

Delivering sustainable alpha over long term time horizons

Real Assets Capital Allocation: Real Estate and Infrastructure

Chris Hohn's TCI, made headlines last year delivering record profits and building on the firm's track record as one of the leading global capital allocators. TCI runs a concentrated portfolio, with a limited number of companies being held for long time horizons. Out of the vast global opportunity set, a Spanish airports group, Aena, made TCI's short list which it has now held for over a decade. The investment epitomises TCI's philosophy of taking concentrated positions in high quality companies over the long term, leveraging both sector expertise and an active approach to deliver sustainable alpha.

Stoneshield share much of TCI's philosophy, with another Spanish real assets platform, MiCampus (Iberia's largest PBSA platform with over 11,500 beds) having many parallels with the airports investment. Why should investors consider Iberian PBSA today? We explore how MiCampus looks to deliver sustainable alpha over the long term.

"The most durable alpha in real assets is generated by owning irreplaceable infrastructure in structurally undersupplied markets over long time horizons. Southern European PBSA increasingly behaves less like cyclical real estate and more like regulated infrastructure with embedded growth." Felipe Morenes Botin, Stoneshield co-founder

Concentrated Positions to High Conviction Sectors

By definition, it is only possible to have a limited number of good investment ideas and to generate alpha, investors must focus allocations to these high conviction sectors. Within European real estate, Southern European PBSA continues to offer highly attractive tailwinds compared to the opportunity set and is a strong candidate for investors seeking to capture sustainable alpha.

Southern Europe PBSA has exhibited some of the strongest rental growth within European real estate in recent years, a symptom of the acute supply/demand imbalance. PBSA provision rates (beds per student) are as low as 3% in Portugal, 4% in Italy and 8% in Spain, as opposed to 13% across continental Europe and 33% in the UK. This supply/demand imbalance is set to worsen in the near term, as new supply is not keeping pace with growing demand. The result being that unmet demand (shortfall of beds) continues to grow and now stands at over 500,000 students in Spain alone. There are few more structurally undersupplied real estate markets in Europe today, providing a compelling opportunity for long term investors to support the increasing demand.

Sustainable Business Models over Long Term Time Horizons

Having identified a high conviction sector, it is critical to gain long term exposure to maximise the benefits of compounding and minimise friction costs of having to frequently alter positions. Highest priority is identifying sustainable business models which can consistently deliver returns without being eroded by substitution or competition. MiCampus' infrastructure characteristics provide investors with these critical moats, including:

MiCampus's affordability for students relative to other PBSA providers, and also importantly to other residential options is crucial. A key driver of this affordability is students priorities and demanding less space than young professionals and families. As such, MiCampus can develop at a low cost per bed which supports long term affordability versus non-PBSA alternatives. The average cost of a MiCampus bed is less than €800 per month (including utilities and amenities) delivering optimal value for tenants and protecting against PBSA substitutes.

The network effects of PBSA are also not to be overlooked. For first year students moving city or Erasmus students (Spain is Europe's top Erasmus destination) studying in a new country, MiCampus offers an immediate community. This dynamic, creates a feedback loop of demand, with more

students in a given location making it more desirable, further increasing demand and limiting the appeal of substitute products

Additionally, PBSA as physical assets are also difficult to replicate, not only as a result of the high upfront costs and long timelines to develop, but crucially the limited available land. Unlike traditional residential units which can be developed in a wider range of locations, MiCampus must be located within close proximity to a limited number of universities

Finally, the importance of sufficient scale is critical for delivering a sustainable business model. This scale supports MiCampus minimising opex and providing the best value for money to students. Opportunities to benefit from scale range from negotiating utility contracts on a portfolio basis to sharing staff between nearby assets.

MiCampus being the largest platform can capture these economies of scale and share these cost savings with students, creating another positive feedback loop supporting future growth.

Unlocking Value with Sector Expertise and Active Approach

To optimise a sustainable business model in a high conviction sector, it is critical to have the right team to consistently deliver results over the long term. The award winning MiCampus is the largest student accommodation operator in Southern Europe, with a team of over 400 delivering the market leading experience for its students. This deep sector expertise underpins the highly resilient business model and supports continuous enhancement of students experience every year.

Creating integrated operating platforms like MiCampus, is a key part of Stoneshield Capital's (leading European manager with €5.0bn AUM) DNA, which provides the foundation for taking a continuously active approach. MiCampus supports data driven real time asset management decisions, supports scaling via organic and inorganic growth and captures operational efficiencies of scale. Operating platforms, like MiCampus turn fragmented assets into repeatable, data-driven systems for consistently generating alpha with an active approach.

"Stoneshield's core competence lies in building scaled operating platforms in structurally fragmented real asset sectors — MiCampus is a textbook example." Felipe Morenes Botin, Stoneshield co-founder

European Student Accommodation Core Fund ('ESAF')

Having identified the compelling opportunity, ESAF was established specifically to support investors allocating to Southern European PBSA over the long-term. ESAF is the largest core+ PBSA fund in Southern Europe, with 11,500 beds, operated by MiCampus. ESAF is well placed to continue capitalising on the exciting opportunity, offering investors a vehicle to invest in one of the most attractive real estate markets in Europe today. The combination of a focused position in high conviction sector, supported by a highly sustainable business model and active approach to value creation has created the foundations for ESAF to alleviate the deep undersupply of student accommodation across Southern Europe, whilst delivering sustainable alpha for investors over the long term.

"For investors seeking long-term, inflation-protected real income with embedded growth, Southern European PBSA represents one of the clearest opportunities in European real assets today — and ESAF offers a rare, scaled entry point." Juan Pepa, Stoneshield co-founder

