SFS REAL ESTATE INVESTMENT TRUST FUND
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REIT FUND RATING REPORT

References
Abiodun Adeseyoju, FCA.
Abimbola Adeseyoju
Oladele Adeoye

EVALUATION
Expires: September 2022

Long Term Rating: A(f)

<table>
<thead>
<tr>
<th>Previous Rating</th>
<th>A(f)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund type:</td>
<td>Close Ended Real Estate Investment Trust (REIT)</td>
</tr>
<tr>
<td>Fund Size:</td>
<td>N2.4billion</td>
</tr>
<tr>
<td>Currency:</td>
<td>Naira</td>
</tr>
<tr>
<td>Fund Outlook:</td>
<td>Stable</td>
</tr>
<tr>
<td>Trend:</td>
<td>EVEN</td>
</tr>
</tbody>
</table>

FINANCIAL HIGHLIGHTS

<table>
<thead>
<tr>
<th></th>
<th>2020 N’000</th>
<th>2019 N’000</th>
<th>2018 N’000</th>
<th>2017 N’000</th>
<th>2016 N’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Asset</td>
<td>2,405,584</td>
<td>2,376,446</td>
<td>2,354,331</td>
<td>2,361,513</td>
<td>2,333,500</td>
</tr>
<tr>
<td>Gross Income</td>
<td>244,324</td>
<td>224,164</td>
<td>215,276</td>
<td>227,373</td>
<td>203,053</td>
</tr>
<tr>
<td>Net Income</td>
<td>175,138</td>
<td>162,115</td>
<td>152,818</td>
<td>167,716</td>
<td>148,807</td>
</tr>
<tr>
<td>Distribution</td>
<td>162,000</td>
<td>146,000</td>
<td>140,000</td>
<td>160,000</td>
<td>140,000</td>
</tr>
<tr>
<td>Investment Property</td>
<td>1,775,390</td>
<td>1,846,390</td>
<td>1,878,390</td>
<td>1,878,390</td>
<td>1,930,390</td>
</tr>
<tr>
<td>Trading Portfolio</td>
<td>923,410</td>
<td>818,622</td>
<td>792,423</td>
<td>675,306</td>
<td>303,363</td>
</tr>
</tbody>
</table>

RATING EXPLANATION

The Long Term Rating of A(f) indicates Low Risk. It is assigned to Funds which have Very Good Financial Strength, Operating Performance and Profile when compared to the standards established by DataPro. This Fund, in our opinion, has strong ability to meet its ongoing obligations.

This report does not represent an offer to trade in securities. It is a reference source and not a substitute for your own judgment. As far as we are aware, this report is based on reliable data and information, but we have not verified this or obtained an independent verification to this effect. We provide no guarantee with respect to accuracy or completeness of the data relied upon, and therefore the conclusions derived from the data. This report has been prepared at the request of, and for the purpose of, our client only and neither we nor any of our employees accept any responsibility on any ground whatsoever, including liability in negligence, to any other person. Finally, DataPro and its employees accept no liability whatsoever for any direct or consequential loss of any kind arising from the use of this document in any way whatsoever.
RATING SYNOPSIS

The Rating took into consideration all relevant qualitative and quantitative factors to arrive at the assigned risk factor.

The qualitative information used was obtained from the Fund Manager during interview sessions with its representatives.

The quantitative information used was obtained from the Fund Financials.

The risk factors were assessed by considering the Credit Risk, Interest Rate Risk, Liquidity Risk, Regulatory Compliance and Operating Performance of the Fund Manager.

Our review of the Investment Strategy of the Fund reveals the following:

Strength:

- Good Credit Quality

Weaknesses:

- Legal Risk
- Concentration Risk
THE FUND

The SFS Real Estate Investment Trust ("The Fund") formerly known as Skye Shelter Fund is designed as a close-ended Real Estate Investment Trust (REIT). The Fund is managed by SFS Capital Nigeria Limited (The Fund Manager).

The Fund is governed by a Trust Deed approved by the Securities and Exchange Commission (SEC). The units of the Funds are listed on the floor of Nigeria Exchange Limited (NGX).

The Fund is a platform to pool resources from different investors interested in investing in real estate but lack adequate capital to invest directly. The Net Asset Value of the Fund as at the year end 2020 was ₦2.4b.

Aside the Fund Manager, other parties to the Fund are: Apel Capital and Trust Limited (Trustees), Stanbic IBTC Bank Plc (Custodian), PACE Registrars Limited (Registrar) Dele Olufon & Co. (Auditors) and Ubosi, Eleh & Co. (Real Estate Surveyors and Valuers).

INVESTMENT STRATEGY

The Investment strategy is to promote diversification within the Real Estate Investment sector.

The Fund seeks to invest in the following Asset classes:

<table>
<thead>
<tr>
<th>SUB-ASSET CLASS</th>
<th>TARGET WEIGHT</th>
<th>PERMISSIBLE RANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Construction Projects</td>
<td>0% to 20%</td>
<td>±2.5%</td>
</tr>
<tr>
<td>Real Estate Purchased from developers</td>
<td>30%</td>
<td>±10%</td>
</tr>
<tr>
<td>Property Trading</td>
<td>30%</td>
<td>±5%</td>
</tr>
<tr>
<td>Quoted Equities (Real Estate Related)</td>
<td>0% to 10%</td>
<td>±2.5%</td>
</tr>
<tr>
<td>Money Market</td>
<td>5%</td>
<td>±2.5%</td>
</tr>
<tr>
<td>Asset Back Securities</td>
<td>2.5%</td>
<td>±2.5%</td>
</tr>
<tr>
<td>Mortgages</td>
<td>2.5%</td>
<td>±2.5%</td>
</tr>
<tr>
<td>Other Investments (Real Estate Related)</td>
<td>0% to 5%</td>
<td>±2.5%</td>
</tr>
</tbody>
</table>

Source: SFS REIT
FUND PERFORMANCE

The Fund’s Total Assets grew marginally from ₦2.71b (Yr. 19) to ₦2.83b (Yr. 20). This was due to an increase in the Cash and Cash Equivalents of the Fund during the year 2020. This grew by 153% from ₦53m (Yr. 19) to ₦134m (Yr. 20). Trading Portfolio Assets also increased during the year. However, the decline in Investment Properties restrained the overall growth of Total Assets. The value of Investment Properties reduced by 5% from ₦1.84b (Yr. 19) to ₦1.7b (Yr. 20). This was due to Disposals made during the year.

FUND ASSET ALLOCATION

<table>
<thead>
<tr>
<th>ASSET CLASS</th>
<th>2020 ₦’000</th>
<th>%</th>
<th>2019 ₦’000</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Property</td>
<td>1,775,390</td>
<td>61</td>
<td>1,846,390</td>
<td>67</td>
</tr>
<tr>
<td>Trading Portfolio Assets</td>
<td>923,410</td>
<td>32</td>
<td>818,622</td>
<td>30</td>
</tr>
<tr>
<td>Cash &amp; cash</td>
<td>134,262</td>
<td>5</td>
<td>53,605</td>
<td>20</td>
</tr>
<tr>
<td>Others</td>
<td>1,118</td>
<td>1</td>
<td>1,272</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>2,834,179</td>
<td>100</td>
<td>2,719,889</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: SFS REIT

Investment Property Constituted 61% of the Fund’s Total Asset in the year 2020. The Fund invested majorly in Six (6) properties located in Lagos. The largest concentration of Investment Properties was in the Lekki axis of Lagos. The extent of concentration was 77% of total Book Value. The Distribution of Investment Properties by location is as presented.

INVESTMENT PROPERTY DISTRIBUTION BY LOCATION

Source: SFS REIT
As at the year end 2020, the total value of the Investment Properties was ₦2.3b as against its Book Value of ₦1.8b. This is based on the Valuation Report issued by the Estate Valuer as at that date.

The Fund’s Trading Portfolio grew by 13% from ₦818m (Yr. 19) to ₦923m (Yr. 20). It constituted 31% of the Funds Asset. The Trading Portfolio comprises of Bonds, FGN Sukuk and Commercial Paper.

**DISTRIBUTION OF TRADING PORTFOLIO**

The Fund maintained a liquid asset of ₦253m (Yr. 20). This comprised of Commercial Papers and Cash. Unclaimed distribution amounted to ₦35m (Yr. 20). This influenced the increase in Cash from ₦53m (Yr. 19) to ₦134m (Yr. 20).

**EARNING PROFILE**
The Fund’s Gross Income grew during the year under review. It grew by 9% from N224m (Yr. 19) to N244m (Yr. 20). This was largely due to increased Profit on Disposal of Investment Property which increased from N2.8m (Yr. 19) to N19.8m (Yr. 20).

The Fund also made more gains on Rental Income during the year 2020. This grew from N92.9m (Yr. 19) to N96.2m (Yr. 20). However, Interest Income remained relatively same at N128m (Yr. 19) and (Yr. 20).

Total Operating Expenses grew by 11% during the year under review. It grew from N62m (Yr. 19) to N69m (Yr. 20). The increase was largely due to growth in amount expended on repairs of Investment Properties.

Cost to Income Ratio remained same at 28% during 2019 and 2020. However, Net Income grew from N162.1 (Yr. 19) to N175m (Yr. 20). Consequently, proposed distribution grew from N146m (Yr. 19) to N162m (Yr. 20).

RISK FACTORS

- **Credit Risk**

  The Fund is principally exposed to risk of third parties inability to fulfill their contractual obligations. The overall quality of the Fund will be influenced by the quality of the obligors involved in the underlying investments of the Fund.

- **Liquidity Risk**

  The Fund is exposed to the risk of inability to meet its obligations as they fall due. In addition, liquidity risk may also arise where Investors in the Fund could not freely exit the investment.

  We have noted that the Investment is freely tradable on the Exchange.

- **Currency Risk**

  The Fund is not exposed to investment in foreign currencies. Therefore, exposure to Currency Risk is eliminated.
• **Interest Rate Risk**

The *Fund* is exposed to unfavorable fluctuations in Interest Rates. This is largely due to the sensitivity of its Financial Instruments to changes in Interest Rates.

• **Concentration Risk**

The *Fund* is heavily concentrated in the Real Estate Sector of the economy. Consequently, adverse changes in the Real Estate Sector of the economy will affect the value of the Fund and its income potentials.

• **Legal Risk**

The Title Document relating to all Investment Properties are yet to be perfected as at the year end 2020. Consequently, dispute relating to legal ownership on the properties may be entered against the *Fund* and impair its income generating capacity.

**REGULATORY ENVIRONMENT**

The *Fund* is incorporated under the Laws of Nigeria and specifically, *Investments and Securities Act of 2007*.

The Regulator performing oversight functions on the Fund Manager is the *Securities & Exchange Commission (SEC)*. The *Fund* is listed on the floor of the *Nigerian Exchange Limited (NGX)*. Consequently, it is subject to the Exchange rule.

The *Fund* is constituted by a Trust Deed that provides for the rights and obligations of parties to the *Fund*.

There exists in respect of the Fund, a Custodian Agreement executed by *SFS Capital Nigeria Limited, Apel Capital and Trust Limited* and *StanbicIBTC Bank Plc*.

The performance of the *Fund* is reviewed and monitored by the directors of the Fund Managers.

The directors are: *Dr. Layi Fatona, Dr. Yemi Kale, Mr. Yemi Gbenro, Mr. Patrick Ilodiana and Mr. Dimeji Sonowo*. 
SUMMARY

• Rating: A(f)

• Report Type: Fund Rating

• Client: SFS REIT

• Date Compiled: 29-Sep-21

DIRECTORS PROFILE

1. Name: Dr. Layi Fatona
   Position: Chairman
   Education: M Sc - University of London, 1976
              Ph. D. - University of London, 1980
   Experience: • Shell Petroleum Development Company (SPDC)
              • Past President, Nigerian Association of Petroleum
                Exploration (NAPE)
              • MD/CEO, Niger-Delta Exploration Plc
   Experience (Years): 35 years

2. Name: Dr. Yemi Kale
   Position: Director
   Education: • B Sc - Addis Ababa University of Ethiopia
              • M. Sc - London School of Economics
              • Ph. D. - London School of Economics
   Experience: • Equity Analyst, Merrill Lynch Financial Services
              • Group Head of Research, StanbicIBTC Bank
              • Special Adviser to Minister of Finance
              • Technical Adviser to Minister of National Planning
              • Presently, the statistician General of The Federation
                & CEO of National Bureau of Statistics

3. Name: Yemi Gbenro
   Position: Director
   Education: • B. Sc - University of Lagos
              • M. Sc - University of Lagos
   Experience: • NAL Bank Plc
              • EIB International Bank
              • MD/CEO, SFS Financial Services
   Experience (Years): 36 years

4. Name: Patrick Ilodianya
   Position: Managing Director
   Education: • B. Sc - University of Lagos
              • MBA - Pan-African University
              • FCA - The Institute of Chartered Accountant of Nigeria
The Fund Manager consists of experienced professionals. It has over N100 billion under Management and Advisory.

The clients include Pension Funds, High Networth Individuals, NPOs, State Reserve Funds and Federal Government Parastatals.

The Fund Manager also manages a similar fund known as Union Homes Real Estate Investment Trust.

We have reviewed the Investment Policy in addition to the Fund performance. The Rating is constrained by sectorial and location concentration of the underlying Assets.

However, attention was paid to the track record of the Fund Manager, the Earning Profile of the Fund and moderate growth of the Net Assets.

Consequently, we consider the Fund an “Investment Grade”
SUMMARY

- Rating: A(f)
- Report Type: Fund Rating
- Client: SFS REIT
- Date Compiled: 29-Sep-21

Signed: Oladele Adeoye
Name: Oladele Adeoye
Designation: Chief Rating Officer
Date: 29th September, 2021

For and on behalf of:
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USER GUIDE

DataPro's credit rating is an opinion of an issuer's/issues overall creditworthiness and its capacity to meet its financial commitment.

Our short-term ratings have a time horizon of less than 12 months in line with industry standards reflecting risk characteristics. The ratings place greater emphasis on the liquidity to meet financial commitment in a timely manner.

The long-term risk indicator is divided into 8 bands ranging from AAA(f) through DD(f). Each band could be modified by + or -. With + representing slightly less risk than -. Such suffixes are not added to the 'AAA' long-term rating category and to categories below 'CCC'. Or to short-term rating older than A1+.

LONG-TERM RATING

Investment Grade

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Meaning</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA(f)</td>
<td>Lowest Risk</td>
<td>(Superior) Assigned to funds which have superior financial strength, operating performances and profile when compared to the standards established by DataPro Limited. These funds, in our opinion, have a Excellent ability to meet their ongoing obligations.</td>
</tr>
<tr>
<td>AA(f)</td>
<td>Lower Risk</td>
<td>(Excellent) Assigned to funds which have excellent financial strength, operating performance and profile when compared to the standards established by DataPro Limited. These funds, in our opinion, have a very strong ability to meet their ongoing obligations.</td>
</tr>
<tr>
<td>A(f)</td>
<td>Low Risk</td>
<td>(Very Good) Assigned to funds which have very good financial strength, operating performance And profile when compared to the standards established by DataPro Limited. These funds, in our opinion, have a strong ability to meet their ongoing obligation.</td>
</tr>
<tr>
<td>BBB(f)</td>
<td>Slight Risk</td>
<td>(Fair) Assigned to funds which have fair financial strength, operating performance and profile when compared to the standards established by DataPro Limited. These funds, in our opinion, have an ability to meet their current obligations, but their financial strength is vulnerable to adverse changes in economic conditions.</td>
</tr>
</tbody>
</table>

Non-Investment Grade

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Meaning</th>
<th>Explanation</th>
</tr>
</thead>
</table>
### SUMMARY

<table>
<thead>
<tr>
<th>Rating</th>
<th>Risk Level</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>BB(f)</td>
<td>Moderate Risk</td>
<td>(Marginal) Assigned to funds which have, marginal financial strength, operating performance and profile when compared to the standards established by DataPro Limited. These funds, in our opinion have an ability to meet their current obligation, but their financial strength is vulnerable to adverse changes in economic conditions.</td>
</tr>
<tr>
<td>B(f)</td>
<td>High Risk</td>
<td>(Weak) Assigned to funds which have, weak financial strength, operating performance and profile when compared to the standard established by DataPro Limited. These funds, in our opinion have an ability to meet their current obligation, but their financial strength is vulnerable to adverse changes in economic conditions.</td>
</tr>
<tr>
<td>CCC(f)</td>
<td>Higher Risk</td>
<td>(Poor) Assigned to funds, which have poor financial strength, operating performance and profile when compared to the standards established DataPro Limited. These funds, in our opinion may not have an ability to meet their current obligation and their financial strength is extremely vulnerable to adverse changes in economic conditions.</td>
</tr>
<tr>
<td>DD(f)</td>
<td>Highest Risk</td>
<td>(Very Poor) Assigned to funds, which have very poor financial strength, operating performance and profile when compared to the standards established by DataPro Limited. These funds, in our opinion may not have an ability to meet their current obligation and their financial strength is extremely vulnerable to adverse changes in economic conditions.</td>
</tr>
</tbody>
</table>

- **Rating:** A(f)
- **Report Type:** Fund Rating
- **Client:** SFS REIT
- **Date Compiled:** 29-Sep-21