

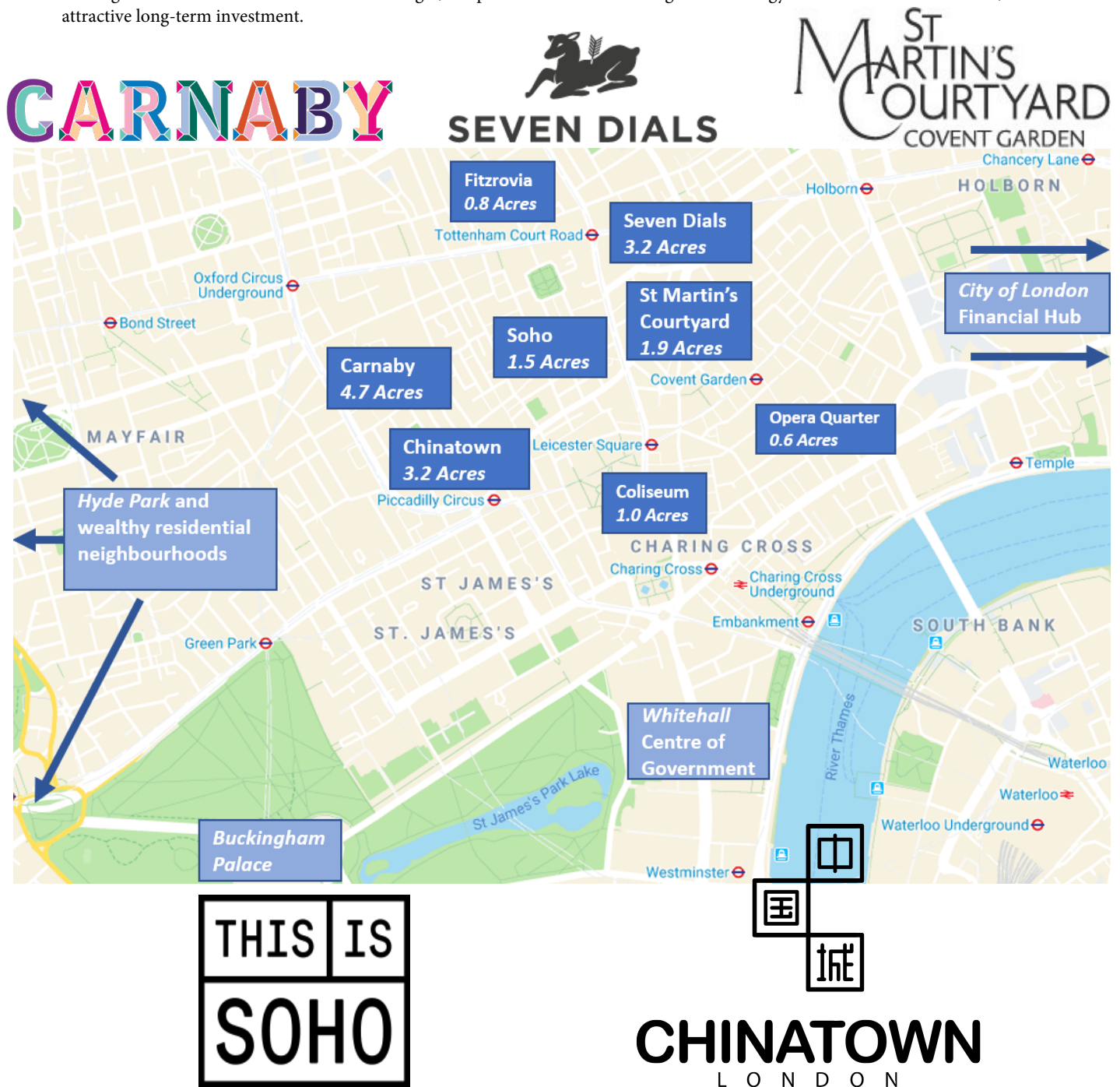


ELEVATION CAPITAL

Shaftesbury

LOCATION, LOCATION, LOCATION

Shaftesbury PLC (SHB.LN, Market Capitalisation £2.71B)¹ is a real-estate investment trust (REIT) with an irreplaceable portfolio of ~600 mixed use buildings, totalling 15 acres, located entirely in London's West End.² Founded in 1986, Shaftesbury began pursuing a West End focused strategy when their modest holdings in the area saw sustained tenant demand and cash flows during the property recession of 1990-1993. Located between London CBD's large upper-income working population on one side and affluent residential neighbourhoods on the other, real-estate in the West End benefits from a structural imbalance between availability of space and demand. This historic advantage has resulted in the area's development as a strong domestic and overseas tourist destination. The concentration of its real-estate holdings in a location with structural advantages, coupled with a sound management strategy and a robust balance sheet, make it an attractive long-term investment.



¹ As at 09/04/2019, when Share Price was £8.60, a 12.1% discount to Net Asset Value per Share of £9.78.

² Shaftesbury Annual Report 2018, available at: <https://www.shaftesbury.co.uk/en/investor-relations/results-reports-presentations.html>



BREXIT PROVIDES OPPORTUNITY TO REVISIT

During 2018, Shaftesbury’s share price declined over 20% due to the negativity pervading UK equities in response to Brexit. As a value investor, we are attracted to areas of the market where negative sentiments may present an opportunity for those willing to undertake “time arbitrage.” Accordingly, we revisited an investment we first undertook in 2009. The chart below provides an illustration as to our historical investment in Shaftesbury and why we are once again invested in the Company as it has begun trading below Net Asset Value (NAV)³ for the first time in almost ten years.

Shaftesbury PLC - Share Price / NAV



UNIQUE VALUE-ADD LANDOWNER

297
Restaurants,
cafés & pubs
35%

298
Shops
33%

0.5m sq.ft.
Offices
20%

593
Apartments
12%

% of wholly-owned portfolio ERV

Shaftesbury has pursued a strategy of investing in iconic locations which suffered from fragmented ownership and the lack of a coherent strategy.

The Company is able to unlock rental and capital value by establishing ownership clusters and influencing the portfolio of tenants in a location to optimise its attractability. Shaftesbury prioritises having a coherent flavour of innovative restaurant, retail, and leisure tenants on the street front, while maintaining a mix of occupier uses for the flow on effect of a local working and residential population to its lower-floor tenants.

Further, Shaftesbury actively works to develop the appeal of locations where its portfolio is most concentrated, in co-operation with local governing bodies. Shaftesbury promotes, operates websites for, and organises events and festivals, in Carnaby, Chinatown, Seven Dials, St Martins Courtyard, and Soho.

Curating distinctive and lively destinations



³ Net Asset Value is the sum of a business’ total assets when all current and non-current liabilities have been subtracted.



STRONG BALANCE SHEET

Shaftesbury has total assets of £4,022M versus total liabilities of £989M, of which only £40.8M are current liabilities.⁴ With £118.5M in cash and cash-equivalents in hand the Company can easily meet its current liabilities and retain purchasing power to invest in new assets or improve current ones. So in our view it is prudently financed and taking advantage of historically attractive long-term financing rates. The Company does not, have any borrowings payable in the next five years and only £290M in the five years after that.⁵

COVETED REAL-ESTATE & POTENTIAL TAKEOVER TARGET

Due to its structural advantages the entire portfolio of Shaftesbury's holdings is highly attractive to real-estate investors. This is reflected in the Company's successful sale of a non-core asset for 11.7% above book value in September 2018 despite the ongoing uncertainty in relation to Brexit.⁶ Shaftesbury's largest shareholder is Samuel Tak Lee, a landowner who acquired neighbouring Langham Estate in 1994. It has been reported that Shaftesbury's directors believe Lee is gearing up to bid for the Company.⁷ He has increased his stake to 26.1%, at the time of writing, from 17.1% in February 2017. At the 2019 AGM in February this year, Mr. Tak Lee voted down two resolutions requiring a 75% yes-vote to protect his stake in the Company from dilution by entrenching a right of first refusal on any new shares issued in proportion to his shareholding.⁸ We believe a successful takeover bid would have to be priced at a significant premium to the book value of Shaftesbury's assets given the real-estate's coveted location and downside protection it affords.

INVESTMENT THESIS – SUMMARY

We believe the sell-off in Shaftesbury shares is largely attributable to the reactions of those looking at the unfolding geopolitical events (Brexit) through a narrow lens and abandoning UK equities across the board. The structural advantages of Shaftesbury's real-estate provide it with a resilience to macroeconomic downturns. Coupled with a strong balance sheet, and a value-adding property management approach, Shaftesbury deserves to trade at a premium to its net asset value. As our own history has shown us, a price for Shaftesbury below NAV is a rare opportunity to purchase a sound long-term asset below its intrinsic value.

Utilising the share price at the time of writing of £8.60,⁹ and the current NAV per share of £9.78,¹⁰ we expect an upside of:

- (i) ~+36% reflecting a return to the ten year mean-average premium to Net Asset Value of 20%;¹¹ or,
- (ii) ~+59% reflecting a large premium to Net Asset Value in the form of a potential takeover offer.

This summary report was written in April 2019.

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⁴ Figures retrieved from Thomson Reuters Eikon on 03/04/19.

⁵ Ibid

⁶ Shaftesbury Trade and Finance Update – released 08 February 2019.

⁷ Business Insider, *London Property Giant Shaftesbury Hong Kong investor battle*, available at: <https://www.businessinsider.sg/london-property-giant-shaftesbury-hong-kong-investor-battle-2018-2/>

⁸ 2019 Shaftesbury AGM Results, available at:

<https://www.shaftesbury.co.uk/content/dam/shaftesbury/corporate/Investor-Relations/Shareholder-services/AGM-notifications/2019/agm-results.2019.pdf>

⁹ As at 09/04/2019, when Share Price was £8.60 and NAV per share was £9.78.

¹⁰ Ibid.

¹¹ Calculated using the ten year range from 03/04/2009 to 03/04/2019. **Past performance is not an indication of future results.**