

Orava Residential REIT plc

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**The Board of Directors of Orava Residential REIT has received from Orava Funds plc an indicative offer for converting Orava Residential REIT into a AIF- residential fund**

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The Board of Directors of Orava Residential REIT (“Orava Residential REIT”) has received today from Orava Funds plc an indicative offer for converting Orava Residential REIT into a AIF-residential fund.

The indicative offer made by Orava Funds plc is as follows:

**“Indicative offer for converting Orava Residential REIT into an exchange-traded real estate alternative investment fund (AIF)**

Orava Funds plc (“the alternative investment fund manager”, “AIFM”) proposes a project to convert Orava Residential REIT (“Residential REIT”) into a special common fund investing its assets mainly in real estate and real estate securities as defined in the Act on Common Funds (“exchange-traded real estate AIF”, “exchange-traded non-UCITS fund” or “non-UCITS fund”).

**Benefits of an exchange-traded real estate AIF**

In an exchange-traded real estate AIF, the unitholders (“Investors”) will have a liquid investment as well as the option of redemption of a fund unit, characteristic of investment funds, at the unit’s net value. Another benefit is the possibility offered by the exchange-traded AIF of exchanging fund units into housing company shares through redemption in kind. In a non-UCITS fund, the Investor is subject to simple taxation which is not the case in a common exchange-traded real estate investment company. The exchange-traded non-UCITS will pay annually to Investors at least three quarters of its profits for the financial period based on cash flow.

The units of the real estate AIF would be listed on the planned new AIF list of Nasdaq Helsinki. Trading on the exchange will be liquid on the basis of market-making, more than 6,000 unitholders and the wide range of distributors and visibility provided by Nasdaq Helsinki. Exchange-trading is also a cost-effective alternative for the Investors, as the only direct trading costs will be the brokers’ commissions. On the exchange, the unit’s trading value may differ from its redemption value.

The reporting and information routines for an exchange-traded non-UCITS fund are also less strict than for a common real estate company. The Orava Residential REIT’s annual administration fee of 1.17% of the value of the invested assets is estimated to be able to reduce to 1.0% in the real estate AIF.

## Investing in non-UCITS fund units

Investors can buy and sell fund units on the exchange during trading hours. Alternatively, Investors can subscribe to and redeem their fund units biannually as defined in the Act on Common Funds and the rules of the non-UCITS fund. According to the drafted rules of the non-UCITS fund, in addition to subscriptions and redemptions in cash or in kind can be made with fund units or a combination of cash and in kind.

In case of subscriptions in kind, Investors can subscribe to fund units by transferring real estate or real estate securities to the non-UCITS fund. In case of redemption in kind, Investors can convert their fund units into the non-UCITS fund's apartments (housing company shares) on sale. In case of subscriptions and redemptions in kind, the fair value of the apartments shall be verified by an auditor. According to the draft rules of the non-UCITS fund, the AIFM may limit redemptions in kind or demand a minimum cash payment in addition to fund units, if that is necessary in view of the non-UCITS fund's liquidity or solvency.

## Costs

The transfer of the invested assets from the Residential REIT into the non-UCITS fund is subject to asset transfer tax amounting to 2% of the asset value, equalling approximately 4% of the net assets. The AIFM's registering fee is 0.3% of the non-UCITS fund's gross asset value (GAV), or approximately 0.6% of its net asset value (NAV).

The subscription fee is 1% for subscriptions in cash and 2% for subscriptions in kind. Correspondingly, there is a redemption fee of 3% for redemptions in cash and 2% for redemptions in kind. In addition, the Investor is required to pay asset transfer tax on the fair debt-free value of the apartment.

The fixed annual administration fee is 0.6% of the fund's assets (GAV). The AIFM's provision is 20% of the annual return exceeding the non-UCITS fund's hurdle rate of 7%. The earnings are calculated on the closing rate or net assets, whichever is lower. The provision will be paid only if the closing exchange rate or fund unit value exceeds the closing exchange rate or fund unit value for previous financial periods after adjustment of yield.

The value of the assets of the non-UCITS fund is defined using the same evaluation methods and principles as for the value of the assets of the Residential REIT at the moment. Taking into account the above-mentioned transaction costs, the Investor's net value for the unit is estimated to 95.4% of the share of the Residential REIT (net asset value per share). The estimate does not include any redemption fees. The conversion may also result in other costs which cannot be foreseen.

## Conversion into an exchange-traded non-UCITS fund

The conversion from the Residential REIT into an exchange-traded non-UCITS fund would take place through transferring the assets and liabilities of the Residential REIT in full to the non-UCITS fund to be established, the fund units of which will be listed in Nasdaq Helsinki. The shareholders of the Residential REIT will become unitholders of the non-UCITS fund in proportion to their ownership. The conversion of the Residential REIT will require a two-thirds majority decision in the Annual General Meeting, and the arrangement is estimated to be possible to be implemented during late spring 2018 at the earliest. The conversion may further require the rearrangement of debt financing. Capital gains and losses as the result of the arrangement would be realized in investors' taxation.

## Uncertainties and risks related to the conversion

It is possible that the presented model doesn't fully fill the requirements of the regulation in force. Converting the Residential REIT into an exchange-traded non-UCITS further will be subject to the required permits by the authorities and the approval of the rules of the non-UCITS fund. The Finnish Financial Supervisory Authority may also require conditions to the rules that differ from what is proposed here. It is possible that the Finnish Financial Supervisory Authority will not approve the AIFM's liquidity management method or the proposed contribution in kind redemption method, or any other contribution in kind redemption method.

It is possible that Nasdaq Helsinki will not set up the AIF list or change its rules to enable listing the real estate AIF. In addition, it is possible that the Listing Committee of Nasdaq Helsinki will not make the decision to remove the shares of the Residential REIT from the list or to admit the non-UCITS fund units to the list. The conversion requires a two-thirds majority decision in the Annual General Meeting of the Residential REIT for the dissolution of the Residential REIT.

The liquidity of the non-UCITS fund can be lower than the liquidity of the Residential REIT, even if the fund units are listed. In addition, other uncertainties may be related to the removal of the shares of the Residential REIT from the list and the listing of the non-UCITS fund units, as such an arrangement has not been carried out in Finland before.

Large redemptions may lead to a situation where the investments of the non-UCITS fund may have to be realised at a value lower than their gross value, or the redemptions may have to be ceased in situations referred to in the non-UCITS fund's rules if the equality or other weighty interest of fund unit owners so specifically requires.

Orava Funds plc reserves the right to further specify or alter its proposal.

Orava Funds plc"

The independent members of the Board of Directors of Orava Residential REIT are investigating the profitability and feasibility of Orava Funds plc's indicative offer together with a financial and legal adviser.

Helsinki, 11 October 2017

Orava Residential REIT plc

Board of Directors

Additional information:

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