VICTUS EUROPEAN STUDENT ACCOMMODATION FUND IC LIMITED
(‘VESAF’ the ‘Fund’ or the ‘Company’)

Registered Number 56015
Registered Office: 11 New Street, St Peter Port, Guernsey, GY1 2PF

Fund Update - October 2018

UK Portfolio

The Board have signed the Heads of Terms for the sale of the UK assets with due diligence progressing. As noted in the last update the Board were being advised to expect a late October 2018 completion date. No major issues have been identified but it is taking a little longer than expected and therefore completion is likely to slip into November.

European Portfolio

As reported previously the Board and its advisors were in negotiations with a buyer to finalise terms for the French Assets. The chosen bidder has undertaken preliminary due diligence which has resulted in a revised offer. Further negotiations have ensued which has resulted in agreement being reached and a Letter of Intent (“LOI”) being finalised and signed. French authorities have the right to purchase the property in priority to the proposed purchaser (“Droit de Préemption”). This is usually exercised where the property or land is required for public works development purposes. Following notification (“Declaration d'intention d'aliéner”) to the Mairie’s Office there is a two month period to exercise the right to purchase where the Mairie’s Office can either not reply or respond earlier to decline (“Droit non exercé”). The LOI considers this Droit de Préemption with an expected completion date of January 2019 or earlier.

As reported previously an interested buyer for the German assets had requested additional time to perform their assessment. During this period a further two bids from interested parties had been received and were assessed. The buyers have requested additional time to perform their assessment and this process is ongoing.

The Board will release further details on the progression as soon as practicable.

Independent Director’s Review

Mark McNicholas was appointed to act as an independent non-executive director of VESAF on 17 April 2018 with a mandate to conduct a review of certain matters identified by an investor group representing 30% of the issued shares in VESAF. Mark has completed his review and a copy of the report setting out his findings is enclosed.

The report has been prepared independently by Mark and represents his own views. The preparation of the report has not delayed the process of winding down VESAF, and Mark’s time in preparing the report has been covered by his agreed fees for acting as an independent non-executive director. The report has not been subject to review or amendment on behalf of VESAF, by any other members of the VESAF Board (past or present) or by any other service provider to VESAF. The VESAF Board accepts no responsibility for the contents of the report which is being provided to all investors in the interests of disclosure and transparency.

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The VESAF Board will continue to keep investors updated on all the above matters and remains committed to providing investors with the best value proposition as soon as is practicable. All enquiries should be forwarded to the Fund's Secretary at the Fund's registered office, which is located at the above address.

Yours faithfully
For and on behalf of the Board of Directors
Victus European Student Accommodation Fund IC Limited

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The domicile of the Fund is Guernsey
The Legal Representative of the Fund in Switzerland is: OpenFunds Investment Services AG, Seefeldstrasse 35, CH-8008 Zurich
Publications in respect of the Shares are effected on the electronic platform www.fundinfo.com
The Paying Agent in Switzerland is Società Bancaria Ticinese SA, Piazza Collegiata 3, 6501 Bellinzona.
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Victus European Student Accommodation Fund IC Limited

Shareholder Review

Background

On the 12th April, a group of investors in Victus European Student Accommodation Fund IC Limited (The Fund) wrote to the Board of Directors requesting, inter alia, that a review be undertaken by Mark McNicholas (as a newly appointed Board member) into a number of historic actions / events that had occurred since 2016.

The Board responded to the shareholder group in a letter dated the 11th May, agreeing to the scope of the proposed review. A copy of the agreed scope of review is attached as Appendix 1.

The review was undertaken through a combination of reviewing Fund documentation (board minutes, appointment letters) and verbal discussions with fellow board members and employees of the Fund administrator (Vistra) and Crosslane Fund Management.

Findings

1. Savills / CBRE

From my review, I did not find any special instructions from the Fund to CBRE and Savills re valuation of the Funds assets.

The sale of St James' Point and St James' Court, Newcastle occurred in early October 2016 for a combined sales price of £35m reflecting a yield of 6%. From my review of the available board minutes, it is apparent that the sales process was quite complicated with the purchaser looking to negotiate late on into the sales process . It was also apparent from my review that the incumbent lenders (Macquarie) were also proving difficult to deal with. From my review, it appears clear that the board of directors acted professionally in endeavouring to ensure that the sale was concluded within an acceptable time scale.

At the same time, the Crosslane Group were also selling another student accommodation property in Newcastle (147 bed St James' House) to the same purchaser (Brookfield) for £16.5m at a 6% yield. Savills were also representing the Crosslane Group.

Whilst I did not see any reference to the Crosslane Group sale in the minutes of the Fund board meetings or any reference to Savills acting on behalf of both the Fund and the Crosslane Group, I don't believe that this, in isolation, indicates any action being taken to the detriment of the Fund and it's investors. The price achieved of £35m was just above the year end valuation (August 2016) of £34m.

2. Valuation Depression

In terms of the Newcastle assets, there was a fall in valuation between 2015 to 2016 of c10%. This, I believe could be attributed to the result of the EU Referendum in June 2016 that witnessed a marked dip in real estate values, especially those held in open ended funds that saw a general withdrawing of investor cash and a corresponding sale of assets at discounted value to match liquidity requirements.

3. Refinancing

Victus Guernsey 1 owned Pitt Street in Newcastle secured by a loan from Macquarie. In 2016, the loan stood at £12.8m against a Market Value of £15.6m. The facility had been restructured in 2014 from a development facility onto a term loan at an all in rate of 5.96%. The facility contained a sliding LTV covenant (from 82% at the start to 76% at loan expiry).

Give the fall in valuation in 2016, the facility was in breach of its LTV covenant. From my discussions with CFM, Macquarie were acting aggressively and it was the belief of CFM that they were looking to place the loan into default and potentially take control of the asset. This practice is commonly referred to as " loan to own".

Victus Guernsey 5 owned the other building in Pitt Street, Newcastle and this was secured by a loan from Titlestone (an established, non bank loan provider). In 2016, the loan stood at £10.2m against a Market Value of £18.2m. The facility with Titlestone had originally been taken out as a development facility for the student accommodation on Pitt Street. Although the property development was, by 2016, completed and the asset was operational, the facility still attracted a high borrowing rate of 11.5% pa. The facility had been extended with Titlestone in 2015 for a further year, presumably pending refinance at more commercial rates or a sale.

Both loans were repaid following the sale to Brookfield in early October 2016.

4. Would a refinance of both Newcastle assets have been possible rather than a sale?

Given the combined LTV of both Newcastle assets (65%) , a refinance (in isolation) could in theory have been possible.

However, from my discussions with Vistra, there were a number of large outstanding creditors that required settling and the Fund had to dispose of assets to settle these (see below). A previous attempt to dispose of the German assets in the summer of 2016 had not proved successful as the potential buyer had not been able to satisfy the agent (Savills) and the Board that they had the financial ability to complete the transaction.

Given the outstanding creditors that the Fund had accrued over this period and the suspension of the Fund, then a disposal of assets, I would argue, was a prudent course of action.

5. Review of Main Contracts

There are a number of key advisors to the Fund, the roles and responsibilities of each having been clearly outlined in the original Prospectus. My review of the contracts did not evidence any apparent deviation from the respective responsibilities contained within the Prospectus.

Notwithstanding this, it is worthy of note that the " advisor" structure does not contain the role of an Investment Manager which is common in many similar sized funds. In the case of the Fund, there is an argument that the roles of the Promoter (CFM) and Property Adviser (CPAGL) could be amalgamated into a broader, simpler Investment Manager function.

With regards to the CPAGL contract, the feature of both the Net Development Profit fee (payable to CPAGL) and the Land Development Fee (also payable to CPAGL) is clearly defined in the contract as well as the original Information Memorandum. Notwithstanding this, the crystallisation / payment of " super return" fees to an adviser to the Fund for operational real estate assets appears premature given that (i) the assets themselves had not yet established a mature performance record and (ii) no account given to the future performance of the Fund. The latter admittedly could not have been foreseen at the time of the Fund's launch but, with hindsight, a claw-back mechanism would have been beneficial for investors.

For any property related investment structure, there will always be a number of roles that have to be maintained for regulatory and practical purposes, ie the administrator, the company secretary, the property and facilities manager, the manager of the various asset holding SPVs.

Given that the Fund is now committed to a wind down, via an orderly disposal of the assets into the market, I wouldn't recommend any changes to the contracts / advisers at this stage. However, if the sales process proved to be unsuccessful, then consideration should be given to a formal overview of the advisory arrangements with a view to reducing the cost base through a rationalisation of the contracts.

6. Debt Restructuring Costs in 2016

Wyvern Partners were appointed in early 2016 by the Fund. I have had sight of a letter dated 6 January 2016 from Wyvern to the Board of Directors setting out their understanding of the services to be provided in relation to the restructuring of the loan facilities provided by Macquarie.

Wyvern were engaged to assist with the negotiations with Macquarie. As mentioned above, the loan facilities with Macquarie were in breach of their LTV covenant and Macquarie were looking to amend the terms of the loan facilities. From my verbal discussions with members of the CFM team, Macquarie were being aggressive in nature and there was cause for concern that their agenda was to place the loan facilities in to default with a view to taking control of the underlying assets.

The Wyvern letter of the 6 January outlines the following proposed fee structure:

Initial Engagement fee of £30,000.

Debt Amendment fee of £85,000 in the event that the terms of the Macquarie debt are amended.

Deferred Transaction fee of between £20,000 and £60,000 in the event that the Macquarie Debt is repaid in its entirety or that the assets are sold to a third party with the Macquarie debt attached.

According to Vistra, the Macquarie facility was amended (via an extension and part repayment of £600k in 2016) that enabled the Fund to be able to sell the Newcastle assets to Brookfield in October 2016 and repay Macquarie from the sales proceeds. Wyvern were paid a fee of £115,000.

Whilst I do not have visibility as to the extent of work / time involved under the Wyvern instruction, I am cognisant of the timescale of the appointment (c9months) and the fee representing c0.5% of the debt ticket being negotiated. I would consider this to be broadly market facing.

The most significant cost incurred with regards to this restructure was payable to Macquarie and its advisors - Vistra advise this to be in the region of £412k.

My review has not looked at the rationale for the Board engaging with Macquarie in November 2014 in respect of Victus Guernsey 1 Developments and Victus Guernsey 2 Developments (Pitt Street, Newcastle and Anchor Road Bristol).

The EU Referendum was having an effect on investor appetite in the U.K. real estate markets prior to the actual referendum date in June 2016 which then saw a sharp dip in valuations across most sub sectors and the subsequent suspension of the Fund. With regards to the Macquarie facilities, a breach of the Loan to Value covenant had been triggered in late 2015 prior to the Brexit Effect and by the time of repayment in late October 2016 (from the Newcastle sale and the refinance with Nat West) the LTV ratio across both facilities was a worrying 80%.

I would conclude, from the information made available, that the Board did as much as it could do in managing the position with Macquarie.   The experience was certainly costly but could have been worse if the relationship would have deteriorated to such an extent whereby Macquarie had opted to enforce their security and take control of the assets via their rights under the loan facility.

I don't know the extent of the prior relationship between the Fund or CFM (as Promoter) with Macquarie before the loans were negotiated but if this was a brand new relationship then in reality this was always likely to be a riskier option for the Fund especially for a development finance loan where the inherent risk is higher than for a straightforward investment facility with a secure income stream.

7. Cash Management

The creditors log and the cash balances are managed on behalf of the Fund between CFM and Vistra.

From my review, it is apparent that a weekly meeting is held between both parties to ensure that an efficient level of management is maintained.

The cash flow of the Fund is quite " lumpy" as significant inflows occur in line with the respective student payment arrangements , usually twice or three times a year in line with term start dates. Cash flow is strained in the summer months when occupation levels drop.

Notwithstanding this, in view of the relatively complex structure of the Fund, significant costs are incurred at the property holding level as well as the wider Fund level.   As the Fund has been selling assets over the last two years (Newcastle and Dundee) the operational costs for the Fund have not decreased proportionately which has resulted in a greater strain on the cash flow of the Fund.

My review showed that whilst liquidity and cash management were adequately monitored on a weekly basis, from a strategic perspective I would conclude that the liquidity position of the Fund is likely to deteriorate over time.   This position has been recognised by the Board hence the notification to investors in early 2016 that an orderly wind down of the Fund had chosen as the optimal direction for the Fund.

Mark McNicholas
Independent Non Executive Director.

PROPOSED SCOPE OF REVIEW – VESAF

1. Review of actions and expenses in relation to marketing and sale of the fund's properties H1 2016-2018 (to date), including interaction with Savills and CBRE
   1.1. Confirmation that Savills/CBRE did not receive any special instructions from the Fund on the valuation method/approach
   1.2. Savills/CBRE to disclose any conflict of interests (incl. the Fund vs Crosslane Group)
   1.3. Reasons for depressed valuations 31/08/2016 (UK properties only)
   1.4. Could a sale of Newcastle assets have been avoided at a depressed valuation (loss to investors)? Would refinancing have been a better option (switch from development debt to operating company debt)? Why was expensive development debt not replaced earlier? Why were Macquarie debt covenants breached?
   1.5. Why not opt for a sale of German properties in Aug/Sept 2016? (which did not suffer a fall in valuations – according to investor communications, there were good offers made)
2. Review of main contracts (in particular with related parties/service providers) to confirm market terms including history of the Fund's engagement with third party advisers (administrators, auditors etc.)
3. Consider which service provider agreements remain necessary and terminate unnecessary ones (e.g. agreements with Property Advisor, with Promoter) OR amend their terms as required to reflect the current situation of the Fund
4. Based on all historical audited financial statements, the Fund has consistently been delivering losses for investors.
5. Expenses:
   5.1. Debt restructuring fees £1,258,000 in FY 2016: who was the independent strategic advisor appointed by the Board? Was this expense in line with market standards?
   5.2. Development management fees calculation, costs to develop vs valuations
   5.3. Any other matters
6. Cash management.