

Corestate Capital Holding

The investment manufactory

Corestate Capital (CCAP) is an integrated real estate investment manager providing a range of asset management products and services. It focuses on commercial and residential property in Germany, Austria and other European markets, often co-investing with its family office, and institutional and high net worth investor clients. The pending acquisition of Hannover Leasing (HLG) will make it one of the leading real estate fund managers in German-speaking Europe, with AUM of €16bn. No details of the transaction have been disclosed. Even without factoring in the financial impact of the HLG deal, CCAP is trading on a P/E ratio of 17x and yielding nearly 5%.

Strategy: Recurring fees and transaction income

CCAP provides various real estate investment products and services for its customers, which are sourced via a network of local contacts in Germany, Austria and across Europe. Its clients are sourced from its offices in Europe and Singapore, while its funds' assets are often provided internally from "warehoused" properties, which produce transaction fees for the group, as well as co-investment opportunities. At year-end CCAP had AUM of €2.8bn, but it has a deal pipeline of €3.3bn, so its growth potential is broader than just from acquisitions. Nevertheless, HLG will increase the proportion of recurring fee income within the CCAP group.

Financials: Strong earnings growth even without HLG

CCAP reported a 17% increase in 2016 adjusted net profit. Reported EPS improved 31%, despite the higher shares in issue. Aggregate revenues and gains increased 27% to €60m and adjusted EBITDA improved 22%. The dividend payout policy has been set at 70% of adjusted net profit, and €1.00 was declared for 2016. Guidance from management for 2017 is for a "significant" increase in aggregate revenues to €80-82m and in net profit to €36-37m. These and consensus forecasts do not include the effects of the HLG acquisition.

Valuation: Attractive valuation supported by yield

According to consensus estimates (which do not incorporate HLG) CCAP trades on a P/E ratio of 17x for this year, on the back of forecast EPS growth of 61%. This is in line with management's earnings guidance for 2017. With earnings growth forecast to slow to 30% in 2018, the P/E falls to 13.1x. The rising dividend yield adds to the valuation attractions. It is forecast to increase to c 5% this year and further to over 6% in 2018, on the back of the declared payout policy.

Consensus estimates

Year end	Agg revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/15	47.1	8.6	1.12	0.00	36.2	N/A
12/16	59.7	16.9	1.47	1.00	27.6	2.5
12/17e	80.6	34.3	2.36	1.66	17.2	4.1
12/18e	97.7	44.3	3.08	2.18	13.1	5.4

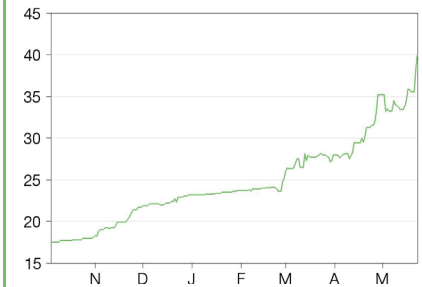
Source: Bloomberg consensus estimates. Note: consensus does not incorporate HLG

Real estate asset management

24 May 2017

Price €40.5
Market cap €551m

Share price graph



Share details

Code	CCAP
Listing	Deutsche Börse Scale
Shares in issue	13.6m
Last reported net cash as at 31/12/16	€29.4m

Business description

CORESTATE Capital Holding is a real estate investment manager and co-investor with c €16bn in assets under management. Its headquarters are in Luxembourg and it has 26 offices, including in Dusseldorf, Frankfurt, Madrid, Singapore and Zurich.

Bull

- Strong organic growth forecasts.
- HLG transaction provides scale and range.
- Attractive yield and valuation.

Bear

- Execution risk from the HLG transaction.
- Transaction and success fees support revenues.
- Management and admin fees limit profitability.

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Company description: Real estate investment manager

Integrated manager and co-investor

Corestate Capital (CCAP) is a real estate investment manager and co-investor. It will have €16bn in assets under management (AUM) once the Hannover Leasing transaction completes in Q217. At the end of 2016 its AUM increased 35% to €2.8bn. As an integrated real estate investment company, CCAP can offer its clients various investment and fund management services, as well as property management. CCAP is a partner for both international institutional clients and wealthy private investors, offering them tailored club deals and structured products. It is flexible as to fund terms, ticket size and exit timing, allowing clients to diversify risk. As it covers the full life of an investment from acquisition to sale, it is able to generate diversified management and consulting fees, as well as performance-based fees. In 2016 it generated aggregate revenues of €60m and net profit, adjusted for one-off items, of €19m.

Exhibit 1: Aggregate revenues* (€m)

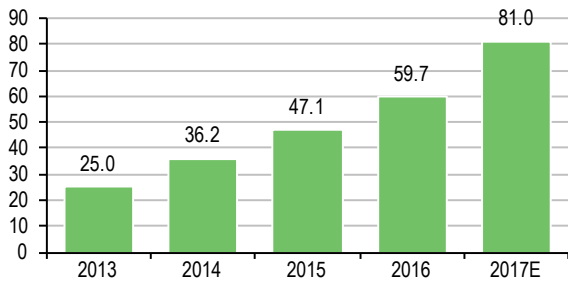
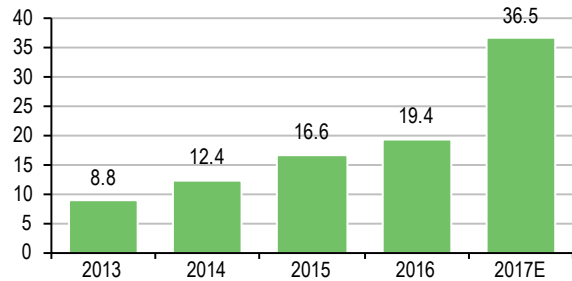


Exhibit 2: Adjusted net profit* (€m)



Source: CCAP data. Note: *2017 estimate is mid-point of guidance.

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CCAP is based in Luxembourg, but has 26 offices globally, including in Dusseldorf, Frankfurt, Madrid, Singapore and Zurich, and currently employs over 390 people. CCAP was founded in 2006 and listed in Frankfurt on 4 October 2016 at a price of €17 per share, raising €43m in a private placement with international investors.

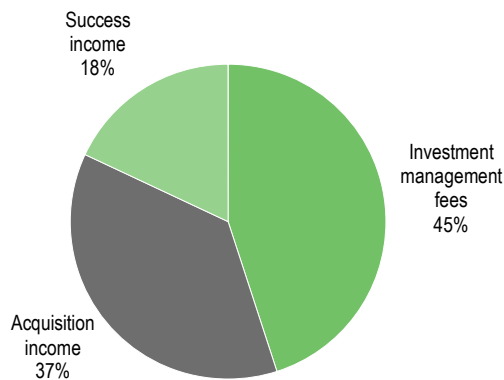
Currently it invests largely in the commercial (particularly retail) and residential segments of the real estate sector, especially in business apartments and micro-apartments for student housing. However, its products cover all asset classes to match the needs of its clients. It focuses on Germany, Austria, Switzerland, the Benelux countries and other selected European markets, including Spain and central Europe. It has good access to capital via its network of customers, which it has built up over a number of years, including family offices, wealthy individuals and, increasingly, institutional investors. Exhibit 4 shows the significant increase in funds from institutional investors in 2016.

It also has an experienced network of local agents, real estate companies, banks and insolvency administrators, which provides it with access to property market opportunities, especially in mid-sized cities. Its local property and asset management helps it to realise the potential value in the assets it acquires. Its group companies include Corestate Capital Advisers (asset management), Capera Immobilien (property management), MicroLiving Service (residential and student housing) and, from Q217, Hannover Leasing, subject to approval from BaFin.

Diversified income streams

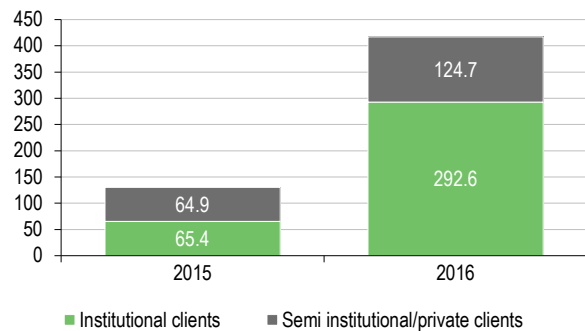
CCAP generates income from multiple sources. Investment management fees, which accounted for 45% of revenue in 2016, are linked to the level of AUM and can be recurring, transaction, or performance related. Acquisition related income was 37% of the total last year. These are transaction related fees from CCAP's secured pipeline. The revenue is generated from the warehoused properties that are converted into investment vehicles for CCAP's clients. Together these recurring sources accounted for 82% of total revenue in 2016. The remaining 18% was more success related, coming from promote fees, which are generated on the cash return on realised investments and from realised profits from investments, where CCAP is aligned with its clients.

Exhibit 3: Fee revenues by segment (2016)



Source: CCAP data

Exhibit 4: Equity inflow by client group (€m)



Source: CCAP data

Strategy

An asset light business model with increasing recurring income

CCAP provides active asset management as well as an alignment of interests between investors and management, which it believes leads to improved performance. It has an international network of relationships and a good track record of investment returns from its portfolios. With the exception of short-term warehousing of property (acquiring assets to be used in future funds), CCAP carries limited levels of real estate on its balance sheet, preferring to structure real estate-based investment products. Nevertheless, the companies in the group have completed approximately €27bn of real estate transactions since inception.

It generates recurring income from long-term asset and property management mandates and managed accounts, which provide a base for CCAP's revenue and earnings profile. It generates revenues from three divisions: (i) Real Estate Investment Management (managing the investment lifecycle from acquisition to exit); (ii) Alignment Capital Management (co-investing); and (iii) Real Estate Operations and Warehousing (the in-house property portfolio prior to being converted into a fund). Having generated €27m in recurring income in 2016, management expects the run rate to increase by c 80% in 2017 to €45m, following the pending HLG acquisition this year. Although not all of this growth will come from HLG. CCAP has a mid-term target of €70-75m, which would be nearly three times the level in 2016.

The investment lifecycle has three phases for CCAP

- Phase 1 (~0-6 months) is the deal structuring and acquisition phase. CCAP uses its market intelligence and sourcing capability to find opportunities. It uses its property warehousing to generate further opportunities and can allocate 5-10% to alignment capital. In this phase it generates transaction-related fees.
- Phase 2 (~3-15+ years) is the holding period, focused on fund, asset and property management. The target is to create value via proactive asset management. This phase generates management fees.

- Phase 3 (~0-6 months) is the exit or realisation phase, which focuses on asset sales and maximising value on disposal. This phase generates transaction and performance-related fees.

Warehousing opportunities

CCAP acquires real estate that it believes could later be used for its investment products. This enables it to exploit short-term opportunities where timing is crucial to complete the acquisition. It retains the assets in its “warehouse” and invests to create further value if necessary. During 2016 warehoused transactions totalled €255m. (See Exhibit 6). The assets can then be converted into investment products for CCAP’s clients, thereby removing it from the CCAP balance sheet. In the medium term this process allows CCAP to build seed portfolios to attract institutional investors.

Hannover Leasing Group Acquisition

CCAP has agreed the acquisition of 94.9% of Hannover Leasing Group (HLG), including all the investment products and related management contracts of the company. HLG is the real estate investment arm of Landesbank Hessen-Thuringen Girozentrale. As of December 2015 HLG had AUM of €13.6bn, but there will be a carve-out of some non-strategic funds, related to ships and media, which are approximately 32% of the total. The deal is expected to close in Q217.

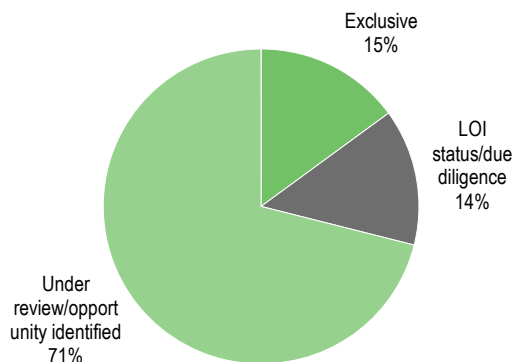
The rationale for the deal is that it will:

- Increase the scale of CCAP and should significantly increase its asset sourcing potential.
- Increase diversification: with a wider product offering CCAP will have greater diversification, especially in regulated investment products for institutional investors. It should also broaden its exposure to real estate assets and related segments, while expanding its international reach.
- Increase its access to capital, as HLG has a long-standing distribution network to institutional and private investors and has raised equity of over €11bn since 1981.
- Increase the recurring revenue and add potential synergies, as HLG has 100% recurring revenues and potential for growth.
- Improve the capital markets profile of the group, by positioning it as a leading German focused listed real estate fund manager.
- Provide synergies. CCAP plans a comprehensive review of HLG, to produce the potential synergies.

Pipeline of €3.3bn

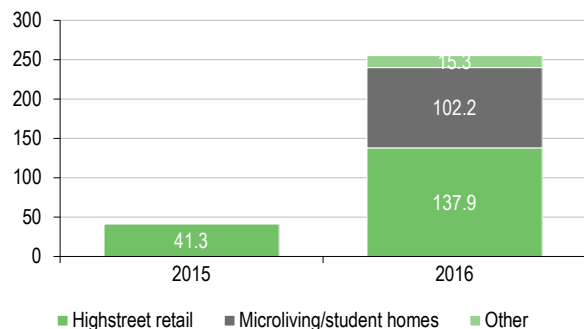
CCAP has a pipeline of opportunities of €3.3bn, which is broken down in the chart below. It has €489m of exclusive opportunities and another €459m subject to letters of intent, or in due diligence. Another €2.3bn is under review, or currently classified as an identified opportunity. The pipeline is generated by its experienced asset and equity sourcing team, which has previously worked at leading investment banks, property consultancies and investment companies.

Exhibit 5: Pipeline split



Source: CCAP accounts

Exhibit 6: Real estate warehouse transactions (€m)



Source: CCAP accounts

Consolidation in asset management

CCAP believes it is well placed to take part in the sector’s consolidation. This is expected to be driven by the continued low interest rate environment, which has led to the search for yield and capital inflows into alternative investment schemes. As a result, larger fund platforms will be able to generate economies of scale and a diversified product range, within a one-stop shop provider. Larger providers will also be able to manage the higher costs associated with increased regulation, as well as being able to use a more visible brand to develop wider access to clients.

Recent newsflow and upcoming catalysts

As discussed above, CCAP agreed to purchase a 94.9% stake in Hannover Leasing Group in December. The vendors are the majority shareholders Helaba and HTSB (Hessisch-Thüringische Sparkassen) and the deal is expected to close in Q217. Completion of the transaction is still subject to the conclusion of owner control procedures by the regulator BaFin, which are expected to be completed in the first half of 2017. The parties have agreed that the purchase price will remain undisclosed. The AGM in April approved a dividend of €1.00 per share for 2016 and increased the authorised capital which would enable CCAP to raise additional equity of approximately €800m.

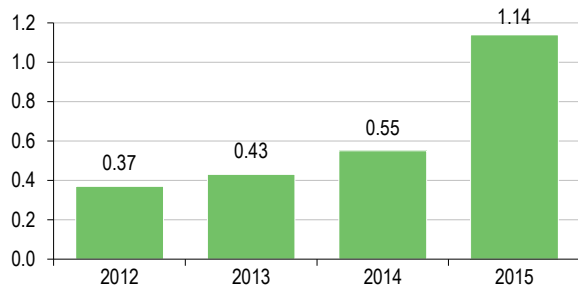
Other than the closing of the HLG transaction, the main newsflow will be the interim results, which will be released on 16 August.

Market overview: Strong demand and limited supply

The German residential market is the largest in Europe and benefits from a number of demographic advantages, which have become more favourable recently. Not only has the German economy been performing well lately, with low unemployment, rising monthly wages and a small budget surplus, but the population has been rising too. This rising population, which is now nearly 83 million, also has improving disposable income and purchasing power. The growth in population has been boosted by inward migration, which peaked at 1.14 million people in 2015. Before then it was rising at less than 1% a year. Germany also has a significantly higher population density than the EU average, at 229 residents per km², and a rising level of urbanisation, despite already being a developed economy. Renting is also more popular in Germany than most other European countries and there has been significant migration to the cities, especially by the younger generation.

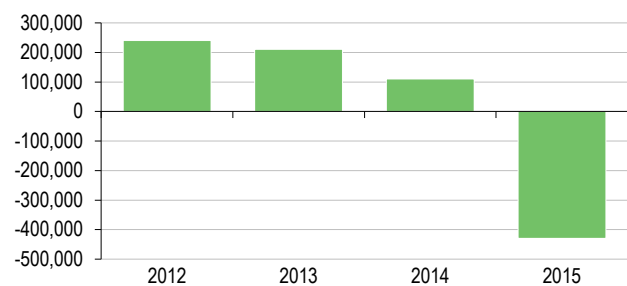
This demand has recently coincided with a lack of supply, following a steady fall in building permits, after the reunification boom came to an end in the mid 1990s. Housing supply went into a significant deficit in 2015 as a result of these two factors, as the Exhibit 8 shows.

Exhibit 7: Inward migration balance (million people)



Source: Destatis.de

Exhibit 8: German apartment surplus/(deficit)



Source: destatis.de

As an example of these effects, the Berlin market has seen steady population growth, with migration adding 40,000-50,000 residents a year. The population density has reached 4,000 residents per km² as a result, compared with 1,500/km² in London. It has also attracted start-up capital and employees, which gives it a broader appeal for residents. This has pushed up median rents from as low as €5.50 per m² per month in 2008 to approximately €9.50 by the end of last year. Purchase prices have also more than doubled over the same period. Similarly, North Rhine Westphalia, which is the most heavily populated federal state, has a population density double the rest of the country after recent migration. As a result, median rents and purchase prices in cities like Cologne and Dusseldorf have seen significant increases in the past five years.

CBRE research has shown that, despite an improvement in building permits and housing completions in multi-storey residential, supply remained insufficient to meet demand in 2016. The result was a further 35% increase in purchase prices to an average of €93,000 per unit and €1,490 per m². CBRE expects this supply deficit to continue in 2017, with the effect that the competition for the best property locations will intensify and prices will increase again. CBRE expects this to be exacerbated by international investors, who are attracted by the stable economic and political environment in Germany. As a result, CBRE forecasts transaction volumes in portfolios of over 50 units to be at a similar level to last year's €13.7bn.

Despite being a fragmented market there has been some consolidation in the sector in recent years, with Deutsche Annington acquiring Gagfah in 2014 and then being rebranded as Vonovia, plus Deutsche Wohnen acquiring GSW Immobilien. However, even with their huge portfolios, the leading listed companies in the sector still account for only a few percent of the total market.

For CCAP another trend that has been important is the low returns in the bond markets in the past few years, relative to property in its core markets. This has generated significant investment appetite from both European and North American investors and saw investment volumes exceed the previous 2008 peak in 2016. As a result, of the US\$66bn raised for closed-end real estate funds in the first nine months of 2016, 29% was raised for Europe. In a recent survey of investor intentions, Europe was actually expected to exceed North America as a regional investment target over the next 12 months.

Management, board and shareholders

Executive and supervisory boards

Corestate Capital has an executive board, a supervisory board and a senior advisory circle. In common with many German companies, its supervisory board provides expert advice and assistance to the executive board. CCAP has also been increasing the transparency of its investment operation via both formal compliance with regulations including AIFMD and voluntary initiatives with investment partners, shareholders and the public.

Executive board

Sascha Wilhelm, CEO. Sascha Wilhelm is CEO of CCAP and chairman of the investment committee. He is responsible for group strategy, as well as equity raising and client relations. He is also responsible for real estate management services and has 13 years' real estate investment and management experience. He was COO of CCAP until 2015, leading the real estate management division, and before that he was managing director of different real estate investment companies. He has been at CCAP since 2012 and has been appointed CEO until 31 December 2019.

Thomas Landschreiber, CIO. Thomas Landschreiber was a co-founder of CCAP in 2006 and is a member of the investment committee. He has direct responsibility for deal sourcing, acquisition structuring, transaction execution and asset disposals. He has 25 years of real estate experience in funds, structuring acquisitions and disposals of commercial and residential assets. Before CCAP he

was in the real estate team of the Cerberus group in Frankfurt, where he was responsible for due diligence and advised on acquisitions, asset management and sales. He has been appointed CIO until 31 December 2018.

Daniel Schoch, CFO. Daniel Schoch is CFO and a member of the investment committee. He is responsible for financing, accounting and consolidation, risk management, tax and investment structuring, as well as investor relations. Prior to CCAP he was CFO of BauBeCon group, a real estate platform with AUM of €1.2bn, where he coordinated the exit strategy for Cerberus. Before that he was CFO for Carl Zeiss. He joined CCAP in 2008 and has been appointed CFO until 31 December 2019.

Senior Advisory Circle

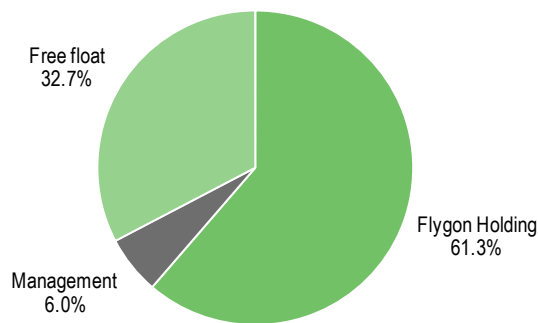
The Senior Advisory Circle is comprised of individuals with extensive experience in economics, politics and business. They are independent professionals who work with CCAP and its partner companies to provide a global perspective, regional knowledge and access to a wealth of relationships to allow it to capture opportunities and enhance client service. The leading figure is:

Ralph Winter, senior advisor. Ralph Winter is the co-founder, largest shareholder of and senior advisor to CCAP and has more than 25 years’ real estate experience. He has invested more than €7bn in German and European real estate during his career. Since 2006 he has invested in CCAP’s residential and commercial assets. In 2009 he created the W5 Group, a family office that invests globally in real estate and private equity. Via W5 he is one of the most active investors in CCAP’s club deals.

Shareholders and free float

CCAP is controlled by Flygon Holding, which has a 61% stake. Flygon Holding is the investment vehicle for Ralph Winter, who is a co-founder of CCAP. Management holds another 6% of the stock and the remaining 33% of the shares are free float.

Exhibit 9: Shareholder structure



Source: CCAP data

Financials

Income statement: 2016 in line with guidance

CCAP reported a 17% increase in 2016 net profit to €19.4m, adjusted for one-off items including costs associated with the pending Hannover Leasing acquisition, share expenses and listing costs. Reported net profit was 54% higher at €15.6m and reported EPS improved 31% to €1.47, despite a 22% increase in the average shares in issue. Revenues were up just 6% to €42m, but aggregate revenues and gains, which include income from associates and joint ventures, increased 27% to €60m. Adjusted EBITDA improved 22% to €23m, although the margin fell slightly, to just below

39%. The dividend payout policy has been set at 70% of adjusted net profit. The first dividend will be paid in May this year, for the 2016 financial year.

Exhibit 10: Financial summary				
€m	2013	2014	2015	2016
Year end 31 December	IFRS	IFRS	IFRS	IFRS
Income statement				
Revenues	24.5	31.9	39.9	42.2
Aggregate revenues and gains	25.0	36.2	47.1	59.7
EBITDA	9.3	15.0	12.3	20.0
Profit before tax (as reported)	8.6	14.2	8.6	16.9
Net income (as reported)	7.6	13.7	10.1	15.6
EPS (as reported) (€)	53.63	71.43	1.12	1.47
Dividend per share (€)				1.00
Balance sheet				
Total non current assets	18.9	24.9	32.4	45.0
Total current assets	29.3	38.4	76.3	85.6
Total assets	48.3	63.4	108.7	130.6
Total current liabilities	14.0	15.0	47.2	20.2
Total current liabilities	1.1	9.7	27.1	24.0
Total liabilities	15.1	24.7	74.3	44.2
Shareholders' equity	33.2	38.7	34.4	86.4
Cash flow statement				
Net cash from operating activities	5.3	11.2	(34.1)	23.8
Net cash from investing activities	2.4	(5.5)	(4.6)	(15.5)
Net cash from financing activities	11.6	(4.8)	29.3	27.4
Net cash flow	19.3	0.9	(9.4)	35.8
Cash & cash equivalent end of year	20.9	21.8	12.4	48.2

Source: CCAP accounts

2017 guidance and consensus

Management's 2017 guidance is for a "significant" increase in aggregate revenues and gains to €80-82m, up from €60m last year. It also expects a "significant" rise in net profit to €36-37m, which would be more than double last year's figure of nearly €16m. The consensus forecasts look to be following the guidance quite closely, with aggregate revenues of just under €81m and EBITDA of €37m. This implies an improvement in the adjusted EBITDA margin from 39% last year to c 52% in 2017. Management explained that this would be driven by higher transaction and promotion fees this year. It is worth remembering that all these figures exclude the potential impact of the Hannover Leasing transaction.

Exhibit 11: Adjusted EBITDA (€m)

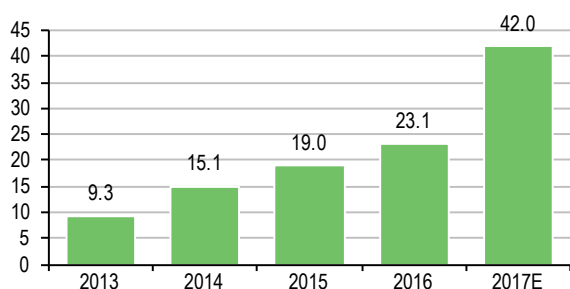
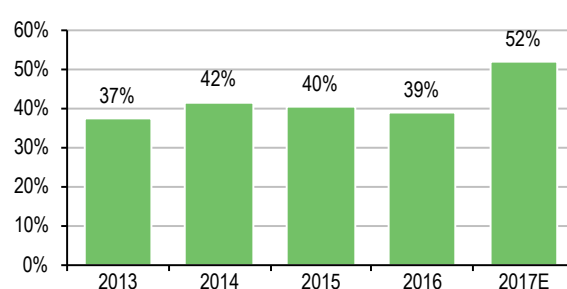


Exhibit 12: Adjusted EBITDA margin



Source: CCAP data and mid point of 2017 management guidance

Source: CCAP data and mid point of 2017 management guidance

2017 outlook

In its outlook statement for 2017 management said it intends to increase the growth rate and the total AUM by expanding its product offering. This is expected to be achieved by increasing the

volume of real estate transactions, adding mid- and long-term investment products for its institutional investors, as well as increasing its property warehousing, which is used to develop its investment products. It intends to maintain its diversified product range and expand in the region selectively.

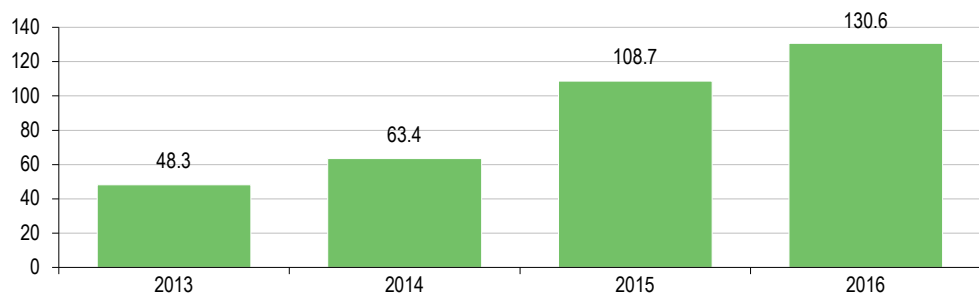
CCAP also intends to convert some of its existing investment structures in high street retail and office property into investment products, with long-term management mandates. Another focus will be the screening of acquisition targets, given the still fragmented market and the expected industry consolidation. It will also dispose of any non-core asset management activity.

Balance sheet and cash flow

CCAP's balance sheet looks strong, with total debt of just €18m and net cash of €29m at year-end. Equity makes up 66% of the balance sheet and there was gross cash available at year-end of €47.5m, following the €43m private placement at the time of the IPO in September last year. Although CCAP does not target NAV growth in the way that a REIT would, it can still be useful to look at its growth trajectory. The growth in 2016 is distorted by the private placement capital, the majority of which remained on the balance sheet at year-end. Total assets, in the chart below, may be a better indication of the growth profile, although they are also distorted by the fundraise.

Cash flow before investing was positive to the tune of €24m in 2016, which covered the investing needs, even before the fundraise. No details of the HLG acquisition have been released, but the balance sheet has plenty of resources available. CCAP also raised a further €23m of gross proceeds in a placing with institutional investors in February, at a price of €22.8. CCAP intends to use the proceeds for property warehousing purposes, which is the acquisition of real estate assets on its own account, before converting them into investment products for its clients and thus removing them from the balance sheet. For example, it acquired the Royal Liver Building in Liverpool for £48m in February

Exhibit 13: Total assets (€m)



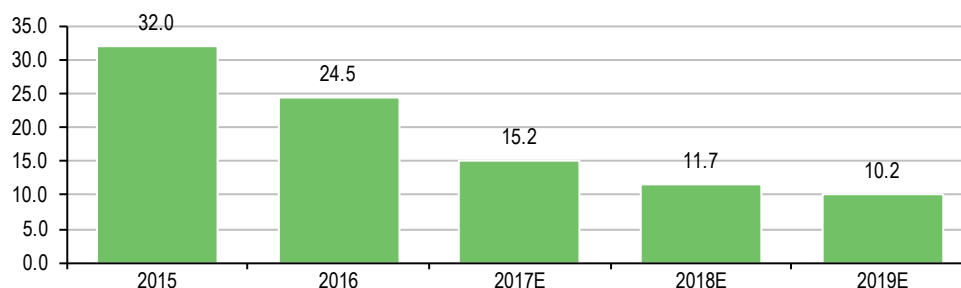
Source: CCAP data

Valuation: P/E ratio rather than P/NAV

When the acquisition of HLG completes it is likely to alter the valuations of CCAP significantly, but in the meantime we have looked at the CCAP entity as it currently stands. The most appropriate valuation method for CCAP is the price to earnings (P/E) ratio, as it is not a property fund, but an asset manager, which focuses on generating earnings, rather than NAV growth. The chart below shows the trajectory of the P/E ratio over the next three years, using the current share price and consensus earnings forecasts. It is currently trading on 15x this year's earnings, down from over 24x for 2016, due to the forecast earnings growth of 60%. This is in line with the management guidance for this year. Earnings growth is expected to slow to 30% in 2018, so the P/E falls to 12x

one year out. The forecast growth rate then halves again to 14% in 2019. Adding to the valuation attraction is the rising dividend yield, which is forecast to increase to nearly 5% this year and further to over 6% in 2018. This is a very attractive yield in a low interest, low return environment, which may not yet be fully appreciated by the market.

Exhibit 14: P/E ratio valuation (x)



Source: CCAP data, Bloomberg consensus forecasts

Peer valuation is attractive

We have compared CCAP to its German real estate fund management peers. It is clear from the table below that CCAP now trades at a small premium to its peers on a P/E basis, due to the low valuation of the outlier Pubilty. The premium to the sector average for this year is 15% and for 2018 it falls to 2%. However, CCAP has a higher dividend yield than almost all its peers. Again Pubilty is the outlier, but even if we include it in the average CCAP's yield is significantly above its other peers, at 4.6% for this year and 6.1% for 2018.

Exhibit 15: Peer group comparison

	Price (€)	Market cap (€m)	P/E (x)		Dividend yield (%)	
			2017e	2018e	2017e	2018e
Patrizia	16.79	1,410	23.3	18.3	1.8%	3.1%
Pubilty AG	38.0	232	5.7	5.4	8.8%	9.3%
VIB Vermogen	21.5	594	13.4	11.6	2.7%	3.0%
WCM Beteiligungs	3.13	413	10.4	10.4	3.2%	3.5%
Peer group average		2,648	13.2	11.4	4.1%	4.7%
Corestate Capital	35.88	488	15.2	11.7	4.6%	6.1%
Premium/(discount) to peer group			15%	2%	12%	28%

Source: Bloomberg, Capital IQ. Note: Prices as at 18 May 2017.

Sensitivities: Macro and sector exposure

The main sensitivities are macro and sector related, although there are company specific and regulatory issues to consider as well:

- **Macro risks:** The economy in Germany has been strong and is expected to continue to see growth, low inflation and falling unemployment, but this could be affected by various global uncertainties, including the interest rate cycle, trade and commodity prices. This could in turn take the shine off what has been a strongly performing real estate sector, driven by a favourable interest rate and demographic backdrop.
- **Sector exposure:** Although CCAP is not a real estate developer, fund or company, it is exposed to the sector via its funds and holdings, as well as its warehousing acquisitions, so it is sensitive to movements in property market sentiment, both on the upside and downside.
- **Company specific risks:** the main company specific risk is the HLG acquisition, which is not expected to complete until sometime in the second quarter. It is expected to generate future

growth for the group and is driving the increase in AUM, but the potential synergies are not guaranteed.

- **Regulatory issues:** responding to regulatory change in the investment industry is a constant challenge, which could become more complicated as the group grows.

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