN US VIRTUALLY VIA  Microsoft Teams

Registration Link: <https://events.teams.microsoft.com/event/35f6a782-be57-41d5-bbcb-66022398e33a@50c4f1f7-1f5c-4e56-b5a3-35fe7575f478>

Sygnus Real Estate Finance Limited
Audited Results for the Financial Year Ended August 31, 2023

Castries, St Lucia | Monday, October 30, 2023

Sygnus Real Estate Finance Ltd (“SRF” or “the Group”) is pleased to report on the audited financial results for the financial year ended August 31, 2023 (“FYE Aug 2023”). The audited results are accompanied by a summary management discussion and analysis (“MD&A”), which is to be read in conjunction with the audited financial statements. The MD&A may contain forward-looking statements based on assumptions and predictions of the future, which may be materially different from those projected. SRF’s investment strategy focuses on real estate investment assets that offer significant appreciation potential through active management of its equity investments (investment property, joint ventures and developments), complemented by income generated from its debt and quasi-debt investments used to finance real estate assets (real estate investment notes or REINs).

MANAGEMENT DISCUSSION AND ANALYSIS

Results of Operations

The Group continued to unlock value from its major real estate investment assets (“REIAs”) by achieving another set of key milestones namely: advancing the construction of the J\$3.70 billion Belmont Road 9-storey commercial tower to 90.0% completion and starting the process to partially exit the investment in 2024; completing the built-to-suit industrial warehouse facility on Spanish Town Road and advancing SRF’s investment exit; harvesting J\$594.82 million in REINs from two third party projects; and advancing the value creation process for two major strategic projects, namely Mammee Bay in St Ann and Lakespen in St Catherine. The Group is expected to complete in excess of J\$5.3 billion of real estate projects in the new financial year and has commenced the assessment of new investments to replace investments that are being exited. SRF’s book value per share was J\$23.89 for FYE Aug 2023, up 2.8% versus J\$23.24 last financial year. The Group remains fully focused on executing its strategy of unlocking value in real estate assets, as it seeks to continue enhancing shareholder value.

	FYE AUG-23	FYE AUG-22
Summary Results of Operations	JAS’000	JAS’000
Interest Income	253,672	217,631
Interest Expense	(319,459)	(148,097)
Net Interest Income	(65,787)	69,534
Lease and Other Income	60,169	16,832
Gain on Sale of Real Estate Asset	-	-
Gain on Acquisition of Subsidiary	-	-
Gain on Investment Property	430,962	716,379
Share of Gain on Joint Ventures	340,220	546,289
Total Investment Income	765,563	1,349,034
Total Operating Expenses	(452,980)	(365,442)
Net Investment Income	312,583	983,592
Fair Value Gain (Loss) on Financial Instruments	(79,132)	(177,817)
Net Foreign Exchange Gain (Loss)	(81,692)	(38,738)
Profit before Taxation	151,760	844,513
Taxation	59,681	(151,558)
Net Profit Attributable to Shareholders	211,440	692,955
Basic Earnings Per Share (JA\$)	0.65	2.20
Diluted Earnings Per Share (JA\$)	0.60	2.06
Net Investment Income Per Share (JA\$)	0.96	3.12
Diluted Net Investment Income Per Share (JA\$)	0.89	2.92

For FYE Aug 2023, total investment income or core revenues was J\$765.56 million compared to J\$1.35 billion for the financial year ended August 31, 2022 (“FYE Aug 2022”), down 43.3% or J\$583.47 million. This was primarily attributable to lower gains on investment property and a lower share of gain on joint ventures. As a result of the exit of two of SRF’s highest yielding REINs, the weighted average fair value yield on REINs was 8.9% compared with 11.1% last year. The weighted average cost of debt was 7.2% compared with 5.8% last year, reflecting higher market interest rates.

The share of gain on joint ventures, which captures SRF’s 70.0% ownership of the One Belmont development, amounted to J\$340.22 million for FYE Aug 2023 compared to a gain of J\$546.29 million last year.

SRF’s total investment income was comprised of all the activities that were involved in the unlocking of value from its portfolio of real estate investment assets, namely: interest income, lease income and commitment fees related to REINs; gain or loss on property investments or on any real estate assets that were exited; and share of gain or loss on its joint venture investments. Based on the nature of its business model, SRF’s earnings during interim reporting quarters may experience “lumpiness” in

total investment income and net profits, which is typically normalized at the end of each financial year, as demonstrated at FYE Aug 2023 relative to the interim quarterly results. The Group uses independent appraisers to value its investment assets annually. All investment properties are USD investment assets which are converted to JMD for financial reporting purposes. SRF’s key strategic assets are held via

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wholly owned subsidiaries or joint ventures.

<i>SRF Subsidiaries Joint Ventures</i>	<i>Ultimate Underlying Asset</i>	<i>Company Type</i>
Audere Holdings Limited	78,790 sq. ft. commercial tower development. One Belmont 1-3 Belmont Road, Kingston	70% Joint Venture
Charlemagne Holdings Limited	1-3 Hillcrest Avenue, Kingston (former French Embassy). 3.2 acres Commercial or Residential	100% Subsidiary
Lakespen Holdings (Shares)	Lakespen, St. Catherine. 55 acres Industrial	100% Subsidiary
Monadh Rois Holdings Limited	Montrose Road, Kingston. 0.9 acre Residential	51% Joint Venture
Sepheus Holdings Limited	Mammee Bay, St Ann. 14.4 acres Hospitality	100% Subsidiary
Sygnus REF Jamaica Limited	56 Lady Musgrave Road, Kingston. 0.6 acres Commercial 58 Lady Musgrave Road, Kingston. 0.6 acres Commercial 26 Seaview Avenue, Kingston. 0.5 acres Commercial Asset held for sale: 32,553 sq. ft. industrial development. Spanish-Penwood 443-445 Spanish Town Road, Kingston	100% Subsidiary

Net investment income or core earnings for FYE Aug 2023 was J\$312.58 million versus J\$983.59 million last year. The reduction was mainly attributable to lower total investment income coupled with a YoY increase in Operating Expenses.

Net profit attributable to shareholders for FYE Aug 2023 amounted to J\$211.44 million versus net profit of J\$692.95 million last year. This was mainly driven by a 68.2% or J\$671.01 million reduction in net investment income. SRF's return on average equity was 2.7% at FYE Aug 2023, compared with 11.3% last year and an average ROE of 22.9% since inception over the past 4 years.

Basic earnings per share (EPS) was J\$0.65 for FYE Aug 2023 relative to J\$2.20 last year, while diluted EPS was J\$0.60 for FYE Aug 2023 compared to J\$2.06 last year. Similarly, basic core earnings or net investment income per share (NIIPS) was J\$0.96 for FYE Aug 2023, compared with J\$3.12 last year.

Total Operating Expenses

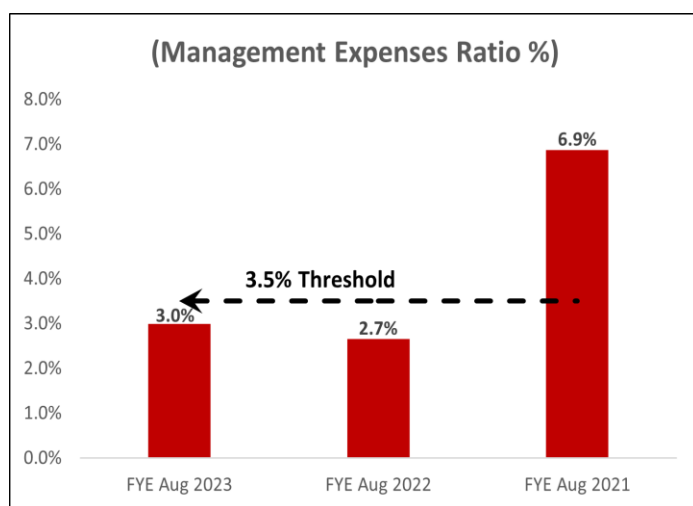
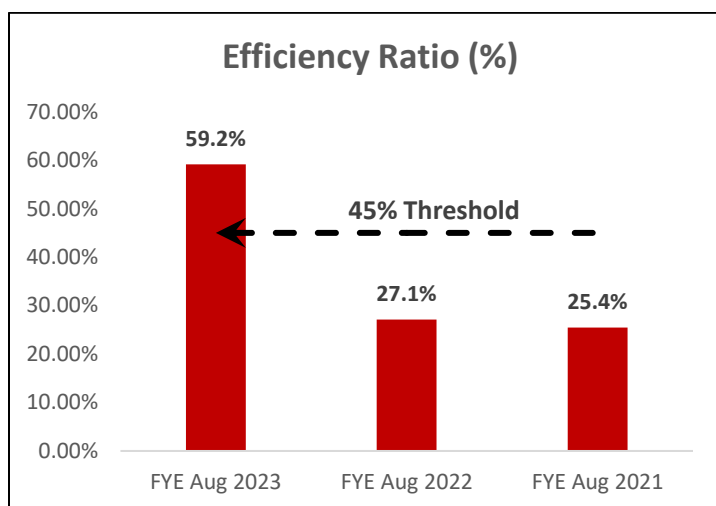
SRF reported total operating expenses for FYE Aug 2023 of J\$452.98 million, up 24.0% or J\$87.54 million, relative to J\$365.44 million last year, which was primarily driven by growth in management fees due to higher core assets under management (33.1% or J\$72.96 million increase), growth in security expenses (120.0% or J\$12.11 million increase) and growth in corporate service fees (23.2% or J\$9.10 million). Management and corporate service fees collectively represented 75.4% of total operating expenses.

Management fees are computed as 2.0% of the core assets under management (CAUM), namely total assets less project finance related debt of subsidiary companies and less any minority interests. Growth in CAUM of 33.1% or J\$3.65 billion gave rise to the higher management and corporate services fees. Performance fees are computed annually as 20% of the excess returns above a 6.5% return on equity (ROE) hurdle rate. Higher security expenses were driven by substantially higher labour costs within the security industry.

Efficiency Ratio and Management Expense Ratio

SRF's efficiency ratio, computed as total operating expenses as a percentage of total investment income, was 59.2% for FYE Aug 2023, exceeding the target threshold level of 45.0% due to a slower growth in total investment income. This ratio is expected to return toward the target threshold as total investment income recovers. The management expense ratio (MER), computed as total operating expenses as a percentage of total assets under management, was within the target threshold level of 3.5%, coming in at 3.0%, a slight increase over the 2.7% reported last year.

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Fair-Value Gains or Losses

SRF generates a fair value gain or loss on a portion of its REINs, which are carried at fair value through its income statement. These customized investments are primarily structured as third-party construction notes with a fixed interest rate and a percentage profit participation in the respective real estate project. The real estate projects or assets provide 100% collateral coverage for the REINs. For the financial year ended Aug 31, 2023, SRF reported a fair value loss of J\$79.13 million compared with a loss of J\$177.82 million last year.

Net Foreign Exchange Gains or Losses

Net foreign exchange losses were J\$81.69 million for the financial year ended Aug 31, 2023, compared to a loss of J\$38.74 million last year. A net foreign exchange gain or loss is recorded based on changes in the exchange rate on SRF's net balance sheet exposure to foreign currency, which in this case is the USD, since its reporting currency is JMD. The vast majority of SRF's real estate investment assets were denominated in USD, but these assets are only valued once per year or if there is a material change that warrants a new valuation, that is, these assets are not marked-to-market assets. Therefore, although they are USD assets, they are not counted as financial instruments and thus do not affect net foreign exchange gain or loss as calculated and reported in the financial statements.

Explained differently, more than 81.8% of SRF's real estate investment assets are denominated in USD, but none of these assets are classified as financial instruments. Thus, SRF had a net short USD exposure of US\$29.71 million driven primarily by US\$15.15 million in loans and borrowings, US\$9.06 million in notes payable and US\$3.50 million in convertible preference shares.

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Real Estate Investment Activity

At FYE Aug 2023, SRF's investment in real estate investment assets grew by 13.5% or J\$1.78 billion to a record J\$14.92 billion, spanning 15 investments vs J\$13.14 billion in 16 investments last year. SRF deployed J\$3.34 billion in new investment commitments, down 1.2% or J\$40.53 million vs J\$3.38 billion last year, driven by a combination of financing for SRF's development including One Belmont, the strategic purchase of 0.63 acres of investment property located at 58 Lady Musgrave Road, Kingston 10 and investments in REINs.

	FYE AUG-23	FYE AUG-22
Summary of Investment Activity	JAS'000	JAS'000
Fair Value of Real Estate Investment Assets	14,923,794	13,143,416
New Commitments in Real Estate Investment Assets	3,344,895	3,385,428
Number of Real Estate Investment Assets(#)	15	16
Dry Powder*	71,486	463,365
Number of investments Exited(#)	2	2
Value of Investments Exited	545,731	352,841
Number of Real Estate Investment Notes(#)	6	8
Fair Value of Real Estate Investment Notes	1,826,766	2,483,919
Basic FV per share	45.70	41.74
Diluted FV per share	42.64	39.00
Fair Value Yield on Real Estate Investment Notes(%)	8.9%	11.1%

fell by 26.5% or J\$657.15 million to J\$1.83 billion, primarily driven by the Group's current harvesting cycle with a fair value yield of 8.9%, compared with J\$2.48 billion with a fair value yield of 11.1% as at FYE Aug 2022. Due to the rising interest rate environment, SRF may strategically enter new REINs at higher interest rates with funds generated from ongoing exits. During FYE Aug 2023, SRF exited a total of J\$594.28 million in REINs. Over the next financial year, SRF is expected to exit in excess of J\$2.00 billion from real estate investments that are at the advanced stages of completion.

SRF had J\$71.49 million in dry powder on the balance sheet as at FYE Aug 2023 vs J\$463.36 million last year. This dry powder does not include J\$301.41 million in undrawn revolving credit facilities, available bridge facilities and construction loans of J\$319.91 million at FYE Aug 2023.

* Does not include undrawn credit facilities, available bridge facilities and construction loans

Summary Update of Some Major Strategic Assets

SRF's major investment projects continued to advance during the period as SRF continued to diligently execute on its robust investment pipeline. The below assets do not represent an exhaustive listing of all assets owned by SRF or that SRF has invested in.



One Belmont: Belmont Road, Kingston | Commercial – Corporate Offices: The J\$3.70 billion 9-storey corporate office development is currently 90.0% completed, with a target to achieve practical completion in 2023. The substructure is 100% completed with mechanical, electrical and plumbing works, ceiling finishes and floor currently underway and advanced. All 5 floors are expected to be occupied during FY 2024 as tenants have commenced the execution of their respective interior designs to meet their needs. SRF has started the process of structuring its partial investment exit which is expected to occur sometime in calendar year 2024.

Spanish Penwood: Spanish Town Road, Kingston | Industrial - Warehouse: The Spanish Penwood built-to-suit facility was completed. The tenant started making lease payments during the fourth quarter of the financial year. SRF has exited the majority of its investment in the project with less than 17% remaining to be exited during Q1 Nov 2024.



Mammee Bay, St Ann | Hospitality: SRF has advanced the value creation process for this 14-acre beachfront strategic asset. The Group continues discussions and negotiations to unlock the value in the asset, while pursuing approvals from various regulatory bodies.

Hillcrest Avenue, Kingston | Commercial – Corporate Offices or Residential - Townhouses: The Group continues working with its partners to optimize the strategy to extract the best value from this 3.2-acre investment property located in

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Kingston’s “golden triangle”. The building on the property, which housed the former French Embassy, currently has a tenant with a short-term lease.

Lakespen Holdings, St Catherine | Industrial – Warehouses, Light Manufacturing, Distribution: SRF continues to work with its strategic partners to unlock the optimal value on this 55-acres industrial property. The plans to unlock value from this industrial property has advanced significantly, with SRF proceeding to the design development phase in Q1 2024.

Monadh-Rois | Residential: SRF entered into this joint venture during FYE Aug 2022 and has begun the process to unlock the value from this 0.9-acre property located in Kingston’s golden triangle. This asset will target the luxury residential segment of the market and is expected to proceed to the design development phase during the 2024 financial year.

56 and 58 Lady Musgrave Road: SRF is considering a number of options to unlock the value from these two adjacent assets.

26 Seaview Avenue: SRF continues to evaluate the options to unlock the value from this asset.

Summary Update on REIN Exit

SRF’s current exposure to residential real estate is primarily driven by REINs, which is the financing of third-party projects.

Norbrook Wasser | 8 Luxury Apartments



SRF exited its investment in this third-party project during the financial year via the collateral on the investment note.

Surreal at the Sugar-Mill | 24 Luxury Apartments, 2 Townhouses:

This project achieved practical completion in October 2022, with additional finishing works applied subsequently. SRF is currently exiting its J\$1.0 billion investment in the project through sale of units.



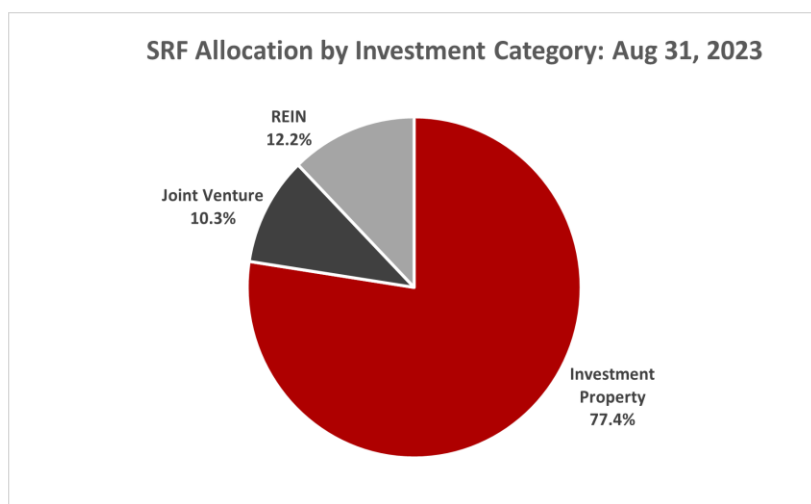
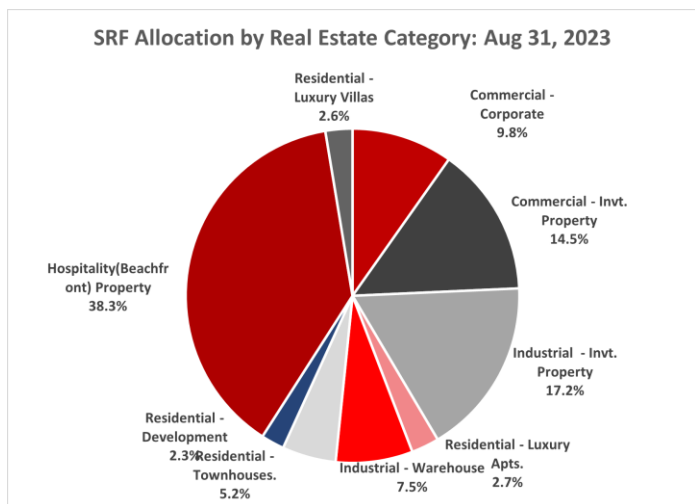
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Allocation by Real Estate Category and Investment Category

As at FYE Aug 2023, SRF's investments were allocated across 9 sub-categories of real estate, with the largest allocation to hospitality – investment property (38.3%), industrial-investment property (17.2%) and commercial-investment property (14.5%).

SRF's capital was primarily allocated across three investment categories, namely property investments at 77.4%, REINs at 12.2% and joint ventures at 10.3%. The large allocation to property investments is reflective of SRF being in the early stages of its investment life cycle, which averages 3 to 5 years and have therefore not yet achieved its steady state investment level. 100% of SRFs capital was deployed into the real estate asset class within the Jamaican economy.



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	FYE Aug 2023	FYE Aug 2022
Summary of Balance Sheet Information	JAS'000	JAS'000
Cash and Cash Equivalents	61,266	463,365
Repurchase Agreements	10,220	-
Un-deployed Cash/Dry Powder	71,486	463,365
Property Held for Sale	1,113,520	-
Investment Property	10,443,270	9,430,687
Deposit on Investment Property	-	28,792
Total Property Investments	11,556,790	9,459,479
Investments Measured at Fair Value through P&L	1,568,613	1,773,059
Investments Measured at Amortised Cost	258,153	710,859
Total Real Estate Investment Notes	1,826,766	2,483,919
Investment in Joint Ventures	1,540,238	1,200,019
Real Estate Investment Assets	14,923,794	13,143,416
Total Real Estate Investment Assets	14,995,280	13,606,781
Other Assets:		
Prepaid Expenses	2,303	4,247
Accounts Receivable	13,306	1,810
Other Receivables	1,724	-
Investment Income Receivable	122,082	93,084
Deferred Tax Asset	27,113	45,842
Due from Related Entities	4,514	36,310
Total Assets	15,166,322	13,788,075
Share Capital	4,718,066	4,718,066
Foreign Currency translation reserve	(34)	36
Retained Earnings	3,082,340	2,870,900
Total Shareholder's Equity	7,800,372	7,589,002
Total Liabilities and Equity	15,166,322	13,788,075

Balance Sheet Summary

As at FYE Aug 31, 2023, SRF's total assets increased by 10.0% or J\$1.38 billion to J\$15.17 billion compared with J\$13.79 billion last year. This was primarily driven by a 10.7% or J\$1.01 billion increase in investment property to J\$10.44 billion compared with J\$9.43 billion last year, and a 28.4% or J\$340.22 million increase in Joint Ventures to J\$1.54 billion versus J\$1.20 billion last year. The increase in the value of investment property primarily reflected valuation gains for Mammee Bay, Lakespen, Hillcrest, 56 Lady Musgrave and the acquisition of 58 Lady Musgrave and Seaview properties relative to last year. Note that property held for sale was J\$1.11 billion compared with nil last year, as the Spanish Penwood investment was reclassified from investment property to reflect the sale of the tenanted building to institutional investors.

Total real estate investment notes was J\$1.83 billion compared with J\$2.48 billion last year. The decline in investments measured at fair value reflected partial exit of one of the Surreal at the Sugar Mill investment notes. The decline in investments measured at amortized cost primarily reflected the exit of Norbrook Wasser and one of the Surreal at the Sugar Mill investment notes.

Investment in joint ventures was J\$1.54 billion compared to J\$1.20 billion last year. The higher value was primarily driven by the increased value of SRF's 70% share of the One Belmont Commercial tower.

Shareholders' Equity

As at FYE Aug 2023, shareholder's equity grew by 2.8% or J\$211.37 million to J\$7.80 billion compared with J\$7.59 billion last year, reflecting the value created for shareholders relative to last year. Book value per share was J\$23.89 for FYE Aug 2023 compared to J\$23.24 last year, driven primarily by the higher shareholder's equity due to increased retained earnings. This represents a 23.8% premium over the general initial public offering price of J\$19.30 and a premium of 33.5% to the initial public offering discounted price of J\$17.90. The current book value per share does not reflect any future value creation from the multiple undeveloped assets on SRF's balance sheet. SRF's average return on equity over the past four audited years, since the Group began its operations, was 22.9%.

Strategic Objectives Update

SRF is advancing through its first real estate investment life cycle, having been in existence for only four years, and having an average investment horizon of 3 to 5 years.

To continue executing its investment strategy and expand the business across the Caribbean, the Group remains focused on the following four key strategic objectives, as originally highlighted during its initial public offering in 2021:

1. **Increase and Maintain Dry Powder:** The first phase of this objective was achieved via the raising of equity capital at the group level from an initial public offering. SRF also began executing the second phase by tapping various forms of debt facilities at the group level, refinancing its debts as necessary and structuring its exit from existing investments to be recycled into new investments.
2. **Key Strategic Projects:** The Spanish Penwood industrial facility and the One Belmont corporate tower were the two projects scheduled for execution during its first investment life cycle. SRF has completed the Spanish Penwood facility, while One Belmont

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has progressed to 90% and is approaching practical completion before the end of 2023. The second investment life cycle which is getting underway, will be primarily represented by SRF's two largest property investments, namely Mammee Bay and Lakespen.

3. Deepen Access to Flexible Capital for Real Estate Assets: As a specialized alternative investment company focused exclusively on the real estate asset class, SRF's strategy is to play a leading role in broadening access to flexible capital for the purposes of unlocking value in real estate assets across the Caribbean. SRF has progressed on this objective by partnering with owners of strategic real estate assets via joint ventures: Audere Holdings which controls the 9-storey One Belmont tower and Monadh Rois, a partnership established to develop the 0.9-acre property located in Kingston's golden triangle. Over the course of the coming financial years, SRF will be ramping up its collaboration with owners of strategic assets under joint ventures or joint investments to unlock value in real estate assets.
4. Expand Investment to Other Caribbean Territories: The Group has been deliberate in its strategy to maximize the large number of investment opportunities in the Jamaican market, prior to deploying capital to other Caribbean territories. SRF continues to evaluate high probability transactions that can be executed and is developing a pipeline of assets for diversification across the region at the appropriate time.

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Top Ten Shareholders			
No	Shareholders	Shareholdings	% Holdings
1	ATL GROUP PENSION FUND TRUSTEES NOMINEE LIMITED	42,000,000	12.9%
2	SJIML A/C 3119	20,000,000	6.1%
3	DYNAMIX HOLDINGS INCORPORATED	20,000,000	6.1%
4	WILDELLE LIMITED	17,000,000	5.2%
5	JCS D TRUSTEE SERVICES LTD - SIGMA EQUITY	16,214,243	5.0%
6	MF&G ASSET MANAGEMENT LTD. - CAPITAL GROWTH FUND	10,807,160	3.3%
7	MF&G ASSET MANAGEMENT LTD. - INCOME & GROWTH FUND	10,807,160	3.3%
8	LYTTLETON OVEL SHIRLEY	10,000,000	3.1%
9	BARNETT LIMITED	8,264,500	2.5%
10	D.R.N.A LIMITED	8,264,400	2.5%
	Subtotal	163,603,714	50.1%
	Total	326,526,232	100.0%

Shareholdings of Directors, Senior Managers & Connected Parties				
No	Director	Shareholdings	Connected Parties	% Holdings
1	Linval Freeman	400,000	Donna Freeman	0.12%
			Kristifer Freeman	
			Kimberly Freeman	
2	Pierre Williams	Nil	N/A	Nil
3	Horace Messado	83,700	Lisa-Gayle Thomas-Messado	0.03%
4	David Cummings	Nil	N/A	Nil
5	Elizabeth Stair	55,900	Jason Stair	0.02%
			Stephanie Stair	
6	Dr. Ike J. Johnson	56,700	N/A	0.02%
		5,273,400	Sygnus Capital Group Limited	1.62%
	Subtotal	5,869,700		1.80%
No	Senior Management	Shareholdings	Connected Parties	% Holdings
1	Sygnus Capital Group Limited	5,273,400	Dr. Ike J. Johnson	1.62%
2	MSCI Inc.	Nil	N/A	Nil