Keppel accelerates transformation with pivotal proposed acquisition of leading European asset manager Aermont Capital

Media & Analysts Briefing Transcript

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LB	Léon Bressler, Chairman of Aermont Capital
PG	Paul Golding, Managing Partner of Aermont Capital

Opening remarks by Loh Chin Hua, CEO of Keppel Corporation

Good evening, analysts and friends from the media.

We have just announced Keppel's strategic proposed acquisition of Aermont Capital, a leading European real estate asset manager. Aermont was ranked by PERE in 2023 as the top European real estate firm by funds raised in the last five years.

This evening, I am pleased to be joined by the Chairman and Founder of Aermont Capital, Mr Léon Bressler, and Managing Partner, Mr Paul Golding in Aermont's London office.

Léon, whom I have known professionally some years ago, is a familiar figure in Singapore. He is currently GIC's Advisor Emeritus and has served on various GIC boards from 2011 to 2020.

Paul had illustrious careers with Norges and Merrill Lynch, and has been with Aermont since 2010.

I will invite Léon to share more about Aermont later. Let me begin by outlining the rationale for the proposed acquisition from Keppel's perspective.

Firstly, this transaction marks a unique and strategic opportunity for Keppel to acquire a leading European platform with strong recurring fees and a premium global LP network, at an attractive valuation, and with minimal impact on our gearing.

Structured in two phases, Keppel will acquire the first 50% stake in Aermont in 1H 2024, as we work towards acquisition of the remaining 50% and full integration in 2028. The acquisition of the first 50% stake, when completed, is expected to be immediately earnings accretive to Keppel.

Highly synergistic acquisition

The acquisition of Aermont is a significant step forward in Keppel's ambition to be a global asset manager and operator. Aermont will be Keppel's European Real Estate Platform. This will give us an immediate and strong foothold in Europe, significantly expanding our presence beyond Asia Pacific, and also bolster Keppel's value proposition to global LPs.

Upon completion of Phase 1 of the acquisition, Keppel's FUM will grow by an initial S$24 billion[1] to over S$77 billion, compared to our current FUM of just over S$53 billion[1].

Our focus in the initial phase will be to maintain and support Aermont's platform, as we seize opportunities through the joint creation of new fund products and initiatives that will generate further upside and FUM growth.

Keppel will also be able to widen our network of blue-chip LPs leveraging Aermont's longstanding relationships with its global clients.

The success of the asset management business depends on having the right talents with relevant expertise and strong track records. As Keppel scales up our business, we are looking out not just for good assets but also top talent and strong capabilities that can add value to our platform. The senior team at Aermont, with their extensive asset management track record and networks in Europe, is a prime example of a strong team that would add significant value to Keppel.

Fortifying presence in Europe

Aermont has done very well in the European market, with a strong track record in opportunistic strategies focusing on value-creation initiatives, operational leverage and value arbitrage. It manages a diverse portfolio of real estate assets and businesses in 10 key cities in Western Europe, spanning offices, student accommodation, workforce housing, luxury hospitality and production studio infrastructure.

While real estate is an area that Keppel is very familiar with, we have not had a significant presence in this asset class outside of the Asia-Pacific. With very little overlaps between the two companies, Aermont's portfolio will be a strong addition to Keppel's current focus in Europe, which is mainly in renewables and data centre assets.

The acquisition will further expand Keppel's network of investors through Aermont's longstanding relationships with over 50 global LPs. These include public pension funds, sovereign wealth funds and endowments and foundations from Europe, North America, Asia and the Middle East, the majority of whom are new to Keppel. By coming together, both our companies will be able to access a wider pool of blue-chip LPs.

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[1] Gross asset value of investments and uninvested capital commitments on a leveraged basis to project fully-invested FUM as at 30 June 2023.

Expanding management capabilities

Léon will share more with you more about Aermont later. What I would like to emphasise here is that we will have a very experienced and senior team at Aermont, led by Léon and Paul, working alongside Keppel on our growth journey as a global asset manager and operator.

Aermont's operating culture and values are very similar to Keppel's. As asset managers, neither of us are pure financial investors. Aermont's strong emphasis on value adding and active management, as well as its operator-oriented approach to portfolio management are a strong fit with Keppel's strengths as an asset manager and operator.

Strong performance and track record

As you can see in this slide, Aermont has an impressive fundraising track record. The results speak for themselves. Aermont has raised 5 vintages of flagship opportunistic funds and a single asset vehicle. The strong re-up rates across these funds reflect strong support from Aermont's global LPs and the deep relationships the company has established with its clients.

Significantly in 2022, Aermont was able to raise approximately S$10 billion in equity commitments for Fund V and PGV. Fund V, which raised EUR 3.8 billion, has just made its first investment and is well poised to take advantage of any dislocations in the market.

Accelerating growth towards FUM target

Keppel is committed to support the success of Aermont's platform, as we add value to each other by harnessing our collective expertise and strengths for growth. Aermont's opportunistic strategy is a good complement to Keppel's core and value add investment approach.

With value add from Keppel, we believe that Aermont's FUM can grow by up to 2.5x to approximately S$60 billion in 2030, through the co-creation of European credit funds, data centre funds and various private investment vehicles. There will also be further opportunities we can explore in the REIT space leveraging Keppel's expertise in this area.

Compelling deal structure

This next slide gives an overview of the deal structure. We have structured the transaction in a way which will allow us to achieve strong, long-term alignment between the interests of Aermont's and Keppel's interests.

Firstly, this is a performance-based deal structure, where the consideration in each phase is tied to Aermont's actual financial results for the period. Keppel will acquire the initial 50% stake in 1H 2024 at an implied EV/EBITDA of 13x. Following a period of transition, we will then proceed in 2028 to acquire the remaining 50% stake in Aermont.

Secondly, the total consideration, which can be funded with a mix of cash and Keppel treasury shares, would encourage greater alignment. In particular, any treasury shares issued as part of the Phase 2 consideration, would be vested over a period of two years ending 2030.

Earnings-accretive and minimal impact on gearing

I will not go through the details of this next slide, save to emphasise that the acquisition of the first 50% stake is expected to be immediately earnings accretive to Keppel. It would contribute to Keppel's recurring income[2] and FUM, with an approximate one percentage point impact to the Company's net gearing on a pro forma basis[3].

Beyond the immediate financial impact, we believe there is strong potential for us to create even more value over the longer term, through close collaboration between the Keppel and Aermont management teams.

Conclusion

To conclude, this is a strategic and attractive acquisition bringing together two established asset managers with deep expertise in their respective fields. It marks a pivotal step forward in Keppel's ambition to be a global asset manager and operator, and avails us of a leading European platform with strong recurring fees and a premium global LP network, supported by a senior team of professionals.

Léon and Paul, together with their partners, have built a top performing and impressive franchise in Aermont that has attracted some of the world's most prominent LPs. Keppel looks forward to the partnership and is committed to support and build on the culture that has made Aermont successful, as we add value to each other by harnessing our collective expertise for growth. With that, I would like to hand the time to Léon to say a few words.

Speech by Léon Bressler, Chairman of Aermont Capital

Thank you very much, Chin Hua. It is a great pleasure to say a few words and to say how much we welcome the partnership with Keppel. In fact, Aermont was established in 2007 and Chin Hua has given some examples of the growth we have enjoyed over the last 15-16 years.

Key has been the search for high returns for our partners, risk-adjusted returns, within a very disciplined context. The originality of Aermont is that we are very much operator-oriented. And that's exactly where the cultural fit with Keppel is. In fact, we had received a number of unsolicited offers over the years from extremely strong and reputable companies in the PE sector, the

[2] Recurring income comprises asset management income and operating income.
[3] Assuming up to EUR 154 million of the Phase 1 consideration is funded in Keppel treasury shares with the remainder in cash, and calculated on a pro forma basis assuming the acquisition of the 50% stake was completed on 31 December 2022.

infrastructure sector, and a US group that wanted to expand in Europe. And we thought that this would not add a lot to Aermont in the long term.

So, the attraction of Keppel for us is clearly the industrial roots of Keppel, the entrepreneurial spirit of the company, and the fact that they have been able to combine operational expertise and asset management. What is particularly of interest to us is, honestly, the expertise of Keppel in the big megatrends of the next 10 or 15 years, in connectivity, energy transition and infrastructure, where we believe that together we can make Aermont a bigger and better firm for the benefit of all our stakeholders, particularly our LPs, and also our team, which will have a broader horizon. That is something very important.

To give you a few examples, Aermont has always been operator-oriented. So, we are investing in the traditional real estate activities. We have done ground-up developments from Frankfurt to Lisbon, from London to Milan, but more importantly, we have also invested in operating platforms, we have developed operational companies, where we keep together the property and the operations. So, the PropCo and OpCo are integrated and we have done that from Fund I to Fund V, from an investment in an operator, developer and manager of shopping malls in Germany as a first investment from Fund I to a recent investment in a luxury hospitality platform in Italy for Fund V, via Fund II, Fund III and Fund IV. Two major examples are The Student Hotel, a major company in the hospitality and student accommodation sector, which covers all of Europe, and which we sold last year; and Pinewood Production Studios which are headed by Paul. We have really developed the company in a tremendous way since the acquisition in 2016.

So, that is the basis of the agreement with Keppel. The idea that we can all be stronger, we can maintain the identity and culture of Aermont, because of the compatibility with Keppel's strategy, and we can benefit from the remarkable expertise of Keppel in the key sectors of the next 10 or 15 years.

That is really what I would say. If there are any questions, Paul and I will be able to respond to your questions and give you more illustrations on what kind of investments we do and the way we do it. And I would conclude with the fact that we are also an extremely disciplined investor. Fund V is the best example of that because it is like Fund I in 2007, at the beginning of the real estate crisis. We decided not to invest and we generated superb returns for Fund I. The same thing for Fund V. The initial closing of Fund V, which is a EUR 3.8 billion fund, was in March of 2022 – 20 months ago. And despite that, we have only made one investment, in the hospitality sector in Italy, which is a growth investment because we want to build a substantial platform there and we have not done anything else, which means that we have all the dry powder today.

We are not in any way sensitive to the tremendous decline in real estate values over the last 20 months and we are extremely well positioned to take advantage of distressed situations in a market which will be dominated by a dislocation in 2024, 2025 and perhaps beyond. Therefore, we generally have a great Fund V and an investment basis for future growth, in conjunction with Keppel. Thank you.

Question & Answer Session

Questions from Tan Xuan, Goldman Sachs

What is the asset class split, in terms of say commercial versus industrial, hospitality?

LCH: I know that is not how Aermont will invest, they look more at opportunities, more opportunistically bottoms-up.

LB: We are very opportunistic, but the split I can give you is that approximately half the investments we have made are in what I would call pure, traditional real estate investments, property investments, i.e., ground-up developments, restructuring, etc., and half in operational platforms. As I mentioned before, from the very beginning of the existence of Aermont, in Fund I to Fund V, we have very spectacular developers, in The Student Hotel or Pinewood, obviously. Now, because we are opportunistic, we do not have a preference for any asset class, except where we believe the best risk-adjusted returns can be achieved. So, therefore we are moving on together and we believe that Fund V will offer greater opportunities in a dislocated market.

What is the fee-to-FUM ratio? What is the EBITDA margin?

LCH: On the question on margins, obviously this is something that we will not be able to disclose. But, all I will say is what we have found working with Léon and Paul, as we got to know one another, is that they run a very tight ship. It is a typical founders' platform, everyone pitches in, they have quite a sizeable AUM, but the number of people involved in running this AUM is I think less than 40.

LB: 40 plus. We are streamlining the team and investing in people to enable the growth.

LCH: The point is that even as we go through this initial stage, it is paramount that we want to maintain that culture, and also I think, frankly, there are things Keppel can learn. Of course, Keppel has a slightly different model, we are not just an asset manager, we are also an operator, so quite a significant number of our staff is on the operating side. But within the FM&I side, I think there are things we can learn from Aermont, such as how do we become more efficient? And this is part of our journey within what we call Project Darwin, which we are currently executing. How do we become faster? And what Léon said earlier is quite right. I think the fact is that Keppel has a very entrepreneurial spirit. Every time that we come across a group like Aermont, it reminds us of our entrepreneurial roots, and I think this is something that my colleagues and I would like to remain in touch with. We see this as a positive reinforcement, and it goes beyond the strategic rationale for coming together.

CT: Tan Xuan was also referring to the term 'asset classes' that Aermont looks at. I think Aermont has done a lot of very interesting projects as well. The asset classes will include things like commercial assets, they have done hospitality, even very exciting classes like student housing, so it is quite diverse. And production facilities, which lead to very good returns because no one is looking at that, and they are probably the leader in this area.

LB: It has been a great success for me, but it was also a base of continuation for Paul, the Managing Partner of Aermont, who is also the Chairman of Pinewood and has led that effort for the past seven years from 2016 to 2023.

PG: Perhaps before I go into the Pinewood situation, what we typically look for is operating businesses which are asset-rich, and we found on a number of occasions that this type of asset class tends to fall between two schools. It does not appeal to traditional private equity because it is too real estate-intensive; yet it does not appeal to the traditional real estate investors because it is too operationally intensive. As a consequence, we have often found, and Pinewood was a good case in point, that the competition for buying these assets was a lot less, and as a consequence, we have been able to buy well and deliver outstanding returns. But just to give you a feel on Pinewood, Pinewood is the home of British film. It is the home of James Bond; it is the home of Star Wars. It was a public company back when we bought it in October 2016. We were developing content for television and providing an esoteric insurance product for the film finance industry. We realised this was not the direction of travel that we wanted, and instead decided to focus on infrastructure. Providing infrastructure to our customers, being the major Hollywood studios and streaming platforms, whether it is Netflix or Amazon. We set about transforming the business over the last seven years, we acquired over 150 acres of land, we secured planning consent, we have doubled the footprint of the studio, and more importantly, we have transformed the income profile.

Historically, we were leasing stage space, production space to productions on a short-term basis. We are now in a position where we are very fortunate to have leased all of our production space to Disney, Netflix and most recently to Amazon on long-term contracts, and those contracts all allow for annual indexation in line with inflation. So, it has been a terrific business, performing extremely well for Aermont's LPs; but it was so strong that we realised there was a great potential for us to continue to expand internationally, and that required more money and greater flexibility on geographic focus. What we therefore did was to transfer the business. After running an arm's length process to determine the price, we transferred the business into a continuation fund, which was referred to earlier as PGV. And we are now, having raised capital for that from the LPs, not only able to buy the business, but also to expand it in the future. We are now looking at further expansion both in the UK and internationally. We have recently completed the acquisition of our first studio in Toronto. So, it has been a great investment, but the key there is growth. It is the growth that we can deliver through that platform by bringing in other investors to fund the expansion as we grow internationally and maintain strong relationships with our customers.

LCH: The initial investment, Paul, made about 10x?

PG: Yes, we made just about 10 times our money in a six-year period.

LCH: It is a top-performing investment in any way that you look at it. So, it shows that there are both, as Léon said, some traditional real estate, ground-up developments, but there are also some platforms that Aermont has gone into.

<u>Questions from Brandon Lee, Citi Research</u>

Can you let us know the percentage split of the base recurring fees, as well as the carry of performance fees of Aermont?

LCH: I think the way that we have agreed with Aermont on the transaction is that we are buying the recurring income. So, the carried interest from the funds that are currently existing, they are already in most founders' platforms shared by the team, both the founders as well as the investment team. For PGV, Keppel will have, I believe, a 20% stake, but because we also did not pay for the carried interest, I think this is a very fair outcome. Of course, going forward, in new funds to be created, Keppel will, I believe, retain about 30% of the carry. The majority, 70% of the carry, will be shared with the team and this is really one of the key ways to incentivise and also retain talent in a platform like Aermont, which is very much into opportunistic investing.

Can you provide us with the IRR that Aermont has achieved from Fund I to Fund IV over the years?

LB: To share more on what Chin Hua just said, to be more technical in terms of the way analysts look at fund managers, I would say that the fee basis of Aermont today, which is being sold at 50% stake, is 100% of what we call FRE or fund-related earnings. So, there is no carried interest in the account for the reason that Chin Hua explained. It is 100% FRE, so the best quality earnings we can have. No carry, and no investment income either, because the co-investors in the different funds have been made by the partners and some members of the team, and we keep that. So, the alignment of interests with our LPs remain unchanged. The partners and members of the team will keep 100% of their co-investments and also their carry, except probably for future funds. So that is one absolutely key point.

The second one, in terms of performance, I think that in the presentation that Chin Hua made, you have some indication on the performance. If you want to have more details, we can provide them later. I will tell you that Fund I – we are extremely transparent, we provide net IRR, which is more relevant than gross IRR. In Fund I, we provided a gross IRR of 22% and net IRR of 15%. Fund I, being a 2007 vintage fund, a vintage that has been extremely difficult for most of our competitors. In Fund II, we project 13% net IRR and 1.9x equity. Fund III, because of the exceptional performance on Pinewood and also on certain German investments, we projected 32% net IRR. And Fund IV, it is too early to say because we have not yet done anything. The composite net IRR, since the creation of the firm, after June 30, the most recent figures is 17% IRR and 1.8x multiple since inception, which is quite spectacular.

To Léon, it seems that you stepped down as one of the key personnel of the funds earlier this year and handed over the reins to the man beside you, and this is a very challenging environment to do that. Any reason why you felt that this was the time to do this?

LB: Now to finish on my personal case, the reason why we moved – and this was much before any discussions with Keppel, because the discussions came up a few months ago - we had this idea over the years to prepare for a succession. I think that is the most important responsibility for the founder and CEO of the company, to think about succession. And this has been thought about over the years, we have increased the number of partners, we have a number of colleagues in the level of partners, and it was clear that we also had to transition at the level of managing partner, and this was decided in 2022.

Paul has become the Managing Partner in 2023. I think that is the most responsible action I ever took, and it is absolutely key for long-term success. We have prepared for many years, and the reason to do it now is for a number of reasons. Number one, it is to do it when everything is under control. When you have no problems, no pressure to do anything, you should do that at that time to ensure the succession is a total success. I must say that Paul has taken over with a lot of talent for the function of Managing Partner. The second one is always to take into account the age of the captain. It is very important to make sure you do things at the right time, the right way.

<u>Questions from Mayuko Tani, Nikkei</u>

What was Keppel's geographical exposure breakdown before the acquisition and how will it change? How big will the exposure to Europe become? If you can give me the percentage roughly, that would be great.

LCH: Thank you for your questions, Mayuko-san. First and foremost, Keppel has been investing in Europe, as I mentioned in my opening remarks. Our current assets in Europe are primarily in renewables, as well as in data centres. We do not really have any major real estate assets. We used to own an office asset in London, but that was some years ago, so we do not really have a lot of asset exposure to Europe.

This transaction that we are doing, this joint venture, this initial acquisition of a 50% stake in Aermont, will not change our geographical exposure to Europe because as Léon said, this is a pure fee-recurring business that we are acquiring. We are not co-investing at this present time into the existing funds that are there. The co-investment capital has been provided by Léon, the partners and the team. But of course, going forward, with the very interesting returns that Aermont has been able to produce in Europe, it makes it quite interesting for Keppel in that it gives us an opportunity to potentially co-invest in some of the funds and that will also bring a better alignment with the LPs that invest with Aermont.

So, I think that is where we start to get excited on this transaction. It is a transaction of growth. It is not just about acquiring AUM or acquiring an existing fee-recurring business, which is still nice, but it is really about being able to invest into a platform with top talent, very capable people with good track record, and that is well supported by global LPs. Then we look for opportunities for us to grow together in areas like private credit, data centres, etc., which individually, would have been hard for Aermont or Keppel to do on its own. So, I think that is kind of the key initiative for us, the key driver for us, in that we see in Aermont very similar people. We share the same values as I said earlier. Very entrepreneurial, we are very ambitious, we want to grow.

At the same time, we are also very thoughtful on how we do things and I think risk management is something that I would say is also very important, as I look at the culture of the two groups. To generate that kind of high returns consistently over a long period of time, it is not just about looking at opportunities and being able to invest in these opportunities, but also being able to manage the risks. I think there are a lot of commonalities between Keppel and Aermont.

How does this deal affect your existing property fund management business, I suppose, mainly in Asia? Thank you.

LCH: I think this is going to be very positive. I do not want to overburden Aermont's team immediately, but I can see that there is an opportunity as well to bring their style of investing or their approach to looking at not just ground-up investments, but looking at real estate operating companies, looking at platforms, which is something that we at Keppel have not done as much yet in Asia. We have done developments, but we have also done mostly value-add. We have done very little platform investing on the real estate side. On the infrastructure side, we have started to do that and we have got quite good success, so I think there is another possibility of Aermont extending their investment strategy beyond Europe to markets like Asia. So, I hope that answers your question. Thank you.

<u>Questions from Derek Tan, DBS</u>

Can you share how long is the tenure of Aermont's funds and when typically is the end of life, if any, for these funds?

LCH: I will ask Paul or Léon to answer this question.

PG: In terms of the tenure of our typical funds, Fund I to V, we generally have an investment period of four years. We then have a further five years to harvest those investments, so in total we have nine years. We have the ability to extend beyond that for a further two years if necessary. But that is an extension, for which we would need to get our LPs' approval.

LCH: PGV is slightly different from the rest.

PG: PGV is essentially an open-ended vehicle that will continue to the extent that LPs want to come out. They can vote to do so in year seven, which would be towards the end of 2029 and that could either trigger a sale or a recapitalisation with new LPs.

With Keppel eventually purchasing the remaining 50% stake in Aermont, should we expect the founders to be stepping down then?

LCH: I think one of the interesting things for us at Keppel when we look at working with Aermont is that we see a lot of very talented people in the Aermont team, so this is really not just about taking a position in the business, but more importantly, it is really looking at the people that work at Aermont – founders, as well as partners, as well as their investment group. I think Léon has also alluded to it in his opening remarks – this coming together also provides a wider scope for both sides. This means that for the Aermont team, there is always a possibility that they can do more things beyond Europe and maybe they can take on a managerial or leadership position at Keppel. That is always open, so we see this as kind of adding to our bench strength. Certainly, when we evaluated this at the board level at Keppel Corporation, Keppel's board was also quite excited by the fact that it is not just all the strategic reasons that we mentioned that make this very exciting, but more importantly, it is also about the people and the talent, and how we can continue to add on to our bench strength. I think this is something that we see as a very big positive.

<u>Questions from Ezien Hoo, OCBC</u>

Should we expect Keppel to provide a guarantee to the debt taken at the fund level?

LCH: Keppel does not provide guarantees for anything that is done at the fund level. That is not our business model. So, I just want to put this to bed – that is not how we operate. So the short answer is no.

Will the Aermont branding and whole Aermont team be retained?

LCH: I think the Aermont name is a very important name that Léon, the founders and the partners have built up over many years. Very successful, very recognisable. The intention is to continue to maintain that name. In the future, if we co-create new funds between Keppel and Aermont, say a data centre fund, it will probably carry the name of both Aermont and Keppel in the fund. But the intention is to continue the Aermont name because there is a lot of goodwill attached to that.

Can you please elaborate on the potential funding of the Phase 2 acquisition – how does this change if Aermont-Keppel's FUM grows significantly higher from here?

LCH: For the funding of Phase 2, as I shared at the beginning, the deal is structured in a way that is very thoughtful. We are very much performance-related, which is exactly what the shareholders of Aermont were looking for as well. We all came to the conclusion that once we agree on the multiples, then it is really a matter of how Aermont under Phase 1 will perform and that would determine the final price that we pay. There is a floor; there is a cap. Likewise for Phase 2, there is also a cap, but rest assured as I said at the beginning, that this is a growth initiative. So our goal is to really work very closely with our new partners to see how quickly we can grow. Because it is based on the multiple. If it happens that the price for the second phase is a bit higher, that is fine. Of course, there is an absolute cap, but our goal is to grow. Our goal is not to try and limit the price we pay for the second phase.

Can you please share with us the current funding situation in Europe for commercial real estate?

PG: I imagine it is not dissimilar to that in Asia. There is limited bank funding available, debt funding available, particularly in scale. That is driven really by the interest rate hikes that we have seen over the last 12 to 24 months. The lack of funding has created a slowdown in the markets. That being said, for the right assets, there is still funding available particularly coming from the credit funds.

But the interesting fact is that in Europe, over the next two-and-a-half years, there is roughly EUR 150 billion of financing which is maturing in Europe. The majority of that is in the UK, France and Germany. The belief is that of that EUR 150 billion that is coming up for refinancing, it is at a time when interest rates are higher. Values are lower and therefore the ability to raise debt is significantly reduced. There is a sense that the funding gap, as it has become known, is roughly EUR 50 billion and that is what we think is going to create huge opportunities for Fund V as borrowers are forced to either recapitalise or just sell assets. We are waiting for that moment. It has been trickling through, particularly in the Nordic countries as well as in Germany, but we are now just starting to see the first wave, I would say, coming. We are expecting that to accelerate over the course of the next 12 months and that for us is opportunity, as Léon has said. It feels like a vintage of the early 90s that we stand to benefit from.

LCH: The other opportunity, Paul, you and I have been discussing with Léon, is that there will be opportunity for a private debt fund to be raised to take advantage of dislocations as well beyond the opportunities you see for Fund V.

PG: Absolutely. We have had some discussions on that regard with some of our LPs, who would be very supportive in us launching such a fund.

Would like to understand how the full potential FUM will be achieved. Will Keppel need to fund the European expansion through the Singapore funding markets?

LCH: The way that this would be done is mainly through third-party funds. Keppel will typically take maybe a 10% co-investment. For instance, if we raise, say a data centre fund for Europe, Keppel would take a 10% stake. So, if it is a S$2 billion fund, then Keppel's co-investment will probably be S$200 million. How we fund it will depend on Hon Chew and the treasury team, where it makes the most sense, especially taking into account currency hedging, natural hedging, etc.

Questions from Brandon Lee, Citi Research

Chin Hua, you mentioned earlier that you were looking at S$13 billion of deals in the third quarter. With this in the bag, could we safely say that it is probably going be quite quiet from here?

LCH: The S$13 billion of deals that we are looking at has nothing to do with this, because they are deals that our funds in Asia are looking at. This is a bolt-on acquisition for Keppel. This is not for the funds; it is for Keppel. The S$13 billion that we have been talking about is more for the funds. So, it has got nothing to do with this, and I just want to make that distinction.

It seems that it is taking quite a bit of time to close, in five years. Any reason for that? Is it because of the funding structure or some approvals from the European Commission? Is there any chance of it closing earlier than 2028?

LCH: The timing of our Phase 2 completion being in 2028 was something that we had discussed at length during our discussions. Just to be clear, Aermont did not run the process for this. We did not knock on a lot of doors. We kind of looked around and said, "Okay, we want to do organic, we want to also do inorganic". Of course, understandably, Aermont came up very high on the list. Because I know Léon, I reached out to him in April this year. We had a couple of video calls and then I came over with Christina and others and we started that conversation, and the conversation got more serious. Léon brought in his partners. There was no process. This was really what they call an 'off-market' between two partners that came together and said, "Hey, I think we can do something special here together."

You must understand that today, Aermont is a founder's platform. They have been very successful and this is really what attracts Keppel to Aermont. We find Aermont attractive for all the reasons I mentioned. But at the same time, I think we also recognise that it would be good if there is a period of transition, so that the team can get used to how we can work together.

It was also very clear from Day 1 that we want to achieve a full integration at some point because I do not think continuing 50-50 forever would be a right step for either Aermont or ourselves. I think that was how we landed on the initial period and then full integration. We both agreed that for the initial period, we should have a number of years, so that we can all get used to working together as a combined team. I have no reason to believe that we cannot do so. Whether we can accelerate it or not, I think for now, this is how the deal is structured, so let us just stick to what we have already agreed. This is something that we have discussed at length and I do not think we really want to revisit it at this point.

CT: It is not subject to regulatory issues which are resulting in this long transition period.

LCH: What Christina is saying is that it is not because of regulatory conditions that we dragged it out.

Can you share how much dry powder is there within Aermont's FUM of S$24 billion?

PG: We have roughly EUR 4.3 billion of equity to invest, so if you assume 50% leverage, you are talking around EUR 9 billion or thereabouts.

<u>Questions from Mervin Song, JP Morgan</u>

Thanks for the call and congrats on the acquisition. Can I just clarify, would there be non-competes as part of this acquisition? Or can Léon leave after the Phase 2 closing to start a new business?

LCH: Léon is still the Chairman of Aermont. Of course, he has handed – as he has explained before we even started this discussion – he has already handed the reins of the day-to-day, the managing partnership, to Paul, so Léon will continue to be the Chairman. I think that is very critical. He will continue to be the Chairman of Aermont, the company that Keppel will buy into. Léon will be the Chairman, and we expect that he will be the Chairman for a long, long time. So, maybe, Léon, you should speak for yourself.

LB: I am totally committed to Aermont, that is for sure. We are totally committed to making the partnership with Keppel a great success, in the short, medium and long term. So during the transition period, as well after the full integration period – which will be a progressive process – I do believe that it will be a relatively easy process because of a lack of overlap; which is actually critical, so that the teams will feel very comfortable with us and – as Chin Hua mentioned – I think it is key that we both have an entrepreneurial culture. That is really the fundamental element of long-term success for Keppel, as well as for Aermont, as one entity for the second phase.

And the senior management, do they have non-competes as well?

LB: Oh, absolutely, no change. Paul and I informed the team this morning earlier – this morning European time – and clearly the story is, it is business as usual. The entire team is focused on asset management and new investors, exactly what our focus has been for the last 16 years really. The distraction has been minimal for the team because the workload was much more on our financial people, on the legal people, but certainly not on the investment team. It is business as usual; we are six partners and the six partners unanimously supported that move.

We have informed the entire team today. I am sure that we will have lunch because it is 30 minutes past 11am here in London, so we will have a buffet lunch here at Aermont headquarters, and Chin Hua, Christina, and the other members of the team will be able to speak directly to the team members. But clearly no change whatsoever. This is particularly because in the deal construction, we have a very strong financial incentive for the non-partners, which will be distributed in 2028 and part of the second phase, so that is why there is nothing mythical about 2028.

It is also a great way to make sure that we keep the team completely intact, motivated, until the entire decade and beyond. I am sure that this is something quite important for Keppel and something very important for us to – in terms of legacy – to protect the culture of Aermont, to protect the team, something absolutely essential in Luxembourg and in London.

LCH: I can confirm that this is something that is obviously part of our due diligence – working together and discussing at the board level on how stable the team is. I think that is what Mervin is indirectly asking.

I think given that Aermont has been very successful, there is a lot of co-investment capital by the senior partners as well as the investment team. As we shared earlier, there is also a lot of carry to be earned by the team. So, those are things that would typically be very powerful incentives to hold the team together.

Then finally – to add to what Léon has said – the owners of the business, the partners, have also been very enlightened in putting aside some parts of the consideration for the second phase, which will be shared by the wider team. So, there is alignment between Keppel and Aermont, but there is also alignment within Aermont.

Last but not least, it is not just about financials, it is really about – as what Léon and Paul are saying – jointly creating a very entrepreneurial culture that people will enjoy coming to work for because professionally, they find it interesting. This is something that – for Keppel, as we journey on our own journey of Darwin – we also want to create the same type of culture that our team will feel very comfortable in. We are entrepreneurial, and our team can also share in the upside, which is what the LPs are also looking for.

So I think, all in all, we are quite mindful of this, Mervin. I will say that the way the deal has been structured, I feel very comfortable that we can count on the Aermont team continuing to remain and also play, increasingly, a more and more important role in the overall structure or organisation of Keppel.

PG: I would just add to that I think the focus for the team is very much on managing our existing assets, it is deploying our latest fund, Fund V. But actually, as we come alongside Keppel – over the coming months and years – it creates a much bigger opportunity for individuals within Aermont, an opportunity for them to get an exposure to Asia that they would never otherwise had the chance to do. And with the growth that is happening out there, I think it is hugely compelling.

In Note 6.3 of the announcement, in terms of calculation of the earnings per share (EPS) accretion, based on share consideration being satisfied by shares, am I correct to say that the profit for Aermont is only S$9 million? Also, after Phase 2 closing, the profit that should go to shareholders drops. So I am just curious what is happening there.

CHC: Assuming Phase 1 is completed, the net profit is S$936 million, so that is an accretion of S$9 million. As you are aware, this is actually a Chapter 10 disclosure, so it is actually based on the FY 2022 numbers. And you have also observed for Phase 2, you saw that number coming down. Just perhaps to explain, this pro forma is actually done on the basis of FY 2022 and assumes that the Phase 2 is completed also in 2022. You would have heard from Chin Hua that this is not the case; Phase 2 is likely to be completed in 2028.

Now, the second point is also that the maximum consideration that has been assumed here in the pro forma is a negotiated number. You would also have heard from Chin Hua; the deal is actually structured based on performance. So if the maximum were to materialise, it also means that the PATMI from Aermont would be higher based on the agreed multiple.

So in other words, mathematically, in the future, the EPS, the earnings, will be higher because it is performance-based, mathematically, assuming everything else remains equal. What I mean by that is that share price, interest rates will also affect profit and EPS. So on the assumption that they remain equal, definitely EPS will be higher. But I cannot give a projection or forecast, so nothing I say amounts to forecasts, but mathematically, EPS and earnings should be higher on that basis.

Well, you guys are very smart, so this should be rather conservative.

LCH: We are constrained under Chapter 10 by what we can do, so as what Hon Chew has alluded to, especially for Phase 2, it is a very theoretical number. The consideration is maximised, but the P&L is still based on FY 2022. So we cannot make a forecast for what it will be in 2028, so there are a lot of constraints there. It is what we needed to provide under Chapter 10, but there are some constraints.

Appreciate it. I think Léon said that Aermont itself does not recognise any co-investment income. We are familiar with fund financial platforms where you need to co-invest with your LPs 10 to 20% of the fund. Can I clarify that Aermont just manages the funds, and whether any co-investments are done by the partners, which includes Léon?

LCH: I think Léon has confirmed that.

LB: We have confirmed that yes. The only difference is that the co-investments have not been made by the firm, which is basically why it is 100% FRE, which is even better, the co-investments have been made by my partners, a certain number of members of my team and obviously myself, and they have been made directly. So we have that alignment of interests and as you know, it is a prerequisite from LPs.

That's fantastic. And one final question from me. I think everybody knows fundraising right now has been quite tough. Any thoughts in terms of targets or FUM for FY 2024? Or what you have done?

LCH: I think right now, as you have heard from Paul, there is a lot of dry powder that we are trying to invest. Of course, as we hopefully close the deal in the first half of next year, after all the approvals have been obtained, we will be looking at working at some of these new initiatives like data centres or private credit, etc. I think it is too early to say what the conditions will be like, but I can say that data centres are quite well sought after. Private credit, as what Paul and I have just alluded to, is also something that I think has quite strong demand by investors.

<u>Questions from Ryan Heng, Morgan Stanley</u>

The pro forma recurring income increase of S$9 million – would all of this be fee income-related or are there are dividend/rental income included as well?

LCH: I think we have heard this is a pure fee business that we are acquiring. So there are no co-investments into the fund that we are acquiring and therefore there will not be any distributions from the funds. The other thing of course – maybe just to be very clear – is that the S$9 million, if I'm not wrong, and Hon Chew can confirm, is also net of any borrowing costs that we have assumed, right?

CHC: Yes.

LCH: It is a net number.

On the consideration, could you kindly provide the percentage split of treasury shares and cash, and the net effect on free float?

LCH: Right now, the way it is structured is that we could pay a mix of cash and treasury shares. And I think in the numbers that we run, we assume 50% cash and 50% of the consideration by treasury shares.

Could you elaborate more on the net gearing increase of 1%?

CHC: Yes, indeed for Phase 1 after closing, the net gearing goes up from 0.78x to 0.79x. And this is arising from the increase in the net debt from the cash consideration, that is the numerator. And the denominator is the treasury shares that are issued, so net of it all, the increase is just 0.01.

Closing remarks by Loh Chin Hua, CEO of Keppel Corporation

I will make it very short; I think it was a very productive Q&A. I think everyone got a chance to hear directly from both Léon and Paul. I know there will be a lot of questions over time, because it is a very exciting platform. I wanted to just say that this is something that the board and the management are very excited about at Keppel. We see this as a very pivotal moment as we transform to a new Keppel, focused on being a global asset manager and operator. And I think Aermont will make an excellent addition to our group, through the partnership initially, and then finally, through the full integration down the road.

As I said earlier, this is not about acquiring AUM, I think the fact that the AUM has gone up or FUM has gone up is nice, the recurring income is nice, the fact that the impact on our gearing is very limited is nice; but at the end of the day, this is really a narrative about growth, and how two very similarly minded organisations can come together and create a brighter future for the both of us. We look forward to doing that with Léon, Paul and your partners and your team at Aermont, so thank you very much.

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