

DARWIN PROPERTY INVESTMENT MANAGEMENT (GUERNSEY) LIMITED

Registered in Guernsey, No: 48163

Registered Office: Fourth Floor, Royal Bank Place, Glatigny Esplanade, St Peter Port, Guernsey, GH1 2HJ

10 October 2024

Dear Investor

The Board of Darwin Property Investment Management (Guernsey) Limited, the Manager of the Darwin Leisure Property Fund (the 'Fund') has, after careful consideration, taken the decision to revise downward its management projections of revenues and costs, which has resulted in a fall in the Net Asset Value (NAV) of the Fund by 23.5% as at 30 September 2024.

The COVID-19 pandemic, including park shutdowns, broader macroeconomic issues, and the UK's cost-of-living crisis, has adversely affected all UK holiday park operators. High levels of inflation which led to rising interest rates, fuel, utility and food costs have significantly impacted both operators and consumers, driving up operational expenses and putting pressure on domestic budgets, in particular discretionary spend. Furthermore, the cost-of-living crisis in the UK over the last few years has affected all operators in the sector. The holiday parks owned by DLPF have not been immune to these sector-wide challenges. Consequently, this trading environment has impacted margins and increased total costs for the Fund.

It had been hoped that the UK was moving out of this difficult economic period, but the economic environment has become more unstable since Labour took power in July. Economists are now forecasting that UK inflation could rise to 3% in early 2025 and the Bank of England is taking a more cautious approach to easing monetary policy, it is now expected to take the base rate to 3.5% by the end of 2025. UK GDP growth is also expected to have slowed in the second half of 2024 and UK consumers continue to adopt a cautious approach to spending, albeit while building up savings at a historically significant pace. The prospect of tax rises in the October budget also looms large and is damaging consumer confidence.

September is when budgets for the Fund's next financial year are set and the Board has decided to adopt a more cautious approach to reflect that the economic situation has not yet improved in the way that had previously been anticipated. The operating assets of the Fund are valued by using a ten-year Discounted Cashflow (DCF) model and the Manager has appointed Evelyn Partners LLP as an independent business valuer. Evelyn Partners LLP scrutinise the operating assets in the DCF model which incorporate the management projections of revenues and costs for each of the parks and other factors to arrive at the net present value. As the DCF reflects trading profitability as well as future projections, when trading improves, this will be reflected in those future projections, leading to an increase in value.

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There have been no changes to the other inputs of the DCF calculation. The Weighted Average Cost of Capital (WACC) rate was raised in July 2023 to reflect the ongoing increases in the Risk Free Rate, and we do not anticipate any changes to this until there is a continued downward movement to interest rates, at which point the WACC rate increase could be reversed.

Despite their cautious short-term outlook, the Board continues to have full confidence in the Fund's business model and the holiday park sector in general. Indeed, although yield is down (the price guests are willing to pay for the holiday), the portfolio occupancy levels are high. As a result, when the economic environment does improve, the Fund is well-placed to capitalise on this. The holiday parks themselves are in an excellent state, highly regarded and award-winning and as soon as the perception of the cost-of-living crisis recedes in the minds of the population, Darwin's pricing power should return and operating margins increase. The Board is not complacent, however, and understands that the business also needs to evolve and continue to work to reduce its cost base to ensure that it can achieve its target returns in the future.

The Board sees this as an opportunity to 'reset' the Fund. It is exploring opportunities to raise additional funds to refinance the Fund in a more cost-effective way and provide capital for bolt-on acquisitions that will boost EBITDA and growth. The Board will also look to dispose of any assets that no longer meet the expectations of the Darwin brand, review ways to improve the management of the portfolio and utilise technology and improved working methods to reduce its cost base.

The Board is very positive about the long-term outlook for the Fund and the business fundamentals. Whilst they have decided to adopt a prudent approach to the September valuation, they believe this reset will benefit all unitholders in the long term by supporting future capital growth and the ability to resume the payment of dividends.

Yours sincerely

A handwritten signature in black ink, appearing to be a stylized 'D' or similar character, located below the 'Yours sincerely' text.

For and on behalf of the Board of
Darwin Property Investment Management (Guernsey) Limited