Riverside CAPITAL | THE PROPERTY INVESTMENT PEOPLE

Investment Opportunity
Logistics: DPD UK

November 2016

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01.
Statement from Dominic Wright, CEO

Dominic Wright
Group Chief Executive
Riverside Capital

Riverside Capital is proud to present its latest off market commercial property investment. The investment provides an attractive, high quality, long-term income stream and is in the logistics sector, an area of the commercial property market where we see the potential for significant growth over the next five years. In this post-referendum environment, these attributes have become even more compelling given the decline in bond yields and uncertain economic outlook.

Logistics properties are seeing strong demand, underpinned by an increased focus on supply chains due to the continued rise in e-commerce. Well-located delivery depots serviced by larger distribution hubs have become the model of choice for companies looking to service the 'last mile' of delivery efficiently and effectively. Yet, despite this growing demand, there is a scarcity of supply, resulting in a positive outlook for both rental growth and capital gains.

The properties in this opportunity are two delivery depots, let on long leases to one of the most innovative carriers in the industry – DPDgroup UK Limited.
With online orders predicted to attract an ever-rising percentage of overall retail sales, the logistics sector is underpinned by strong foundations which should help it thrive, despite the uncertainty that has followed the UK referendum result.

Overall, this deal offers an attractive combination of both income and capital growth potential. The following pages provide in-depth detail. If you'd like to know more, please don't hesitate to contact a member of our team.

02.

Key highlights of the opportunity

An 'off market' opportunity to invest in two purpose-built new delivery depots, let to DPDgroup UK Limited (DPD UK) on long-term leases.

Logistics sector growth: The exponential growth in e-commerce is driving demand for well-located delivery depots which enable logistics companies to service the crucial 'last mile' of delivery. While demand is rising, net supply is falling, resulting in a strong outlook for continued rental growth and investment returns from the logistics sector.

Income growth: Each lease has a five-yearly upward only rent review, dependent on the Open Market Value*. Based on current rental evidence, we believe there is strong potential for rental growth in both locations.

Key locations: The properties are located in Aberdeen and in Swinderby, near Lincoln. The Aberdeen property will allow DPD UK to service their north of Scotland business, and is in a strategic location which will be further enhanced by the forthcoming completion of the AWPR (Aberdeen Western Peripheral Route) during 2017. The property near Lincoln in the East Midlands is located adjacent to a major trunk road and has excellent access to airports, sea ports and the national motorway network.

Tenant strength: DPD UK has the strongest possible credit rating of 5A1 from Dun & Bradstreet, meaning it is deemed to have minimal risk of failure. The company has a reputation for being the most pioneering carrier in the express parcels sector, providing high quality solutions thanks to its innovative culture and dynamic use of technology. It is the first UK carrier to provide a one-hour delivery window and has won multiple awards for its unique service, putting it at the top of customer satisfaction polls.

Long leases: Income is derived from the full repairing and insuring leases to DPD UK. The property in Aberdeen has a 25-year lease, while the property near Lincoln has a 20-year lease.

High level of income: It is intended that a distribution, equivalent to 5.0% per annum, will be paid quarterly, in arrears, from approximately March 2017.

Attractive yield: The average net initial yield* will be 5.28%. This compares favourably with yields on bonds.

Term of investment: The term of the investment is just under five years, commencing 9 December 2016 with a targeted sale of the properties in, or around, October 2021.

Investment will be via a Guernsey authorised and regulated cell of Riverside Capital Protected Cell Company (PCC) Limited.

* See glossary of terms on page 35

Funding

The purchase cost of the properties is £14.855 million. Once stamp duty, structure set-up costs, fees and working capital are included, the total cost rises to £17.163 million.

Funding will be a combination of equity and debt. Riverside Capital will raise equity funding of £8.250 million, while Royal Bank of Scotland will provide the debt element amounting to £8.913 million.

The closing date for the equity raise is 9 December 2016. Equity investment is available from £25,000 (minimum investment).

Total purchase cost (£m)	£14.855
Transaction costs (£m)	£1.936
Working capital (£m)	£0.372
Total (£m)	**£17.163**

Funded by;

Bank debt (£m)	£8.913
Equity (£m)	£8.250
Total (£m)	**£17.163**

Key dates

9 December 2016	Closing date for equity investment
March 2017	Quarterly distribution, equivalent to 5.0% p.a., expected to commence
October 2021	Expected sale of properties

Investment returns

Our base case projected IRR* over the term of the investment is 10.53%, net of all fees and costs, with an upper case return of 15.33% and a lower case return of 5.47%.

Returns will be generated through a blend of income and capital growth.

Income

- Income is derived from the full repairing and insuring leases to DPDgroup UK (DPD UK). The property in Aberdeen has a 25-year lease, while the property near Lincoln has a 20-year lease.
- DPD UK is part of DPDgroup, the second largest postal group in Europe. It has a 5A1 credit rating from Dun & Bradstreet. This is the highest possible rating and represents minimal risk of business failure.
- Income growth is generated from the five-yearly upward-only rent reviews that are dependent on the Open Market Value*. Based on current rental evidence, we believe there is strong potential for rental growth in both locations.
- It is intended that a distribution, equivalent to 5.0% per annum, will be paid quarterly, in arrears, from approximately March 2017.

Growth

- Logistics properties are well placed to deliver strong capital growth. The fundamentals driving the logistics market remain largely unchanged by the EU vote as the occupational market continues to benefit from the shift to online retail. In addition, supply of suitable properties is scarce, while demand remains robust.
- The property in Badentoy North, a new commercial park in Aberdeen, will be enhanced by the completion of the new city by-pass (AWPR - Aberdeen Western Peripheral Route) in late 2017. This will significantly improve access from Badentoy to Aberdeen International Airport and the north side of the city. The site's location will allow for immediate access to the AWPR, making this a strategic road transport location.
- The property in Swinderby, near Lincoln, benefits from strong rental value growth; logistics properties in the midlands region outperformed the wider logistics sector in H1 2016, achieving 4.4% compared to a 3.6% average(CBRE). This is boosted by improving occupational market conditions, combined with a limited supply of available space. With demand steadily on the rise, the site's location – the 73 acre, Network 46 commercial park – has had an attractive number of recent enquiries.

* See glossary of terms on page 35

03.
About Riverside Capital

Riverside Capital is a full-service property investment company, providing a platform for professional investors and intermediaries to access and invest in the UK commercial property market.

Founded in 2010, to date we have completed £1.132 billion* in transactions and have produced an average uplift in value of 50% on all exited investments.

Our primary service is direct property investment. We scour the UK property market to offer investors regular opportunities to invest directly into UK property assets, on a deal-by-deal basis.

Our expert team is able to access 'off market' opportunities that are not available to the broader market. They advise in the purchase of every asset we take to our investors, and then manage these assets to deliver income and capital growth.

We have previous knowledge and experience of the tenant, DPDgroup UK, having invested in another delivery depot for the same tenant in 2013. This property was on a 20-year lease and was located in Northamptonshire.

* 30 September 2016

04.
The opportunity in detail

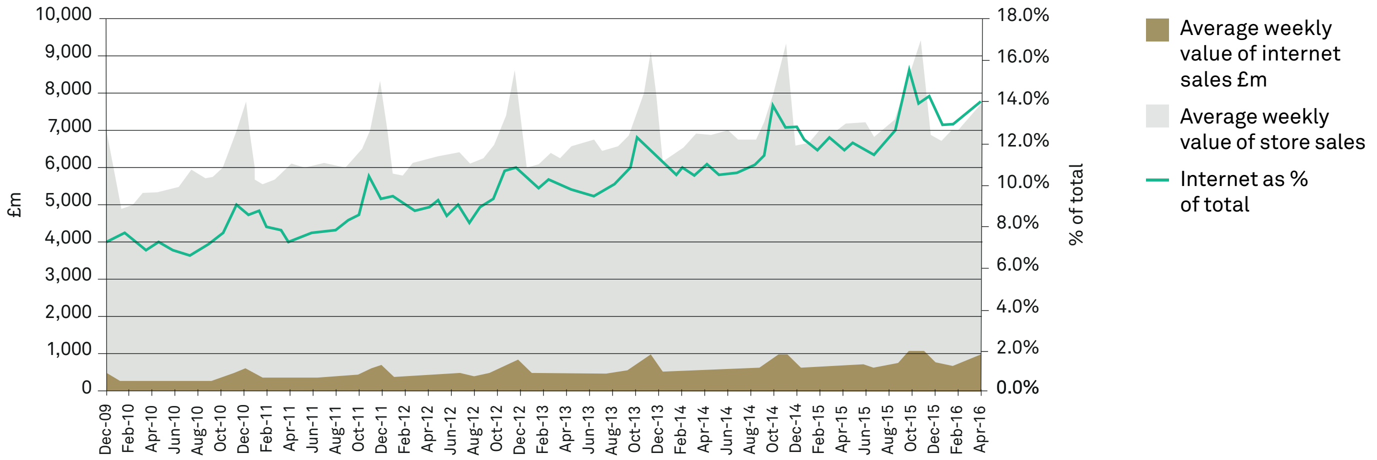
Adding value for our investors is at the heart of what we do. Our research highlights the opportunity in more detail, including an overview of the drivers of the logistics sector, and the specific characteristics of the two properties acquired.

The changing landscape of logistics

The logistics market is being reshaped by the worldwide growth in e-commerce. Consumers are no longer tied to traditional shop opening hours as the use of tablet and mobile devices facilitates round-the-clock purchasing habits. As a result, online purchasing and the associated delivery markets are seeing robust growth.

The UK is one of the most advanced e-commerce markets in the world, thanks to the high levels of broadband penetration and consumer adoption. The shift to online retail has been well documented, rising from 13.5% in 2014 to 15.2% in 2015. According to independent market research company eMarketer (Sep 2015), the UK will remain among the leaders when it comes to e-commerce, with online sales rising to over 20% in 2019. Other forecasts are even higher, with some analysts expecting online penetration to reach 25% by 2020.

Chart one: Online retail sales continue to climb



Source: Office for National Statistics (March 2016)

The growth is not just being driven by UK consumer spend. Chinese shoppers now purchase products online from British retailers almost as frequently as domestic shoppers. British retailers are the most popular international brands for German shoppers, and the second most popular in the US and China. Chinese shoppers spend on average 2.7 times more with UK retailers than domestic shoppers, while German consumers spend 1.7 times more (Source: OC&C Strategy Consultants, PayPal and Google).

A further factor helping to drive the expansion in online shopping is the continued growth in smartphone use. Smartphones have become the hub of our daily lives and are now in the pockets of around two-thirds of UK adults, up from 39% in 2012, according to Ofcom research. Coupled with this is consumer take up of fast 4G internet contracts, enabling smartphone users to shop when and where they wish. As the mobile shopping experience improves, we are seeing smartphone and tablet users shop online more frequently and spend more each time. Retailers that have been quick to improve and personalise the online shopping experience are now reaping the rewards of their investment.

The importance of the last mile

The growth of e-commerce is leading to a structural change in the logistics market. Companies are having to look at the way in which their supply chains work and adapt to this changing landscape.

In terms of choice, price is not the only metric on which a retailer is judged: speed of delivery is also a key determinant. This has led to one of the most significant current logistics challenges for online retailers, no matter how big or small: how to deal with ever shortening delivery times and servicing the 'last mile' of delivery?

As retailers look at various ways in which to differentiate their services, a new asset class has emerged – the parcel delivery depot. Fulfilment centres of 50,000 sq. ft. or under and close to the point of consumption are now essential to speed up the delivery process. There is also significant new demand for sortation centres and processing centres for returned goods.

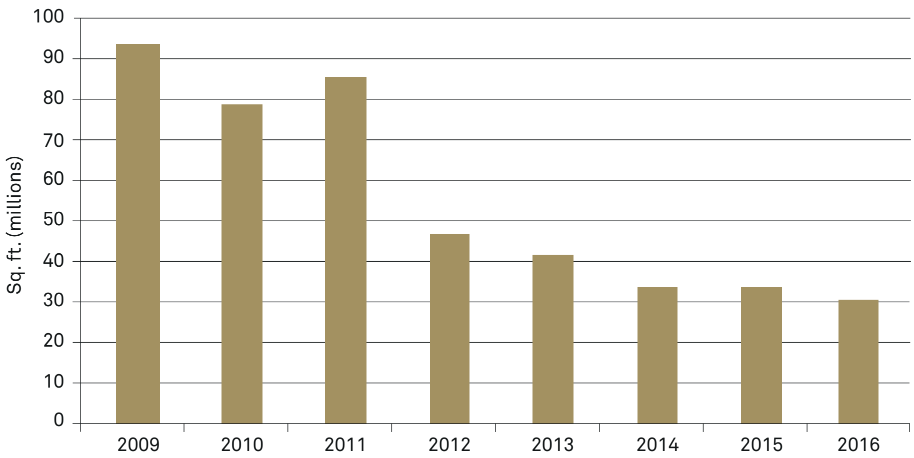
Demand is outstripping supply

Increased online spending is likely to keep demand for new warehousing high: research by Prologis suggests that for every extra €1 billion spent online an extra 775,000 sq. ft. of warehouse space is required.

Post-referendum, online retailer Amazon has committed to a further 555,000 sq. ft. The importance of this should not be understated since the continued roll-out of Amazon Fresh and Prime Now will not only require new warehouse space, it will also force other retailers to adapt their supply chains to compete – and this will further increase the demand for logistics hubs.

This increase in demand, however, has not been matched by speculative developments. Since the last downturn, new development in the logistics sector has generally been constrained: just 13.65 million sq. ft. has been delivered since 2012 compared to 40.47 million sq. ft. from 2005-2009. Combined with strong recent levels of take up, this has ensured that net supply has decreased from 94 million sq. ft. in 2009 to just 30 million sq. ft. in the seven months to July 2016.

Chart two: Net new logistics supply has fallen sharply



Source: Savills (July 2016) "The Impact on UK Logistics: Brexit Briefing"

Online retail boom spurs logistics' returns

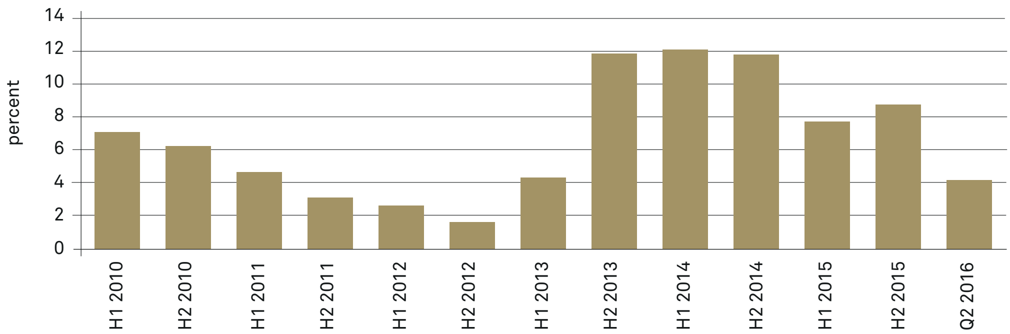
Over the past five years, investors had become increasingly comfortable with logistics as a global asset class, driven by the shift towards online retail and the long-term secure income the sector offers.

According to BNP Paribas Real Estate, the logistics sector saw £2.6 billion of investment in 2015, 87% higher than the long-term average, with average yields on lot sizes of £20 million or greater falling 112 basis points over the year. The first half of 2016 was also robust, with CBRE recording £1.19 billion of purchases of distribution properties. This was in stark contrast to some other parts of the commercial real estate market which were showing signs of slowing ahead of the EU referendum on 23 June.

Logistics outperformed the wider industrials sector over the first half of 2016, returning 4.4% compared to 3.6% for all industrials in the CBRE Monthly Index and taking the 12-month return to June 2016 to 13.6%. While capital growth slowed in the first half of 2016, this was, in part, due to the impact of the changes to Stamp Duty Land Tax regime in the 2016 Budget. In contrast, rental growth rates have remained stable across the logistics sector due to an increase in demand and constrained supply. Going forward, the outlook for rental growth remains positive, particularly if the supply/demand imbalance continues.

Returns were strongest in the north of England and the Midlands, primarily due to strong rental growth.

Chart three: UK logistics 6 monthly total returns



Source: CBRE (August 2016)

Outlook

Four months after the EU referendum, there is little in the way of transactional evidence to suggest that yields have started to rise in the logistics sector. To the contrary, so far in 2016 two of the three sharpest net initial yields paid have been for Amazon units, 4.5% at Bardon and 4.66% at Airport City, Manchester, both of which were sold to overseas investors after the referendum result. Both of these assets were sold with 15 years remaining on the lease and the former was a forward fund. Another DPD forward funding deal was completed on a unit in Bristol in September by Aberdeen Asset Management, trading at 5.0% NIY.

The logistics sector's relatively high-yielding profile continues to attract overseas investors alongside existing institutional demand. As the exponential growth of online retailing drives demand by retailers for distribution hubs close to key transport nodes, the acute undersupply of suitable properties should ensure rents maintain their upward trajectory.

In addition, while the consequences of Brexit will vary across different sectors, logistics has the potential to be more resilient due to many of the factors that have made the sector an attractive investment prospect in recent years. Indeed, the fundamentals driving the logistics market remain largely unchanged by the EU vote, and the occupational market continues to benefit from the shift to online retail. In fact, it is likely that the e-commerce market will continue to grow even during times of economic uncertainty as consumers will continue to look online for cheaper products.

The investment

Our ability to offer attractive investments is based on our focus on three elements; income, location and tenant.

Income

The investment is comprised of two new, purpose-built delivery depots, let to DPDgroup UK on long-term leases. The property in Aberdeen has a 25-year lease, while the property in Swinderby, near Lincoln has a 20-year lease.

Both properties have full repairing and insuring (FRI) leases, meaning the tenants are responsible for the maintenance and upkeep of the properties.

The properties will generate a Net Initial Yield* of 5.28%, with five-yearly upward-only rent reviews dependent on the Open Market Value*.

Both properties will have completed and will be income producing by the closing date for equity investment of 9 December 2016. It is expected that surplus income (after fees) will allow for a 5.0% quarterly distribution, payable in arrears, commencing in March 2017.

Table one

Property	Tenant	Price paid	Initial rent	Net Initial Yield	Lease Start	Lease Expiry	Rent Review	Review Pattern
DPD, Badentoy Industrial Estate, Aberdeen AB12 4YD	DPDgroup UK Ltd	**£8,568,403**	**£474,941**	**5.22%**	October 2016	October 2041	October 2021	5 yearly Open Market review
DPD, Network 46, Camp Road, Swinderby, Lincoln LN6 9BJ	DPDgroup UK Ltd	**£6,286,898**	**£354,691**	**5.29%**	June 2016	June 2036	June 2021	5 yearly Open Market review
		£14,855,301	£829,632	5.28%				

* See Glossary of terms on page 35

Location analysis

An analysis of each property's location, local demographics and key macro-economic performance drivers, suggests that the trading outlook for the investment is strong.

Aberdeen: Badentoy Industrial Estate, Aberdeen AB12 4YD
Lincoln: Network 46, Camp Road, Swinderby, Lincoln LN6 9BJ

Aberdeen

Badentoy Industrial Estate, Aberdeen AB12 4YD

The Site

Where it is: Aberdeen, Scotland's third largest city, is located on the west coast of Scotland, approximately 120 miles north east of Edinburgh and 150 miles north east of Glasgow.

The site sits in Badentoy North, a 24.28 hectares (60 acres) new commercial park, located at the north end of Badentoy Industrial Estate. This is within the popular commuter region of Portlethen, seven miles south of Aberdeen city centre.

Connections:

Road – Badentoy Industrial Estate, a well-established and popular business location, and a strategic road transport location. The A90 links Badentoy to Aberdeen to the north and Dundee and Perth to the south. It also feeds into the major motorways to Edinburgh and Glasgow, and links to the wider central Scotland road network. In addition, the A96 road north of Aberdeen links with Inverness and Elgin.

The completion of a new city bypass – the Aberdeen Western Peripheral Route (AWPR) – at the end of 2017 will significantly improve access from Badentoy to Aberdeen International Airport and the north side of the city. The site's location will allow for immediate access to the AWPR, making this a strategic road transport location.

30 flights
PER DAY BETWEEN ABERDEEN & LONDON

20%
POPULATION INCREASE BY 2035

Air – Aberdeen International Airport is located eight miles to the north of the city. It is currently Scotland's third largest airport, with passenger connections to over 40 national and international destinations and approximately 30 flights per day between Aberdeen and London. A £20m redevelopment of the airport will soon see a 50% increase in the size of the terminal building which will vastly improve passenger and baggage handling facilities. Airport bosses expect to introduce new flight routes to popular destinations including Florida, Alicante in Spain and the Greek Islands as a result.

Rail – Aberdeen railway station is located in the city centre and is directly connected to Aberdeen bus station. There are hourly train services to Glasgow, Edinburgh and Inverness, and regular connections to York, London and the rest of the UK.

Sea – Aberdeen harbour is one of the UK's busiest ports. A world leading marine support centre, it is the principal port for the energy sector in Western Europe.

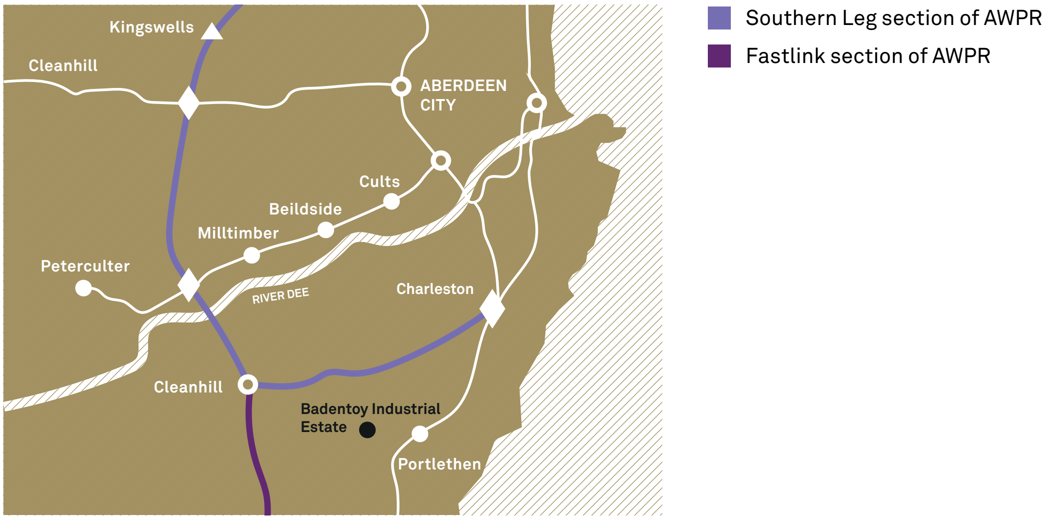
Population: Aberdeen has a population of approximately 225,000, according to the 2011 Census, and a regional catchment of around 500,000. By 2035, the population of Aberdeen city is projected to increase by 20% to over 271,000 (Aberdeen City Council, 2015).

Attractions: Aberdeen is the administrative capital and primary service centre for the north east of Scotland. It is the country's third most populated city, with an official population assessment of approximately 228,000 and catchment population of approximately 500,000. It is one of the most prosperous cities in Scotland owing to the variety and importance of its chief industries, of which oil has been largely responsible for the city's boom in the last three decades.

Falling oil prices over the past year has led to some concerns regarding the local economy, however the overall outlook remains healthy. While the decommissioning of old North Sea oil rigs over the next 25 years could cost billions of pounds, this presents an opportunity to local firms who can develop the safest and most cost effective ways forward. This will mean hundreds of new jobs requiring new levels of expertise in the coming decades. The UK and Scottish governments are pouring more than £500m of investment into Aberdeen in support of this transition and to continue the city's status of "energy capital of Europe".

Aberdeen's economy benefits from numerous other prominent industries including engineering, food processing, fisheries, agricultural, science and technology, as well as a market-leading legal and accountancy presence in the service sector. Average earnings in the region are 25% higher than the national average. The city also has a significant education sector, with approximately 60,000 young people studying at any time, including students attending Aberdeen and Robert Gordon Universities, which account for 30,000 of this total.

Developments: Aberdeen has experienced a variety of developments over the last few years. The new city by-pass (AWPR) is the largest of these and will allow the city to grow further and alleviate traffic congestion within the core business district. The AWPR is creating a number of new key strategic transport driven business hubs, of which Badentoy is the most southern. The Southern Leg and Fastlink sections of the AWPR will run in very close proximity to the site.



The Market

Supply and demand: Aberdeen has a strong industrial property market, typified by limited supply and good tenant demand. Large modern distribution stock close to the city centre is limited. Much of the old stock, traditionally closer to the harbour or the airport, is either dated with small yards or has been subject to redevelopment for office use.

With a limited supply, there is increased pre-let activity in Aberdeen. Badentoy is no exception to this trend: the last three lettings (DPD UK included) at Badentoy North have all been pre-let off plan. Schlumberger Oilfield UK took a lease on an eight-acre development at the front of the site and KCA Deutag a new 20,000 sq. ft. facility, both on pre-let terms.

There is currently only one existing industrial property offered for lease at Badentoy (46,000 sq. ft. 2009 building) and there are no properties currently offered for sale for owner occupation. Looking forward, the developer of Badentoy North will continue to seek pre-let opportunities, thus driving long leasing transactions, but may build some smaller (5,000 – 10,000 sq. ft.) units on a speculative basis.

Opportunity: DPD UK has chosen Badentoy as the hub to service its north of Scotland business saying “Aberdeen is a superior strategic site for us, hence why we are planning for the long term with a 25 year lease”. Badentoy provides the required space for a service yard and its strategic location will be further enhanced by the forthcoming completion of the AWPR in 2017.

Lincoln

Network 46, Camp Road, Swinderby, Lincoln LN6 9BJ

The Site

Where it is: Swinderby is situated adjacent to and north of the A46 road, eight miles south west of Lincoln and 6 miles north east from Newark-on-Trent in the East Midlands.

The site sits alongside the northern boundary of Network 46, half a mile south of the A46 dual carriageway. It is also adjacent to the Swinderby Industrial Estate, a modern industrial estate, built in 2006, comprising five industrial units totalling 195,539 sq. ft. The estate is fully let, with occupiers including Danwood, Turbine Efficiency and UK Mail.

Connections:

Road – The property has easy access to the A46 dual carriageway, a major trunk road running east-west that provides quick access to Lincoln and Grimsby to the east, as well as to the A1/ A1(M), Nottingham and the M1.

Air – East Midlands Airport, which is 40 miles to the south west, is the UK's second busiest airport for freight traffic after London Heathrow. It is a major cargo hub for logistics companies, such as DHL, TNT and the Royal Mail. The airport handles around 40% of the UK's freight and approximately 30% of the UK's mail. It operates flights 24 hours a day and handles 310,000 tonnes of cargo per year.

85mins
TO LONDON KING'S CROSS

216,146
PEOPLE WITHIN 20KM

Rail – Newark North Gate train station is eight miles to the east. The station provides direct services to London Kings Cross, with a journey time of 1 hour, 25 minutes. Nottingham can be reached in 48 minutes by train, while the journey time to Peterborough is 27 minutes.

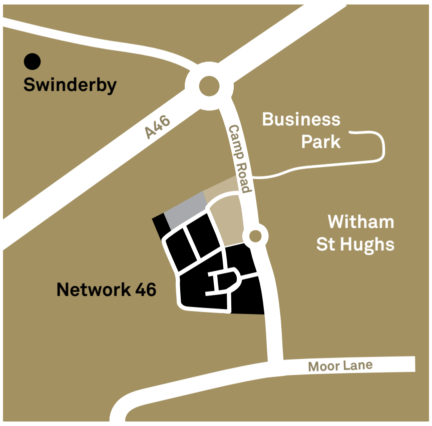
For central Lincolnshire, a significant rail improvement is the upgrading of the GNGE (Great Northern / Great Eastern) Joint Line which allows for a capacity increase for freight trains using the route. This Joint Line upgrade is a major infrastructure investment and will provide the opportunity to enhance existing services and create new services in the wider area.

Sea – The east coast ports of Grimsby Docks and Immingham Docks are 53 and 50 miles away respectively.

Population: According to the 2011 census, Lincoln had an urban population of just over 130,000, while Newark-on-Trent's population was just under 28,000. Both are key commercial centres within the East Midlands and provide a ready source of employment.

Attractions: Lincoln is a historic city with a vibrant and contempory edge including major landmarks such as the Lincoln Cathedral, Lincoln Castle and the University of Lincoln. The area is supported by its central location, strong transport links and close proximity to a large workforce. The city houses approximately 19,000 students in its two universities and 29% of the overall population is aged 15-29. It has a very strong engineering heritage and the manufacturing sector delivers a direct economic value to the economy of £1.8bn per year. Lincoln currently attracts 3.3m visitors a year, generating more than £130m to the local economy.

Developments: The 73-acre Network 46 commercial business park is complemented by Witham St Hughs Business Park, which is located to the east of Camp Road. Witham St Hughs Business Park provides a mix of office, industrial and storage accommodation and attracts a range of local and national occupiers, including Cargill, Frontier and Game. In addition, Witham St Hughs, a residential area to the east, benefits from local amenities including a school, supermarket and restaurant.



The Market

Supply & demand: The Midlands occupational market generally benefits from a limited supply of available accommodation and an improved occupier confidence and growth. Swinderby Industrial Estate and Witham St Hughs Business Park have both been the beneficiaries of this market dynamic and are fully let having experienced limited void periods. Across the wider Lincolnshire region limited supply of industrial land also exists which has created an attractive number of recent enquiries for Network 46.

Opportunity: In a market characterised by limited supply and considerable demand, 2016 has seen further improved pricing for industrial stock, particularly prime assets let to strong covenants on long lease terms. The investment market has continued to improve primarily as a result of the general improved occupational market conditions, providing investors with further confidence of rental growth in the short / medium term. Prime 20-year industrial investment stock is generating yield profiles of circa 5.00-5.25% as demonstrated by the recent sales on similar lease terms of the Euro Car Parts, Birch Coppice and Smurfit Kappa, Markham Vale.

Tenant

The two properties are being let on long leases to DPDgroup UK Limited (DPD UK). More detailed information about the tenant and the logistics sector can be found in the Research Report produced for this opportunity.

DPD UK is a member of one of Europe's leading parcels groups, DPDgroup (DPD), which is wholly owned by La Poste Group, the national French postal service, owned by the French government and the second largest postal group in Europe.

In the UK, DPD is a leading operator and operates under two brands:

- DPD targets larger customers and is a leading provider to the telecommunications, e-commerce and retail sectors;
- Interlink Express is a franchised distribution operation, primarily targeting the SME sector.

DPD currently operate 56 delivery depots across the UK, serviced by four regional distribution hubs, located in the West Midlands. The hubs distribute parcels on a daily basis to the delivery depots which in turn break down the delivery into a smaller fleet of vans and deliver to the end customer.

DPD has a reputation for being the most innovative carrier in the express parcels sector, providing high quality solutions thanks to its innovative culture and dynamic use of technology (DPD won the award for Best Contribution to Delivery Innovation ahead of DHL, Doddle, Nightline and On the dot and Best Provider of Outstanding Service beating Hermes, Parcelforce Worldwide, Royal Mail and Yodel). DPD’s success is due largely to its unique Predict service which notifies parcel recipients of their one-hour delivery timeslot, in advance, by email or text and gives them access to a range of ‘in-flight options’ such as deliver to a specific neighbour, leave in a specified safe place or divert delivery to the nearest DPD Pickup parcel shop.

Growth in e-commerce driving expansion in distribution network

La Poste Group has invested heavily in DPD UK's infrastructure. In 2008, DPD UK opened a new 27-acre, “superhub” parcel sorting facility at Oldbury in the West Midlands. In addition, DPD UK opened another superhub in Hinckley (Leicestershire) in late 2015. The new facility has increased DPD UK’s nightly sortation capacity by 65% and is the largest of its type in Europe.

With its business expected to grow 15-20% per annum, DPD UK predict they will need in excess of 80 delivery depots over the next 10 years to provide a fully integrated service across the UK and to service the ‘last mile’ of delivery. Over the next five years, it plans to invest a further £150 million in order to open an additional 10 depots (DPD Press Centre).

DPDgroup UK financials

DPDgroup UK (DPD UK) has a credit rating of 5A1 from Dun & Bradstreet. This is the strongest possible credit rating, and indicates minimal risk of default.

DPD UK published strong trading results for the 12 months to 3 January 2016. The business benefited from the expansion of added-value service features, including expanded pick-up and drop-off networks, deployment of parcel lockers, weekend deliveries and the expansion of the Predict parcel tracking notification service including the "follow my parcel" online service and App. These expansions have helped to further differentiate DPD UK from other UK parcel carriers.

Table two

DPDgroup UK Financial Summary	Year End 3 Jan 2016 £000's	Year End 4 Jan 2015 £000's	Year End 29 Dec 2013 £000's	Year End 30 Dec 2012 £000's
Turnover	700,246	605,432	492,252	393,592
Pretax Profit	124,939	87,560	90,058	52,925
Tangible Net Worth	69,545	61,074	55,257	62,901

05.
Structure and financial considerations

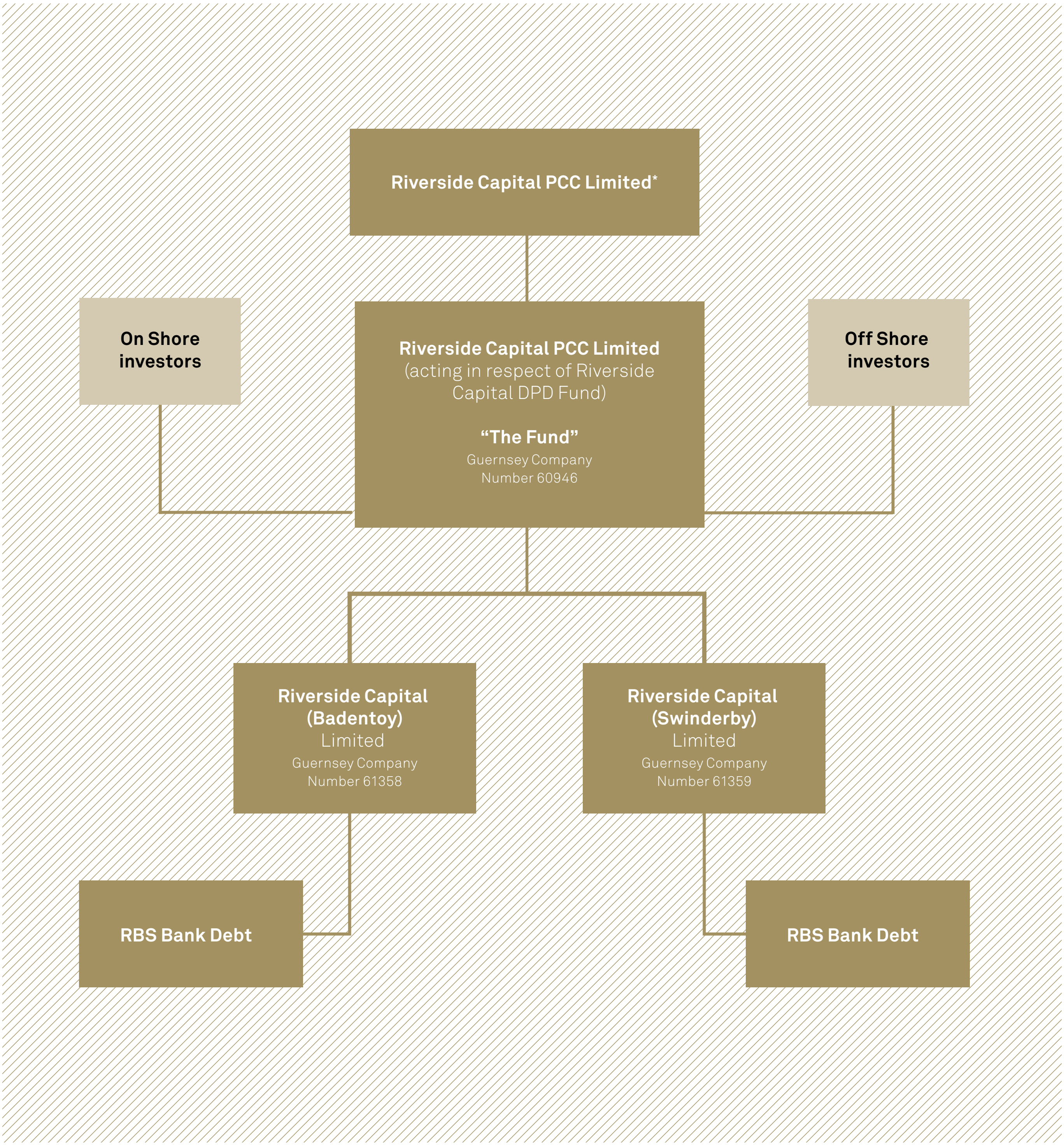
We have analysed the practical information underpinning the opportunity, including how it is structured and funded, as well as taxation considerations, fees and expected returns.

Structure

Investment in the opportunity will be via a Guernsey authorised and regulated cell of Riverside Capital PCC Limited, Riverside Capital DPD Fund (“the Fund”). Riverside Capital PCC Limited is regulated as an Authorised Closed-Ended Collective Investment Scheme by the Guernsey Financial Services Commission (GFSC), with registration number 2266153.

The properties will be owned by two new special purpose Guernsey companies, Riverside Capital (Swinderby) Limited and Riverside Capital (Badentoy) Limited (the “GuernseyCos”).

Chart four: The structure of the opportunity



* More information can be found in "Riverside Capital PCC Limited: Key Facts". Please contact a member of the team to receive this document.

The Board

The Protected Cell Company (PCC) is controlled by a single Board. The Board is comprised of individuals who have been carefully selected to meet statutory, regulatory and fiduciary requirements. The Board has appointed Riverside Capital Group Limited as investment and asset advisor. The role of the investment advisor is to put investment propositions to the Board which, if accepted, will be promoted to professional investors and intermediaries in various jurisdictions.

Board members

Shelagh Mason
Guernsey-domiciled Director

Shelagh is an English property solicitor with over 30 years' experience in commercial property. She is a consultant to Collas Crill, one of the major Channel Islands legal practices, having previously been a senior partner at both Spicer & Partners Guernsey LLP and Edge & Ellison. She currently holds several non-executive Director and Director positions in commercial property related companies.

Shelagh is a past Chairman of the Guernsey Branch of the Institute of Directors, a member of the Chamber of Commerce and the Guernsey International Legal Association, and holds the IOD certificate and Diploma in Company Direction. She has also been on the Board of Directors of Standard Life Investments Property Income Trust.

Martin Shires
Guernsey-domiciled Director and representative of the Administrator

Martin has been a Director of Intertrust in Guernsey since 1997. Martin studied Economics at the University of Hull and qualified as a Chartered Accountant with PKF in London in 1981. After qualification, he specialised in taxation with Deloitte, PWC and Robson Rhodes before relocating to Guernsey in 1994. He has over 30 years' practical experience of tax, company, trust and related matters, and is a former editor of Tolley's Taxation in the Channel Islands and the Isle of Man.

Martin currently acts as a director of the London Central Portfolio Property Fund Limited, Merchant Investment GP Limited, Intertrust Fund Services (Guernsey) Limited and Intertrust International Management Limited.

Dominic Wright
Representative from Riverside Capital Group Limited

Dominic is a co-founder and CEO of Riverside Capital, with overall responsibility for the running of Riverside Capital Group. With 17 years of market experience, Dominic has spent the majority of his career providing commercial property investment opportunities to the private equity arena. He has a strong track record in identifying and transacting on commercial property deals with a particular emphasis in London.

Dominic has vast experience in asset management and works to ensure that business plans are met and that exits are achieved on time. With his substantial network of industry contacts, his experience extends to arranging debt finance for investments and asset-backed corporate restructuring.

How the investment will be funded

The purchase cost of the investment is £14.885 million. Once stamp duty, structure set-up costs, fees and working capital are included, the total cost rises to £17.163 million (see table three).

The investment will be funded through a combination of equity and debt. Riverside Capital will raise equity funding of £8.250 million, while Royal Bank of Scotland will provide the debt element amounting to £8.913 million (see table four). The equity and debt will cover the acquisition costs, together with all structure set-up costs and working capital.

Table three

Total purchase cost (£m)	£14.855
Transaction costs (£m)	£1.936
Working capital (£m)	£0.372
Total (£m)	**£17.163**

Table four

Bank debt (£m)	£8.913
Equity (£m)	£8.250
Total (£m)	**£17.163**

Equity investment

Riverside Capital is seeking to raise £8.250 million in equity investment. Equity investment is available from £25,000, with a closing date of 9 December 2016

Bank loan

Senior debt terms have been agreed with the Royal Bank of Scotland at 60% Loan to Value.

The margin has been agreed at 2.25% above LIBOR*. Interest is to be met quarterly as it falls due.

The loan will be hedged by way of a swap* to protect the properties from potential variations in interest rates.

The senior loans have not been cross-collateralised*.

Table five

Bank	Royal Bank of Scotland
Loan term	5 years
Loan amount	£8,913,181 (60% loan to value)
Amortisation*	None
Bank arrangement fee	£89,131
Margin on loan	2.25% above LIBOR
Interest rate	It is intended that that each of the investment loans will be fixed for their duration shortly after exchange. We anticipate that the fixed "all in" borrowing rate* will be in the region of 3-3.25%
Loan pre-payment fees	None

* See glossary of terms of page 35

Exit strategy

The intention is to sell the properties together in, or around, October 2021.

Our base case assumption is for a blended exit yield of 5.00%, with an upper case exit yield of 4.5% and a lower case exit yield of 5.5%.

This is a result of several key factors:

- By selling the properties as one lot, the assets will be of interest to both institutional and private investors.
- The completion of the AWPR in late 2017 will enhance the location of the property in Badentoy and help drive yield compression.
- The exponential rise in e-commerce is expected to increase demand for logistics properties located close to key transport nodes. In particular, there is a lack of supply for 'last mile' operators, which need 100% coverage to be able to meet same day or next day delivery requirements.

Expected returns

The base case projected return over the term of the investment is 10.53% IRR*, net of all fees and costs, with an upper case return of 15.33% and a lower case return of 5.47%.

These returns are based on our expectations of where property yields, and logistics yields in particular, will be in 2021, as well as our assumptions for rental growth. In the base case, rental growth is predicted to be 2.9% per annum, the upside assumes 4.0% per annum rental growth and the lower case assumes 1.5% per annum.

Table six

	Exit yield	Return on equity	IRR
Base case	5.0%	55.69%	10.53%
Uppercase	4.5%	89.26%	15.33%
Lowercase	5.5%	26.16%	5.47%

* See glossary of terms on page 35

Taxation

All investors will subscribe for share capital in the Guernsey authorized and regulated cell of Riverside Capital PCC Limited ("the Fund").

The commentary below is a high-level summary of the tax attributes of the investment structure, including the expected tax profile for UK and non-UK tax resident investors, based on current law and practice. Additional commentary can also be found in the Scheme Particulars for the PCC and the Supplemental Particulars for the relevant cell of the PCC (the Fund). All investors should seek independent tax advice.

GuernseyCo Taxation

The GuernseyCos will be subject to UK income tax on tax adjusted property rental profits under HMRC's Non-Resident Landlord Scheme ("NRLS). Expenses incurred wholly and exclusively for the purposes of the property rental business (e.g. insurance costs, arm's length interest etc.) will be deductible in calculating the property rental business profits. Capital allowances may also be available (see below).

UK tax resident investors

Individuals

The Fund is proposing to elect as a "Reporting Fund" under the Offshore Funds (Tax) Regulations 2009. On that basis, UK individual investors should be subject to UK income tax on income distributed from the Fund plus any "excess reported income" over the amounts distributed. "Excess reported income" is the difference between an investor's share of reportable income (i.e. the tax adjusted profit of the Fund less any tax charged at the GuernseyCo level) and actual cash distributions received. As a result, UK investors may be subject to income tax on their share of the underlying income without receiving a cash distribution from the Fund.

Income allocated from the Fund will be taxed as dividend income for individuals. The first £5,000 of dividends received by UK individuals will be free of UK income tax and the excess will be taxed at rates of 7.5%, 32.5% and 38.1%, depending on the investor's marginal rate.

UK individual investors should be subject to UK capital gains tax on capital gains realised on a disposal of the shares in the Fund at rates of up to 20%. Any gain realised by an investor will be reduced by the total amount of excess reportable income taxed throughout the ownership period.

Non-UK domiciled individuals

Investors who are UK tax resident, but non-UK domiciled, should be subject to UK income tax on the reportable income of the Fund as for UK tax resident investors.

However, for capital gains tax purposes, the shareholding in the Fund should be treated as non-UK situs. Therefore, non-UK domiciled investors may not be subject to UK capital gains tax on disposal of their shares in the Fund.

Companies
Companies will be subject to corporation tax on their share of the reportable income of the Fund. As with individual investors, corporate investors will not only be taxed on the physical cash distributions received, but also on the difference between their share of reportable income and cash received ('excess reported income'). These distributions, and deemed distributions, should be treated as dividend income in the hands of the investor.

For many companies, the distributions and deemed distributions may be treated as exempt from UK corporation tax provided certain conditions are met. If distributions and deemed distributions are not exempt, then the investor would be subject to UK corporation tax at a rate of 20% (falling to 19% post 1 April 2017 and 17% post 1 April 2020).

A gain realised on disposal by the corporate investor will be subject to UK corporation tax at the above-mentioned corporate tax rates. Any gain realised by an investor will be reduced by the total amount of excess reportable income taxed throughout the ownership period.

Non-UK tax resident investors

Non-UK tax resident investors should be subject to taxation on their investment in the Fund in accordance with the laws of the jurisdiction in which they are tax resident. There is no concept of reportable income subject to UK tax for non-UK investors because the UK Offshore Fund (Tax) Regulations do not apply to non-UK tax resident investors.

Capital allowances

Capital allowances, which are elements of plant and machinery that can be used to offset against tax, have been identified by our third party adviser.

The GuernseyCos will be entitled to make the claim for capital allowances. They will receive the direct benefit of the capital allowances at a rate of 20% (being the rate of income tax charged at the GuernseyCo level under HMRC's NRLS). This benefit will be passed to both the UK and non-UK investors by increasing the net returns on exit.

Disposal of shares in GuernseyCos

On exit, the Fund should not be subject to UK capital gains tax or Guernsey taxation on the disposal of its shareholding in the GuernseyCos. Equally, if following a disposal of the investment properties the GuernseyCos are liquidated, then the Fund should not be subject UK capital gains tax or Guernsey taxation in respect of a capital return received on liquidation.

Note: Riverside Capital Group Limited is not qualified to give tax advice. You should note that the tax implications of using the above structure will differ depending on the investor's individual circumstances. All investors are strongly recommended to seek their own independent advice on their tax position in the proposed investment vehicle.

Fees

Fees relating to the opportunity are automatically deducted from the investment vehicles shown in chart four on page 27. These include Riverside Capital's transaction and ongoing fees, as well as charges relating to the equity investment and annual fees.

Riverside Capital's transaction and ongoing fees are shown in table seven.

Table seven

Transaction, debt arrangement and structuring fee	1.5% of the purchase cost of the properties. (total: £14,855,301) Riverside Capital fee £222,830
Annual asset management fee	0.5% of the purchase cost of the properties. Riverside Capital fee £74,277
Performance fee	An exit fee of 20% of profits above a minimum IRR hurdle of 8% per annum

In respect of the equity investment, issue costs together with an annual fee will be charged, and may be paid to third party intermediaries. These are shown in table eight.

Table eight

Issue costs	3% of the initial equity commitments
Annual fee	0.5% of the initial equity commitment

06.
Risk factors

Economic downturn
A downturn in the UK economy or the property market might have an adverse impact on values, leading to a reduction in demand for commercial property and low rental growth. However, this risk is partly mitigated since market evidence suggests that both properties are under rented at today's values, as developers often agree low initial rents in order to secure longer lease terms, which in turn increases investment value.

Tenant strength
The current Dun & Bradstreet rating of DPD UK is 5A1, which is the strongest possible rating. Any downgrade in this rating will impact future investment values. That said, the company has had strong turnover and profit growth over the past three years. With demand for logistics rising, the outlook for DPD UK is healthy.

Debt market
A return to illiquidity in the lending market could make the sale of the properties more difficult due to a lack of debt finance.

Reduced demand
According to Savills, rental growth for the logistics sector is predicted to be 2.9% per annum over the next five years. The growth is predicted due to a lack of supply of new logistics space and an increase in demand from all major operators in this sector. A shift in the demand side could result in lower rental growth and therefore less of an uplift in rental value at the next rent review.

07.
Glossary of terms

Amortisation
The practice of reducing the value of an asset or a loan in incremental steps.

Full Repairing and Insuring lease (FRI lease).
A lease which relieves the landlord from all liability for the cost of insurance and repairs. Instead, the tenant is legally responsible for all repairing and insuring obligations.

Gross Value Added (GVA)
A measure of the value of goods and services produced in an area, industry or sector of an economy.

Internal Rate of Return (IRR)
A measure of the annualised rate of return on a compound basis.

Loan-to-Value (LTV)
A financial term used by lenders to express the ratio of a loan to the value of an asset purchased.

London Interbank Offered Rate (LIBOR)
An average of the interest rate that banks estimate they would charge to lend to each other. LIBOR is commonly used as a reference point for loans and other financial instruments

Net Initial Yield (NIY)
The current annualised rent, net of costs, expressed as a percentage of capital value, after allowing for purchase costs.

Open Market Value (OMV)
The best price that might reasonably be expected to be achieved from an unconnected third party on a certain date.

Swap
A financial transaction where two counterparties agree to exchange cash flows for their mutual benefit. The most common kind of swap is an interest rate swap: one counterparty will pay away a floating rate of interest (one that varies according to the level of interest rates) and receive a fixed rate, and vice versa for the other counterparty. A borrower would commonly enter into a swap to protect itself against increased interest rates.

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11 Berkeley Street
Mayfair, London
W1J 8DS

www.rivercap.co.uk
T +44 (0)207 297 4480
info@rivercap.co.uk