allianzgi.co.uk

The next generation of residential property investment

Allianz Home Equity Income **MAY 2022**

INFORMATION FOR FUND DISTRIBUTORS AND INSTITUTIONAL INVESTORS ONLY.
This is a marketing communication. Please refer to the prospectus of the Allianz Home Equity Income Fund and to the KIID before making any final investment decisions.

Gaining diversified exposure to UK housing

Allianz Global Investors has partnered with Wayhome to help institutional investors capture value from the UK residential property market. This strategy targets long-term, secure and inflation-linked cash flows through residential property equity co-investment. With lower gross-to-net leakage, the Allianz Home Equity Income strategy aims to deliver attractive yields and better risk-adjusted returns than the private rental sector.

The opportunity

This opportunity exists as three factors converge: very high demand from customers (due to mortgage income multiple rules), unique proprietary technology to find the right properties and institutional demand looking to invest in real assets with inflation-linked income.

This can deliver inflation-linked cashflows with a net target return of 5-8% pa derived from UK residential properties.

How does it work?

- Uses existing good quality homes in the UK to provide long-term, inflation-linked, rental cashflows for institutional investors.
- Generates positive societal benefit through co-investment with credit worthy customers, enabling those who are outside current government shared ownership programs to start a home and get on the property ladder.
- Customers part buy, part rent and gradually increase to full ownership. Institutional investors receive inflation linked rent and capital payments as customers move to full ownership.
- Deep market with quick deployment of commitments as we only buy existing homes that are already for sale.
- Low correlation with traditional asset classes and geographically diversified properties.

Why invest in Home Equity Income?

Innovative strategy formed by an exclusive partnership between Allianz Global Investors with Wayhome: Combines AllianzGI's proven track record in private markets with £70bn AUM with Wayhome's experienced property and technology team with 5 years in the UK market.

Genuine supply and capacity: Estimated investible market size of c£100bn. Currently there are 70,000 registered customers who meet strict credit worthiness criteria and want to buy in our target areas. In the last 3 months alone there was investment potential of £3.5bn.

Stable long-term investment income: Can form a part of a cash-flow driven investment (CDI) allocation.

Secure investment yield: Each property must deliver a minimum rental yield to meet our criteria. Very low running costs as customers are responsible for decoration and furnishing.

Cutting edge technology: Screens all public sales and isolates good quality homes in selected areas that customers can choose.

Positive societal benefits: Providing homes to families/people who are mortgage and creditworthy but do not have "the bank of mum and dad" for a large deposit.

What differentiates our innovative gradual ownership from traditional shared ownership:

1. Exclusively pre-owned or existing properties and therefore no development risk and quicker deployment.
2. Geographically diversified properties and we can quickly pivot to different areas as opportunities arise.
3. No debt or leverage for investors providing flexibility in portfolio management.
4. No debt or leverage for customers meaning there is no negative equity or risk of being trapped.

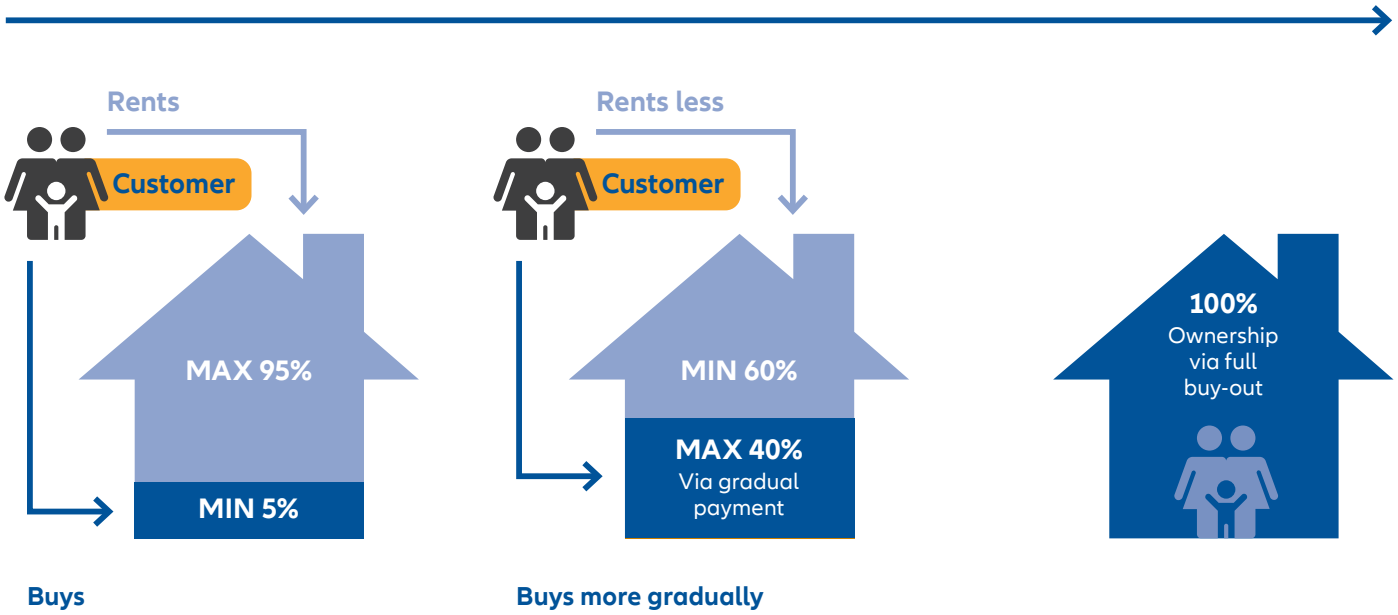
Value. Shared.

Allianz Global Investors

How does gradual ownership work in Home Equity Income?

Gradual home ownership is a main selling point of this proposition for consumers. Returns are driven by rent, not property prices, as these will be customers' long-term homes (eg 7-10 years). If there are temporary dips in property values, we can ride these out. Any house price appreciation will be shared between the customer and investors proportionately.

Crucially, customers are never trapped and can give notice to sell their ownership stake at any time. We may choose to sell with them, or find a new customer for the property or rent it out temporarily. Importantly, to protect investors, a customer cannot fully buy-out the property unless it is above the initial purchase price.



Investors

(i) Receive predictable inflation-linked income stream (RPI* + 2-4% net)
(ii) Share in modest nominal capital appreciation
(iii) Socially responsible investing (SRI)
(iv) Only credit worthy customers selected

Customers

(i) Better range of properties available at a 5% deposit/share under Home Equity
(ii) Security of tenure and stable rents, **with**
(iii) Option to buy-out with mortgage; or
(iv) Sell equity to finance next step on ladder

*RPI refers to the retail price index official measure of consumer inflation

Environmental, Social and Governance considerations

Positive societal benefit

- Provides access to homeownership for those that are seeking to start families, put down roots and contribute to local communities.
- Reduces risk of being renters at retirement, a major source of relative inequality when living on a fixed income.

Overlaps with social housing customer base

- Our customer overlaps with many in the Key Workers or Social Renters segment.
- Target household income of £40K (£25K minimum) means this product is accessible to many who currently cannot access traditional financing (e.g. mortgages).

Environment

- Homes are automatically screened to meet energy efficiency ratings ("EPC") and to exclude high flood risk. Properties with A to D energy ratings in scope.
- Support customers with further energy improvements and utilise government backed schemes (e.g. Green Homes Grant).

Continues overleaf

Key terms

Allianz Home Equity Income strategy	To seek income by funding rent-to-own ('Home Equity / WayHome') transactions with a share of any capital appreciation upside
Investment product	Closed-ended vehicle with an expected life of 10-15 years funding assets with a similar expected life but some extension risk
Clean-up option from year 10-15	Liquidate by selling the assets after year 10 or when the initial NAV is less than 20% of the NAV, whichever comes first
Minimum subscription amount	£5 million
Fund management fee	45 bps on invested amounts
Target returns	Net yield target of inflation +2-4% (= c.5-8% nominal). Net yield incorporates "all in costs" including the fund management fee
Timing of first fund	First close complete
Initial investment period	3 years after final close
Reinvestment period	3-7 years
Recycling of capital	Yes during the investment period, subject to limited circumstances. Thereafter cashflows will be distributed subject to limited circumstances at the managers discretion
Investment size	Initially the strategy is likely to be sized at a value of around £500m

Contact us

Samuel Berman
Director of UK Insurance
Phone: +44 (0)20 3246 7241
Email: samuel.berman@allianzgi.com

Catherine McLaughlin
Director, Institutional Business Development UK
Phone: +44 (0)79 0858 3929
Email: catherine.mclaughlin@allianzgi.com

Opportunities

- Increase in rental yields allowing us to lock in higher day one yields (higher yields could result from falling property prices and stable absolute rents or increasing absolute rents)
- Greater long-term property price growth (>2%); our planning assumption of average annual growth of 2% is conservative by historic standards
- Leveraging the Fund once the portfolio is more diverse and the risk/cost of borrowing reduced
- Higher inflation increases nominal return; real return unchanged
- Favourable changes in property taxation (e.g. Stamp Duty Land Tax (SDLT) rates and/or Annual Tax on Enveloped Dwellings (ATED) threshold) leading to lower costs of investment and/or increasing the addressable market of properties.

Risks**

- Acquiring properties with lower yields than 4-5% (due to higher property purchase or falls in market rents)
- Individual tenant arrears in excess of individual tenant co-investment amounts
- Tenant default leading to disposal and/or reletting of property on unfavourable terms
- Long-term growth in property prices consistently below 2%
- Higher uninsured major maintenance expenses than expected
- Unfavourable tax changes e.g. reversal of the recent loosening of the criteria a property investment vehicle must satisfy to be taxed as a Real Estate Investment Trust (REIT)

** Not a comprehensive list of risk factors – please see Private Placement Memorandum for fuller Risk Factors disclosure and discussion of mitigations envisaged

Find out about our full range of strategies at **https://uk.allianzgi.com/Institutional**

Allianz Global Investors