INTREAL
Boosting proven strengths – exploiting new opportunities

ELTIF
ELTIF re-enforcement breathes new life into vehicle

Infrastructure
The market no longer depends on government tariffs

INTREAL

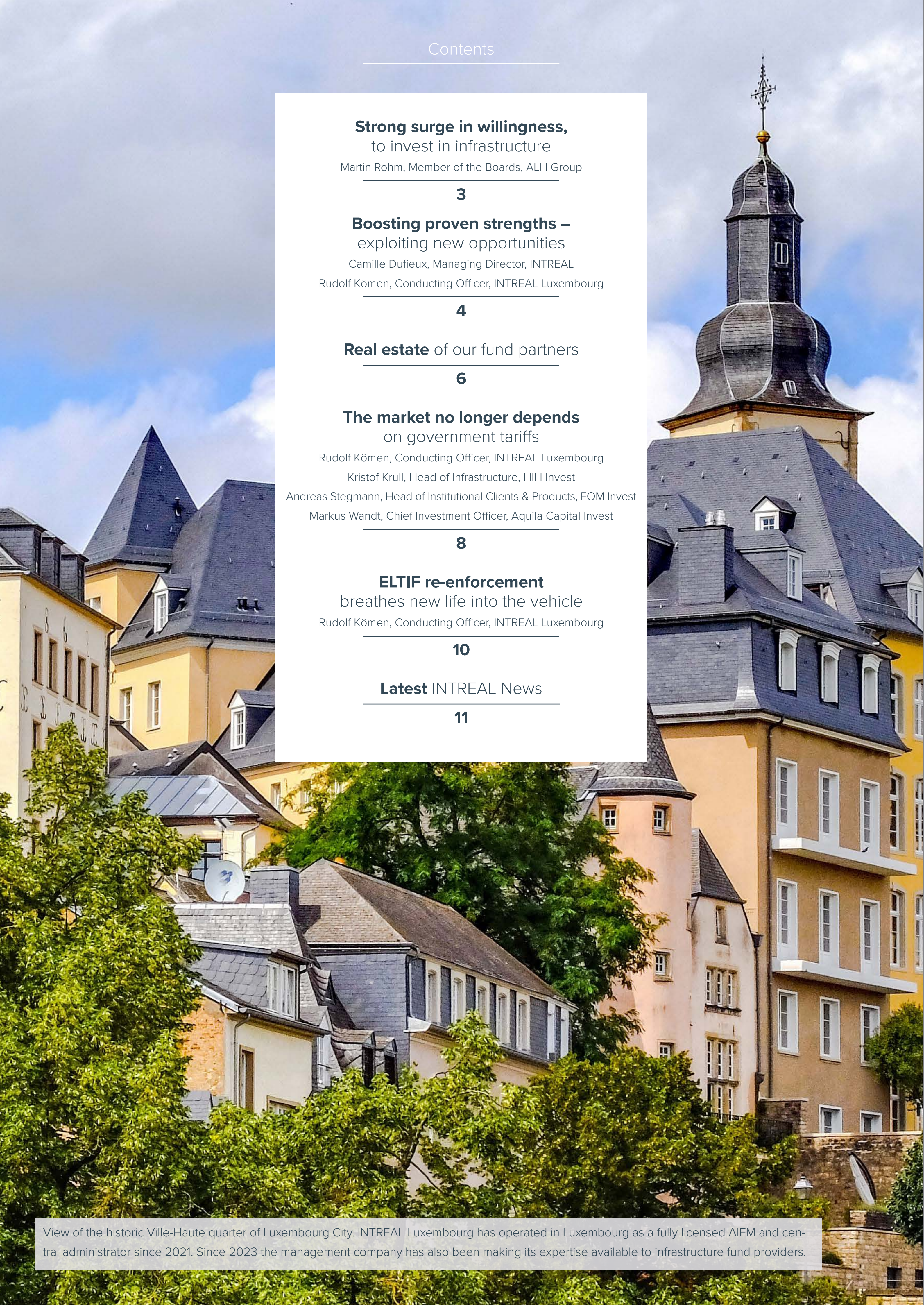
INSIGHT

FACTS AND TRENDS

Facts and trends in real estate investment funds

01 – 2024

Aquila Group operates the Øyfjellet wind park in Norway's Nordland province. The facility consists of 72 turbines made by Nordex, a Hamburg-based manufacturer, and generates around 1,320 Gigawatt hours of green electricity. This equals the electricity demand of around 82,500 households.



View of the historic Ville-Haute quarter of Luxembourg City. INTREAL Luxembourg has operated in Luxembourg as a fully licensed AIFM and central administrator since 2021. Since 2023 the management company has also been making its expertise available to infrastructure fund providers.

Strong surge in willingness, to invest in infrastructure

Martin Rohm, Member of the Boards, ALH Group

Dear Reader,

The coming years will necessitate enormous investments not just in the real estate sector but in German and European infrastructure, too. It is the only way for Germany and Europe to defend their position against the global competition. Of major significance, in addition to investments in road and rail infrastructure, is the continued development of digital infrastructure, the expansion of renewable energies and of the electricity grids. In other words: Upgrading and expanding the infrastructure is one of the key issues of the 2020s and the 21st century in general.

The momentous task will be impossible to accomplish unless the policy makers, the general public and investors take a partnership-based approach. It is too big a job to be handled by government alone. Instead, it requires private investments as well, and urgently so. These play a major role in the effort to close existing and anticipated investment shortfalls.

The IDI (Initiative deutsche Infrastruktur e.V.) is an independent platform that seeks to improve Germany's competitiveness by securing investments in essential infrastructure. Our members hail from all relevant interest groups, including from the policy makers, the business world and German retirement schemes. The latter represent investment assets in a combined value of over 400 billion euros.

We have lately noted a strong surge in willingness to Invest in infrastructure. Especially in the field of renewable energies, there is significant societal momentum that has swept investors with it and positively influenced their willingness to invest. A lot of asset managers are currently entering the market to offer new infrastructure funds. In a parallel development, the number of institutional investors who either have invested already or intend to do so is growing.

This makes me optimistic with regard to the future. Now, as then, there is plenty of liquidity available for investment. Going forward, the capital allocations for infrastructure investments will be greater than they are today. This is where opportunities present themselves for asset managers who specialise in the infrastructure segment and for a well-positioned fund industry.

Martin Rohm
Member of the Boards, ALH Group
Alte Leipziger Lebensversicherung a. G., Hallesche Krankenversicherung a. G., Alte Leipziger Holding AG

Bolstering proven strengths – exploiting new opportunities

Camille Dufieux, Managing Director, INTREAL
Rudolf Kömen, Conducting Officer, INTREAL Luxembourg

The year 2023 was, on the one hand, defined by substantial changes in the capital and real estate markets while, on the other hand, it also saw a number of innovations. INTREAL Insight talked to Camille Dufieux, Managing Director of IntReal International Real Estate Kapitalverwaltungsgesellschaft mbH ("INTREAL"), and Rudolf Kömen, Conducting Officer Portfolio Management at der IntReal Luxembourg S.A. ("INTREAL Luxembourg"), about the year behind us and about major trends that are likely to dominate 2024.

CAMILLE, YOU HAVE BEEN MANAGING DIRECTOR OF INTREAL SINCE THE START OF 2024. WHAT ARE YOUR THOUGHTS ON YOUR NEW POSITION, AND WHICH TOPICS AND TARGETS DO YOU INTEND TO FOCUS MOST ON IN 2024?

CD: Having been appointed to the senior management of INTREAL is not only a major vote of confidence for me, but it also ensures a high degree of continuity that is important for our relations with fund partners and investors, because the company and many of our clients have been well known to me for over ten years. In the coming months, my focus will be on three things: First of all, we will have to keep a close eye on the evolving market situation and try to anticipate it if possible in order to adjust our range of deliverables accordingly or expand it, as the case may be. Another aspect that matters a lot to me is the need to strengthen relations with our fund partners, but also to their investors above all. The interest that the latter take in their commitments has intensified lately, and they often approach not only the respective fund partners with questions but us, too, in our role as Service KVG (management company). Third, I will focus on further developing new market segments and on devising new deliverables and product ranges, such as in the area of infrastructure investments.

RUDOLF, THE PRESENCE AND ACTIVITIES OF INTREAL IN LUXEMBOURG PLAY AN IMPORTANT ROLE IN THIS CONTEXT. COULD YOU DETAIL THESE FOR US?

RK: Our ambition has always been to be, where we can best support our clients in the field of open-ended real estate funds with our services. So, it made sense to be present on the ground in Luxembourg in addition to Frankfurt and Hamburg, Germany's leading fund domiciles and places of finance. In the time since, we obtained not only a licence to manage real estate funds from Luxembourg's financial supervisory authority and took on mandates in this segment, but have also been authorised to offer our services in the area of infrastructure investments – plus private debt and fund of funds for both asset classes, real estate and infrastructure. As these market segments will gain in significance for our clients in future, we built up the necessary expertise here at INTREAL, forming teams of specialists that are headed by Uwe Janz (private debt) and Markus Schmidt (infrastructure), respectively. This will enable us to serve the needs of our clients in the asset classes of real estate, infrastructure and private debt going forward. When it comes to the real estate asset class, fund partners can choose Germany or Luxembourg as domicile. For the infrastructure and private debt product categories, we offer the investment vehicle in Luxembourg.

HOW DO YOU RATE THE CHANCES FOR FURTHER GROWTH IN 2024? WHAT SORT OF DEVELOPMENT DO YOU EXPECT FOR ASSETS OF THE TYPES ADMINISTRATED BY INTREAL?

CD: In several of the past years we were able to report new high-water marks and exponential growth. However, the zero-interest cycle of several years played a decisive role for these results, as they strongly stimulated interest in real estate investments in the absence of investment alternatives. This began shifting noticeably in 2023. Although our assets under administration crossed the mark of 65 billion euros during the third quarter of 2023, their growth dynamic slowed considerably or, differently put, it appears to be normalising after several exceptional years. It remains to be seen whether we will have further growth to report by the end of 2024. Investors and fund partners continue to be interested in real assets, and there are actually a few projects – including involving new funds – that are under preparation. The question how many of these will hit the market in 2024 or will be delayed until 2025 or 2026 depends on the lending rate developments, on asset prices and on return expectations.

RK: A fascinating question will be to what extent and how quickly the "younger" asset classes, meaning infrastructure and private debt, will become established as eligible institutional investments. Just twenty years ago, many insurance companies, pension funds and other institutional investors still considered real estate funds as almost exotic and an add-on option at best. Today, real estate investments are as well established as equity or fixed income investments, and even if bonds have regained greater relevance in the wake of rising interest rates, they will no longer be able to dislodge real estate from investor portfolios. And given the increased demand, I expect to see an analogous "normalisation" in the infrastructure asset class in the near term.

WHICH TYPES OF USE AND SUB-ASSET-CLASSES WILL INVESTORS FOCUS ON IN PARTICULAR, IN YOUR VIEW?

CD: Among the real estate funds, we have registered a sustained interest in the segments logistics, retail/local amenities and residential. In addition, however, there is demand for niche products, which invest in light industrial or in real estate let to the public sector.

RK: For our continued growth in Luxembourg, we concentrate in equal measure on real estate, infrastructure and private debt. Our focus in this context is not on new fund launches. We also offer our services to existing funds and promoters – especially those who are based in Germany – who wish to take advantage of INTREAL's real-estate- and Germany-specific expertise for their Luxembourg commitments as well. So, this is where we benefit from our specialisation in real assets.

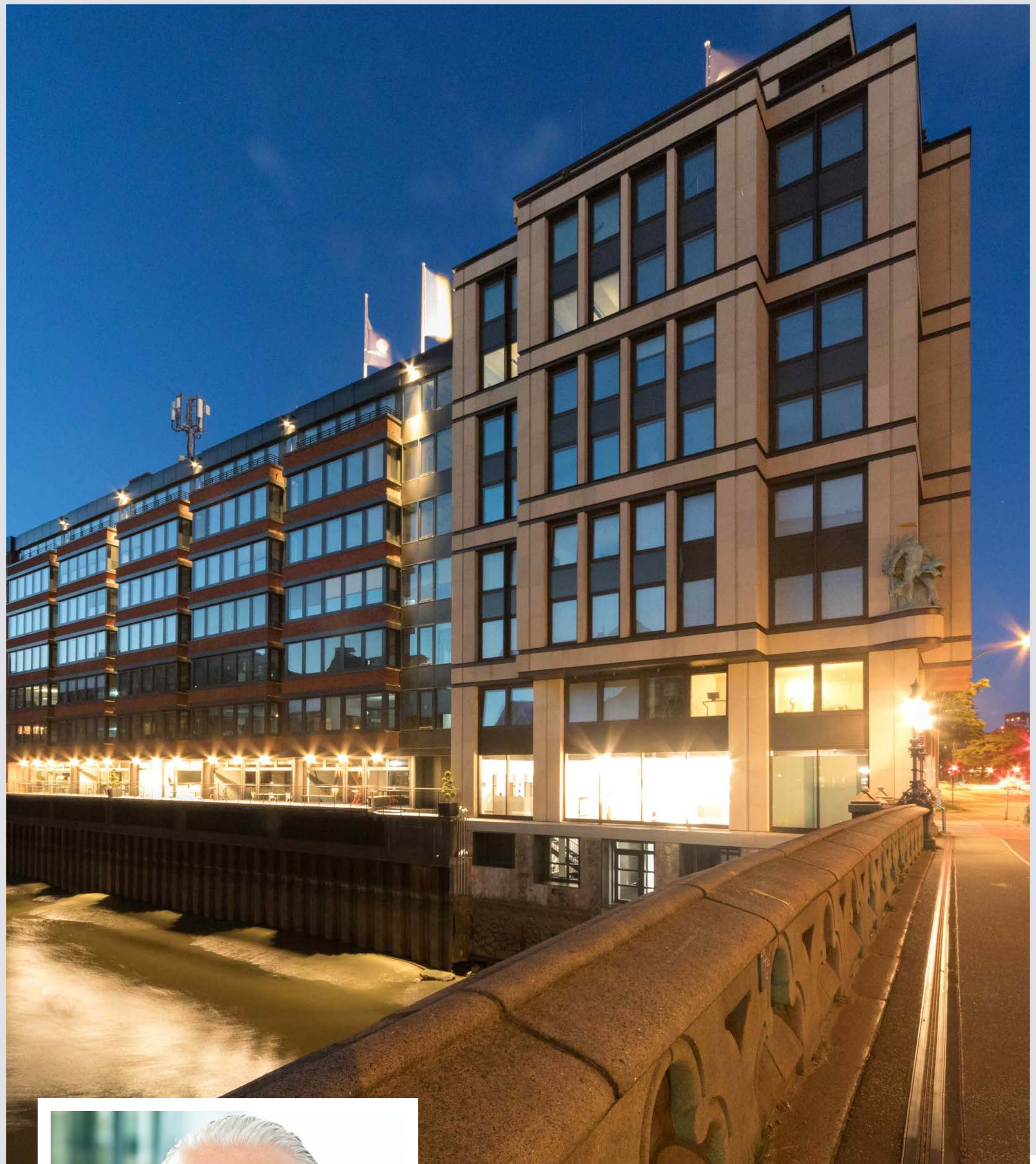
APART FROM THE ASSET CLASSES: WHAT SORT OF CHANGES ARE YOU SEEING OR ANTICIPATING AS FAR AS INVESTOR PREFERENCES AND GENERAL MARKET TRENDS GO?

CD: We keep seeing a certain reticence when it comes to new commitments because potential sellers and buyers have not found common ground yet in regard to selling prices and cap rates. Moreover, some investors are sated for the time being because they filled their real estate ratio during the massive run on real estate over the past years, and are therefore more preoccupied with their existing holdings rather than increasing further. Another important topic is the ESG compliance of new investment funds. Even now, new funds launched represent almost exclusively ESG funds, and it will soon become virtually pointless to put any fund on the market that fails to meet the Article 8 requirements at the very least.

RK: Yet another topic that we firmly keep our eyes on is the ELTIF. When the framework of the first ELTIF regulation proved less attractive and impractical, the EU legislature went over it once more. The revised "ELTIF 2.0" probably looks much more appealing to private investors when it comes to long-term investments in real assets. Which is why we believe that the coming months will see an increase in the number of vehicles of this kind entering the market. In addition, cost structures and efficiency are gaining in significance for many institutional players. Since we invested in a combination of human resources and high-powered IT infrastructure, we can definitely help to optimise cost structures, no matter whether as management company (AIFM and fund administrator) in Germany or as central administration in Luxembourg.

CAMILLE, RUDOLF, THANK YOU SO MUCH FOR TAKING THE TIME TO TALK TO US!

Real Estate of our fund partners



TWIN IN HISTORIC LOCATION

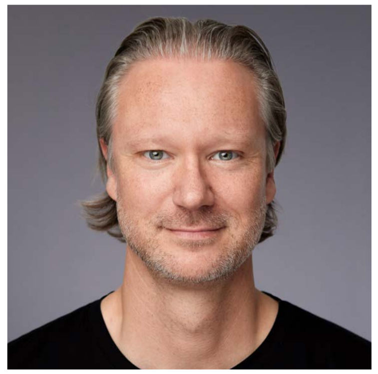
Cremon 1 and Cremon 3 blend portfolio transformation and new-build construction in a way that successfully highlights the urban history context. During the construction of the new Cremon 1 building, the historic entrance to Hamburg's former inland port was restored in consultation with the heritage conservation authority. The development created 2,500 sqm of office and retail space as well as nine apartments right next to Nikolaifleet canal. Cremon 3, the adjacent building of 4,500 sqm, underwent a comprehensive energy refurbishment into a modern, energy-efficient property. Both assets are held in our "JHS Competo Immobilien Deutschland" fund.

Andreas Lutz, Managing Director,
VIVAO Investment & Asset Management

AFFORDABLE LIVING IN THE SUBURBS

Fundamenta Group Deutschland AG focuses on residential real estate in Germany in the median rent segment in fast-growing regional cities and their conurbations. For our "FG Wohnen Deutschland" institutional fund, we acquired a property development in Niederkassel and added it to the fund portfolio upon its completion in 2022. The property is located in an affluent suburb of Cologne and comprises 8 multi-family houses with a combined total of 76 apartments, 55 parking spots underground and 21 surface parking spots. Heat generation is almost fully carbon-neutral due to the photovoltaic systems mounted on all rooftops, among other things. The building thus qualifies for a high ESG standard. The amount invested totalled 27.8 million euros.

Christian Paul, Chairman of the Management Board,
Fundamenta Group Deutschland



WORKING IN HAMBURG'S FINEST CANALSIDE LOCATION

We acquired this attractive mixed office/retail building in Hamburg-Winterhude in August 2023. The property divides into a main building and a pavilion in the rear, and covers around 4,270 sqm overall. In addition an excellent location, it boasts direct access to the underground. A sound building fabric, flexible floor plans, and a diversified tenant structure along with the option to tap additional potential through active asset management make the property permanently attractive for our investors.

Torben Rönna, Managing Director, Rhenium Asset Management

The market no longer depends on government tariffs

Rudolf Kömen
Conducting Officer,
INTREAL Luxembourg

Kristof Krull
Head of Infrastructure,
HIH Invest

Andreas Stegmann
Head of Institutional Clients
& Products, FOM Invest

Markus Wandt
Chief Investment Officer,
Aquila Capital Invest

Infrastructure is one of the major trends among asset managers. A number of asset managers who used to offer primarily real estate funds are now becoming active in the infrastructure sector. INTREAL Luxembourg has responded to the trend and recently obtained its own license for the infrastructure asset class. This occasioned an INTREAL Investment Talk headlined "Infrastructure Investments: Potential, Challenges, Outlook and Structure" on 28 November 2023.

It kicked off with a brief keynote address by Rudolf Kömen, Conducting Officer of INTREAL Luxembourg. His key message: "Real estate and infrastructure have things in common and, despite obvious differences, they share comparable characteristics. For INTREAL Luxembourg, expanding its license to include the infrastructure asset class was therefore the plausible thing to do. From an investor's point of view, adding infrastructure is a great way to diversify a portfolio of real estate and other assets. We have noted that more and more asset managers who primarily used to launch real estate funds are now getting into the infrastructure segment." Examples are FOM Invest and HIH Invest, two market players present in the INTREAL TV studio. HIH Invest already set up its first infrastructure fund about a year ago, which invests in wind energy and photovoltaic systems across Europe. FOM Invest is currently in the process of launching its first fund.

By contrast, Aquila Capital is something of a veteran among the panelists. The company has been in the renewable energies segment for around 20 years and today has approx. 25 billion euros in assets under management, including photovoltaic, wind power and hydroelectric systems. Peter Dietze-Felberg, a senior communication consultant at RUECKERCONSULT who hosted the panel, started the discussion by asking about arguments in favour of the infrastructure asset class. Kristof Krull, Head of Infrastructure at HIH Invest, answered the question: "The main argument in favour of such an investment is a robust and predictable cash flow. But the fact that society is collectively backing renewables also generates considerable momentum. Add to this the growing energy demand – one key factor being the electrification of road-bound traffic and of heating systems. On top of all that, the returns are attractive and competitive even in the new interest environment."

ENERGY DEMAND IS GROWING AND EASY TO PREDICT

Andreas Stegmann, Head of Institutional Clients & Products at FOM Invest, added: "The energy demand is not going away and keeps growing – even long-term. It is something easy to predict. So, there is no uncertainty about long-term demand."

Markus Wandt, Chief Investment Officer, Aquila Capital Invest, added: "We are feeling very strong tailwinds for investments in renewable energies. They represent a key component for making the energy transition a success." He went on to say: "There are immense opportunities for investors. I rate the outlook as excellent, especially for the long-term performance."

Next, the host inquired about critical factors. Krull: "Of course, there are risks as well. The biggest threats, in my opinion, are the project development risks. Once the installations have come on-stream, the risks become manageable. Even the development risk for investors can be defused by not buying and accepting such assets until they have been built and connected to the grid." Krull emphasised: "Unlike real estate, infrastructure investments continue to earn attractive market-consistent returns and should be part of any diversified portfolio, in my opinion."

"What about regulatory risks?" the host, Peter Dietze-Felberg, wanted to know. He recalled that, around ten to 15 years ago, closed-end public funds in particular had been adversely affected by sudden changes in the state feed-in tariffs.

"The big difference today," Wandt replied, "is that the market no longer depends on government tariffs the way it used to ten years ago and earlier. Such systems pay for themselves now, being self-sustaining even without government funding. Rather than remuneration, the biggest regulatory risk concerns an operator's ability to secure a grid connection."

Krull added: "The government side of things has also improved in another sense: Development lead times for renewable energy facilities have significantly shortened lately. In photovoltaics, e. g., the time between the inception of a project and its connection to the grid is now down to two years."

NET CASH-ON-CASH RETURNS OF 7.0 PERCENT P.A. ARE REALISTIC

The discussion then turned to the subject of returns on investment. What kind of returns may institutional investors expect, Dietze-Felberg wanted to know. Rudolf Kömen emphasised: "The returns currently paid by infrastructure funds significantly exceed their fixed income alternatives while also optimising the risk/return profile of a given portfolio."

Kristof Krull added: "Our fund invests in photovoltaics and wind turbines across Europe, and achieves a net cash-on-cash return of 7.0 percent p.a., and this even though the fund takes a conservative approach, which means it invests only in approved projects ready for construction." Andreas Stegmann agreed with this statement: "Our fund, which also invests in Europe, maintains a similar level in terms of net cash-on-cash returns."

Markus Wandt elaborated: "We operate internationally – including in markets that offer higher returns than the rates just quoted. Eastern Europe would be a case in point."

Finally, host Dietze-Felberg moved on to the subject of fund structures: "What sort of structures are commonly used?" Rudolf Kömen began by highlighting the advantages of Luxembourg-specific structures. Funds structured as Luxembourg vehicles have one major advantage: their flexibility. This makes Luxembourg funds preferable whenever international assets and investors are involved."

LUXEMBOURG STRUCTURES ARE ADVANTAGEOUS WITH RESPECT TO INTERNATIONAL ASSETS

Krull stressed the tax breaks that Luxembourg as domicile offers, and added: "If you – like us – invest in assets anywhere between Portugal and Finland, the flexible Luxembourg structures will also be helpful with the administration."

FOM Invest pursues a different approach and focuses on German vehicles. Andreas Stegmann: "Our funds invest in Germany and other countries in Europe. We are an investment management company (KVG) though, and our investors include mainly banks and savings banks. This is why we opted for the open-ended infrastructure separate asset pool, which is a German vehicle that is familiar to our target investors. It is important to us to provide everything as a one-stop service."

The panelists see plenty of potential in European long-term investment funds (ELTIF), a vehicle that was introduced as early as 2015. Since it had not been much of a success, the vehicle was recently reenacted (now called ELTIF 2.0). Its main innovations: ELTIFs can also be launched for private investors and may use the so-called "EU passport." Doing so permits EU-wide shares sales via a distribution notice. Rudolf Kömen commented: "The talks we are conducting have shown that there is keen interest in ELTIFs in the market."

ELTIF re-enforcement breathes new life into the vehicle

Rudolf Kömen, Conducting Officer, INTREAL Luxembourg

The re-enforced ELTIF regulation offers investors and fund providers significant potential for investments not just in real estate but also in infrastructure, corporate investments, renewable energies and other tangibles. What are the benefits in detail, and what can INTREAL do for you?

The European Union re-enforced its ELTIF (European Long-Term Investment Fund) as of 10 January 2024, thereby making the vehicle more attractive for investors and asset managers. The ELTIF 2.0 is more flexible, mandates has no minimum subscription amount, and may invest in a wider range of assets.

Compared to the original regulation, the spectrum of permissible asset was expanded. Assets that have a capitalised earnings value due to their nature and characteristics are now permitted, including infrastructure projects that involve renewable energies, for example, as well as real estate and equity investments. The widened spectrum of eligible investments also paves the way for new ELTIFs, including those that combine various tangibles (real estate, infrastructure and others) in a single portfolio. The ELTIF 2.0 also features revised concentration limits. The limit for investments in a single tangible asset, which had been 10 percent of the portfolio value, was doubled to a maximum of 20 percent. This makes it easier to assemble the portfolio mix. In addition, master-feeder structures are now permitted. These can be a sensible choice whenever products are being marketed in different legal systems. At the same time, the borrowing limit was raised to a value equivalent to 50 percent of the net fund assets. ESG strategies should also be easier to implement, as even so-called “green bonds” are now eligible for investments, among others. The ELTIF 2.0 is clearly upgraded by all of these regulations.

By opening up to private investors, ELTIFs provide access to asset classes that used to be more or less denied to this group. The former minimum investment amount of 10,000 euros in combination with 100,000 euros in free assets per investor seriously hampered the popularisation of ELTIFs. So, this rule was abolished. Another advantage of the revised ELTIF vehicle is that its costs are transparent. As a rule, ELTIFs are affordable private equity schemes subject to mandatory cost transparency. That said, the only costs involved are the purchase fees (upfront fee and possibly transaction costs) along with the running costs (management fees). These must be clearly and unambiguously described in the sales documents. The regulated ELTIF 2.0 product is more transparent than non-regulated products. In addition, the ELTIF 2.0 features tax incentives: Some European countries grant tax advantages to funds of this type. For example, Luxembourg passed the “Law of 21 July 2023” which exempts ELTIFs from subscription tax (“taxe d’abonnement”)

Aside from the investor benefits, there are various advantages for fund providers, too. For one thing, the updated regulation makes ELTIF launches easier and more flexible by simplifying the regulatory requirements. While ELTIFs remain subject to an approval process by the competent authority, we find it safe to assume that fund partners spend less time putting their funds on the market and that they benefit from the option to offer their investors a wide range of investment opportunities. Many years of high-quality first-hand reporting in the real estate fund segment have enabled INTREAL to make a name for itself among investors and fund partners. This is the competence that INTREAL is now bringing to the ELTIF market. The company is well positioned for it. Our subsidiary, INTREAL Solutions, is providing the IT infrastructure needed. As an AIF manager, INTREAL has the in-house expertise for other important functions, such as compliance and risk management, already in place. Indeed, our experts of INTREAL Luxembourg are ready to discuss your specific product ideas and potential solution models with you.

Latest News

EXPANSION CUSTOMER RELATIONSSHIP MANAGEMENT

Closer to the customer

Regina Arens has recently been appointed Director Customer Relationship Management. With her appointment, INTREAL has strengthened its sales and customer relationsship team. The trained bank clerk began her professional career in the Sparkassen organisation in 1990 and moved to Degussa Bank AG in 1998 after gaining qualifications as a savings bank specialist, bank specialist and bank business economist. Following stints as financing advisor and in various positions in market responsibility, she became head of new markets in the acquisition unit of Degussa Bank in 2005 before assuming the role of a B2B manager for large caps in 2017. Her work with INTREAL focuses on the acquisition of new clients and the ongoing customer relationship for the fund partners.

Highlights 2023

> 65 bn assets under administration

> 500 employees

> 300 funds

As of: 31 December 2023

EXPANDING THE RANGE OF DELIVERABLES

Management & real estate consulting to be taken over by REAX Advisory

INTREAL is expanding its range of deliverables while re-organising the comprehensive advisory services it provides through its subsidiaries. Experienced and independent consultants of REAX Advisory help to shape processes and structures more efficiently, to cut costs, to manage risks or to develop and implement ESG strategies whereas INTREAL Solutions, headed by Marko Broschinski, will continue to provide consulting services in the IT sector. REAX Advisory is a wholly-owned subsidiary of INTREAL under the dual leadership of Annika Dylong and Kai Nelson Dreisigacker, its managing directors. REAX Advisory will help you access field-tested solutions for the challenges currently facing the industry. Feel free to get in direct touch with us: Annika Dylong (adylong@reax-advisory.de) or Kai Nelson Dreisigacker (kndreisigacker@reax-advisory.de).

NEW INTREAL CUSTOMER PORTAL

INTREAL connect goes live

During the second quarter of 2024, INTREAL will go live with its new INTREAL Connect customer portal and thereby take another major step toward digitisation. Options that will be available to clients and service providers of INTREAL will include accessing information, contacting their key account managers and to manage their needs and to-dos in a simple and dedicated manner. At the start of the new portal, we will make the reporting dashboard available to our fund partners and investors, enabling them to interactively navigate the key financials of their funds. In addition, they will be granted access to all reports on their funds. Other components will be implemented successively.

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Solely binding basis for the purchase of shares in the "JHS Competo Immobilien Deutschland" and „FG Wohnen Deutschland" open-ended special AIFs pursuant to Art. 284, German Capital Investment Act (KAGB), are the investment terms and other contract documents, the key investor information document pursuant to Art. 307, Sec. 1 and 2, KAGB, the basic information sheets as amended and the most recently published annual reports. Please be sure to study these before finalising your decision to invest. Such a fund may not be marketed to private investors within the meaning of Art. 1, Sec. 19, No. 31, KAGB.

Special AIFs represent actively administrated investment vehicles whose management is not linked to a benchmark index. By subscribing shares, you will acquire an interest in a given special AIF rather than acquiring the actual assets held by that fund.

The funds invest primarily in real estate and thus in illiquid assets. Depending on the circumstances, it may prove difficult to sell these, to the point where share redemptions may be subject to a delay or may have to be suspended altogether from time to time. For detailed information about the risks to which an investment in the special AIFs is exposed, please see the Art. 307 document for the respective fund. The main risks are also identified in the respective basic information sheet.

Please note that this document neither represents nor substitutes for legal or tax advice. Moreover, the parameters underlying the document are subject to change, so that these assumptions may cease to be tenable at a later point in time.