



Investor letter February 2024

Closing the gap between unit price and portfolio value - strategic objectives

Marketing communication

This is a marketing communication. Each investment is subject to certain risks and the investor may lose the value of their invested capital. Please refer to the latest prospectus of Baltic Horizon Fund and to the KID available at www.baltichorizon.com before making any final investment decisions. Before investing, please examine the terms and conditions of Baltic Horizon Fund and consult an expert, as necessary.



Closing the gap between unit price and portfolio value - strategic objectives

When Baltic Horizon Fund was launched in 2016, the scope of the fund was to provide a good, well-diversified real estate portfolio of office and retail assets. The Fund achieved a size of EUR 370 million and was able to pay out approx. EUR 45 million in dividends (approx. 0.49 EUR per unit) from 2016-2022¹.

Given the influence of COVID and impact of recent geopolitical events, Baltic Horizon units are now traded at a price that is more than 60% below NAV. Clearly, this is not acceptable for our investors nor for Northern Horizon Capital as the management company.

Links and legal disclaimers

- 1 Past performance does not guarantee future results. Investment results may substantially vary over time.
- 2 [Baltic Horizon Q2 2023 investor webinar](#)
- 3 The objectives are not a promise, guarantee, indication or forecast of future results.

On account of the underperforming unit price, Baltic Horizon has undergone a thorough review to determine the role that Baltic Horizon should have in the Baltic real estate market and how to recover the unit price.

In this review, several strategic options for the Fund have been considered. Given the current market environment, the conclusion is that the execution of the 'Modern City Life' strategy, as introduced to the investors in summer 2023², is the option that is the best interest of the investors.

The goal of the 'Modern City Life' strategy is to deliver positive risk adjusted results to our investors in the years to come both in terms of operating results, net cash flow and unit price development³.

The focus of the fund management team is and will be on four major objectives³:

- Fund's goal is to achieve a portfolio **occupancy of at least 90%** by end of 2024;
- The **Loan-to-Value ratio target remains at 50% or lower** and the outstanding bond must be repaid in line with the agreement with the bond holders or waiver received;
- The portfolio strategy must be clear, and we consider **disposing non-strategic assets over the next 18 months**;
- There is a clear ESG and refurbishment strategy for the next 1-2 years in order to aim to reach **portfolio's NOI potential of EUR 18 million** by 2027.

Strategic focus on Modern City Life

Traditional real estate asset classes like conventional office buildings and retail outlets are being challenged across the globe and the Baltics are no exception.

Nevertheless, we believe centrally located buildings catering to the modern era will still be in demand from a tenant and investor perspective. However, these buildings must be adapted to modern ways of working and socializing, designed to accommodate multi functional areas and tenants, while meeting the needs of the 'Modern City' resident.

Public infrastructure projects, and development projects in Tallinn, Riga, and Vilnius can connect people and businesses as never before. We expect to witness transformation of the traditional urban shopping center into a hub of experience based 'Live Work Play environment' for locals and tourists alike.

We will continue investing⁴ in our centrally located properties – Europa, Galerija Centrs, Postimaja/CC Plaza – with the aim to capitalize on the new cycle of economic development.

Regarding our office buildings, Baltic Horizon keeps its priority to work with governmental and other leading companies, to provide its employees quality premises and contemporary fitout solutions to support efficiency and workplace satisfaction.

In regard to the disposal of certain objects in the amount of EUR +75 million during 2021-2023, our strategic review has highlighted that assets of another total value of EUR 15-20 million can be considered sold within the next 18 months. The proceeds of these disposals would be used for fund's liquidity needs or be reinvested into properties having a better long-term strategic fit for the Fund.

Overall, the future position of Baltic Horizon Fund will cater to 'Modern City Life' since we believe this strategy offers the best value proposition to tenants and investors of this new commercial real estate era.

We expect two thirds of the fund's NOI to come from the centrally located 'Modern City Life' concept assets. The remaining balance is expected to come from primarily government rented premises and selected suburban supermarkets⁴.

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Strong focus on operational results

Retail development and future focus

While market conditions are still challenging and not expected to fully recover before 2025, we are cautiously optimistic about 2024 with a goal to achieve a portfolio occupancy of 90% by year-end⁵. Our centrally located strategic mixed-use retail/service/entertainment centers have a large role to play in achieving this goal.

During 2023, we have seen increased tenant interest in our buildings in the retail segment, and we expect this to continue in 2024⁶. We believe this is attributable to the fund owning very attractive retail assets, to the team having invested heavily in upgrading these facilities over the last couple of years, to having signed lease agreements with leading tenants who appreciate the locations and to having strengthened the retail property management side through a new agreement with Newsec in Latvia and Lithuania. Also, these centrally located assets have increasingly attracted other tenants linked to lifestyle, health, or working communities.

Our NOI in this segment grew by 11.3% over the last 12 months to EUR 5.4 million⁶. New major tenants include ARKET, H&M Home and IKI. The team has either renegotiated or leased out 34% of the total retail lettable area⁶. This development has positively impacted the terms that we have obtained for the new bank loans for the retail assets which will further allow us to reduce the outstanding bond amount at a lower financing cost.

NLA (m2)	Total	Occupancy %	Vacant	Active negotiations
Europa	17,047	84.5%	2,634	2,590
Galerija Centrs	19,306	80.4%	3,789	5,600
Sky	3,259	100.0%	-	-
Pirita	5,425	97.1%	159	103
Postimaja	9,232	95.6%	407	-
CC Plaza	9,139	94.3%	524	1,950
Total	63,408	88.1%	7,513	10,243

As of 31 December 2023

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- ⁵ The objectives are not a promise, guarantee, indication or forecast of future results. Investment results may substantially vary over time.
- ⁶ The information contained herein does not constitute an offer or invitation to subscribe for any securities in funds managed by Northern Horizon. Past performance does not guarantee future results.

Strong focus on operational results

Office development and future focus

In the office segment, the market conditions in the Baltic capitals, especially in Riga, are expected to remain challenging in the coming years. We see this development reflected in NOI which dropped 9% when comparing 2023 with 2022.

For our office assets, we are happy to confirm that we have successfully prolonged all major lease agreements in the portfolio that we expected to prolong by January 2024⁷. The long-term focus in the office segment will be on modern buildings and long-term cooperation with public tenants e.g. governmental or municipal organizations. While the rental levels might not always be at the top end of the market, there are other benefits such as stable rental income and less tenant turnover that contribute positively.

Examples of this strategy include the latest agreements with the Latvian Police in Riga for 4,000 m² for a period of 12 years and the Estonian Information System Authority for 3,000 m² for a period of 5 years.

NLA (m ²)	Total	Occupancy %	Vacant	Active negotiations
Lincona	10,775	85.8%	1,772	432
North Star	10,579	99.7%	35	35
Meraki	8,162	47.7%	4,272	4,055
Upmalas Biroji	11,212	57.7%	4,739	450
Vainodes I	8,128	100.0%	-	-
S27	7,450	42.8%	4,263	3,000
Total	56,306	73.2%	15,081	7,972

As of 31 December 2023

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Objectives concerning financial costs and asset upgrades

Financial costs and Loan-to-Value ratio

In May 2023, an agreement was reached with the bond holders to refinance the maturing bond of EUR 50 million with a new EUR 42 million bond, of which EUR 7.5 million has already been redeemed. We are pleased to confirm that majority of the remaining short-term tranche of EUR 12.5 million are expected to be repaid by less expensive bank loans shortly.

The dramatic increase of interest rates experienced in 2022 had a negative impact on the entire real estate sector in Europe. Apart from the bond, a large part of the fund's bank loans are hedged until mid-2024 and capped even until 2025 which has helped the Fund's running cost of debt.

Given the improved performance of its properties, the Fund has signed new 5-year loan agreements with Šiaulių bankas in total amount of EUR 26 million. Approximately EUR 17.4 million of the loan amounts are expected to be used for refinancing the existing bank loans and the rest of the amount are expected to be mainly used to redeem part of Baltic Horizon Fund bonds issued in May 2023.

By executing active hedging strategy, it is the current ambition of the of the management to target the medium to long term financing costs of the fund at 4.5-5.5%, including all margins⁸.

As previously also stated, it is the ambition to keep the Loan-to-Value ratio at 50% or lower in the future^{8,9}.

ESG and refurbishment capex

Our assets must remain attractive and have a low environmental footprint in order to attract the right tenants and the right investors.

Significant investments have been made in upgrading the centrally located assets over the last 36 months (in total EUR 12.8 million) which has contributed to the ongoing recovery of the operating results.

Over the last 3 years, we have strengthened our commitment to ESG considerably. In 2021, we set a major ESG goal to achieve a 100% BREEAM certified portfolio by the end of 2023. We are very proud to confirm that we have reached this milestone and to have received a four-stars GRESB rating for the second year in a row.

Please also refer to the fund's sustainability related disclosures on our website¹⁰.

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⁹ Additional leverage could result in potential increased losses or returns.

¹⁰ [Sustainability related disclosures](#)

New advisory capabilities to support the strategy execution

New Advisory Board as of 1 January 2024

We are fully committed to executing the 'Modern City Life' strategy and to delivering on the four major objectives.

As a part of the strategic review and to reflect the new focus on 'Modern City Life' concept, the composition of the Advisory Board¹¹ has also been changed as of 1 January 2024 to ensure the right advisory capabilities in this modern economic and real estate era.

Future outlook and dividend

Subject to stronger operational results, an improved interest environment, and no major macro-economic changes, it is the management's goal to be able to gradually introduce dividend payments and/or unit buybacks in the medium-term from 2025.

While we are committed to reaching the above goals the future performance or any returns are not guaranteed and the past performance of the fund in past periods does not guarantee the rate of return of the fund in future periods.

Links and legal disclaimers

¹¹ [Minutes of the General Meeting of investors of Baltic Horizon Fund 21 December 2023](#)

We continue the focused work to deliver on the management objectives.

If of interest, we would be pleased to present a more detailed overview after the Q4 results are published in the second half of February 2024.

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