

## JOINT MEDIA ANNOUNCEMENT

10 March 2016

### ***Vukile, Arrowhead and Synergy set to create new high-yielding, high-growth listed property fund***

Vukile Property Fund, Arrowhead Properties and Synergy Income Fund Limited today announced they intend to create a new high-yielding, high-growth investment prospect for listed property investors.

The proposed transaction, which has achieved broad consensus and is in advanced discussions, has its roots in Vukile's accretive acquisition of Synergy, successfully concluded last year.

Vukile CEO Laurence Rapp explains: "With their excellent strategic fit, the retail assets of Synergy presented a compelling investment case for Vukile, acquired at the right price. We also acquired another unique asset in Synergy's rare A and B unit structure. Each unit offers investors a different risk and reward profile."

Rapp adds: "We believe we've found the best way to optimise this valuable structure in partnership with Arrowhead, which will achieve our goal to breathe new life into Synergy as a high-growth investment vehicle. It is positive for all the funds involved, and creates an exciting new proposition for investors."

This prospective deal aims to create an initial R4 billion high-yield, high-growth fund within the existing entity of Synergy that benefits from the A and B unit offering.

Synergy A units offer more risk-averse investors preferential distributions capped at 5% growth per annum, representing secure, predictable earnings. Its B units make it the ideal structure for investors looking for a higher-yielding proposition. After paying distributions to A-linked unitholders, remaining distributable earnings accrue to B-linked unitholders.

To reconstitute Synergy, its new asset base will include properties from both Vukile and Arrowhead.

In an asset swap, the bulk of Synergy's retail assets will move into Vukile, and Vukile will inject the majority of its office and industrial assets into Synergy.

In addition, Synergy will acquire 100% shares in Cumulative Properties Limited, a subsidiary of Arrowhead that will house its portfolio of higher yielding retail, office and industrial properties, in return for the issue of Synergy B shares to Arrowhead.

The potential transaction meets key strategic goals for all three JSE-listed SA REITs.

For Vukile, the transaction continues its track record of innovative deal making and will see it becoming an almost exclusively retail fund, with an anticipated R11 billion of its R12 billion of physical assets being retail properties – over 90% of its portfolio. It will also benefit from its passive stake in the yield-driven reconstituted Synergy.

For Arrowhead, Synergy will become the vehicle for implementing its strategy of a separately listed high-yielding, high-growth fund. Arrowhead will have an active management stake in Synergy and will provide its expertise in managing portfolios designed for strong growth and higher yields to the fund.

For Synergy, the deal marks the start of its revitalisation that is likely to result in renewed interest and tradability of its currently illiquid units. Synergy's asset management will be internalised and it will be staffed by a dedicated management team provided by Arrowhead.

Commenting on the proposed transaction, Rapp says: "The transaction furthers our goal for transforming Vukile into a leading retail REIT. Retail has been the most defensive property class through the cycle and is investors' most preferred sector. Four years ago, retail property was 54% of Vukile's overall portfolio. We've now grown this to around 70%. Should the transaction go ahead as envisioned, this will increase to about 92%. Also, our exposure to other South African property sectors will be higher yielding thanks to a holding of an approximate 25% of Synergy B units, which provide a better growth profile."

Mark Kaplan, COO of Arrowhead Property Fund says: "We're excited about this transaction. It really works well for everyone. It will realise an important part of Arrowhead's strategy to move our smaller properties into a separate fund, as originally intended with Cumulative. We'll be able to focus on bigger and better quality properties for Arrowhead, while keeping exposure to smaller properties with good strong growth and high yields in an income fund." Arrowhead is expected to hold around 65% of Synergy B units.

Kaplan adds: "The vision for Synergy is to be income-focused. It will only undertake yield-enhancing transactions that grow sustainable earnings. We still see huge opportunity in smaller properties valued from about R20 million to R75 million. Most listed property companies aren't competing in this niche space where Synergy will look to build its high-growth, high-yield fund. The A and B unit structure is a fantastic opportunity for this fund."

The final terms of the potential transaction still need to be negotiated and approved by the boards of the transacting parties, as well as Synergy shareholders. Synergy shareholders have been advised to exercise caution when dealing in their shares until a further announcement is made.

**/ends**

Released by:

Vukile Property Fund Limited

Laurence Rapp, Chief Executive Officer

Tel: +27 (0)11 288 1002

Cell: +27 (0)83 266 3011

[www.vukile.co.za](http://www.vukile.co.za)

Arrowhead Properties Limited

Mark Kaplan, Chief Operating Officer

Tel: +27 (0)10 100 0076

Cell: +27 (0)86 614 4329

[www.arrowheadproperties.co.za](http://www.arrowheadproperties.co.za)

Distributed by:

Marketing Concepts

Tel: +27 (0)11 783 0700