Teleconference of TIN results 2024-2Q

Andres Lozano:

Good afternoon everyone, I am Andrés Lozano, President of La Titularizadora Colombiana. It is a pleasure for me to welcome you today to talk about the results of the second quarter of our TIN real estate fund. Today we are joined by Carolina Martínez, our TIN Real Estate Manager, Ana María Salcedo, Director of Investments and Market Development, and Gabriel Flores, Pentaco Manager, our Structurer and Manager of the TIN Portfolio.

Before starting, I would like to tell you today's agenda, which includes three points. First, a summary of the management of the second quarter of 2024. Second, financial results of the second quarter of 2024. And third, a vision of the real estate market and projection of the portfolio.

Now I want to tell you about the differentiating factors of our TIN real estate vehicle. First, profitability and dividend yield. We have managed to position ourselves for the fourth consecutive year, the vehicle being more profitable, with a 13.08% annual cash flow, which is equivalent to the IPC plus 5.5% in the last year, and an outstanding profitability of 12.9% annual cash flow from the beginning of the vehicle. Distribution of 100% in the two price testers, reflecting this profitability in the portfolios of our investors. Monthly performance distribution with a dividend yield of 3.96% in the last year.

Second point, holiday and portfolio. Our economic holiday was at 2.32% and the physical holiday at 3.01%, which reflects the operational strength of the vehicle. In addition, we maintain a portfolio indicator of 0.48%.

Third point, commissions. Current commissions are aligned with the interests of our investors, with a discount of 8% implemented in January 2024 for 12 months or up to a monthly dividend yield of 5.5%. This has impacted the dividend yield and the cash that is given to investors in a favorable way.

Fourth place, corporate government. We have a solid corporate government that guarantees a rigorous process of acquisition, disinvestment, and monitoring of vehicle management.

Fifth point, master administration. Supervision and monitoring by a team of independent real estate experts who are constantly monitoring the correct evolution of the real estate portfolio.

Sixth place, information. We have a high standard of information disclosure, together with an IR certification of the Stock Exchange since October 2022, certifying the adoption of the best practices of information disclosure and relationship with the team's investor.

And finally, debt management. We have carried out a successful debt management that has allowed us to improve our financing conditions and optimize the dividend yield for our investors, thanks to preferential debt conditions granted by the solidity and institutional support of the Colombian debtor, and above all to an active management where we have managed to anticipate different cycles of the market to protect the flow of cash available to investors.

I thank you again for your attention this afternoon and now I give the floor to Carolina Martínez, who will present the management summary for the second quarter of 2024. At the end of the presentation, we will open a question and answer session, so we invite you to send your questions through the webcast.

Carolina Martinez

Thank you very much, Andrés. Next, I will present our results in a management summary.

Well, then we have, with a cut in June 2024, a total of assets managed for 532 billion pesos and a total of an area managed of almost 85 thousand square meters. The occupation of the portfolio continues to remain quite high and prominent, as does the physical occupation, by 97.68%, the economic occupation, and the physical, by 96.99%. The portfolio, with a cut in June 2024, continues to remain below 1%, it is at 0.48%, and in the secondary market, we continue without transferring, therefore the weighted average price of valuation remains at 100% for PRECIA and for PYP.

As for the financial indebtedness, we continue to go down with our outstanding debt management. We have today 136 billion in debt, with an average cost of 12.46% annual cash, which also continues to go down month by month. Today, after the cut in June 2024, it continues to go down. Our financial indebtedness, then, is already well below the limit of 40%, it is at 25.94%.

Well, here we have the stabilization of our real estate portfolio. Remember that we have four limits established in the prospectus. Among the established limits, we have by type of real estate, today we have the highest concentration in commercial premises with 55%, warehouses in second place with 27%, and the minority with offices. Our acquisition policy is very focused on buying commercial premises in commercial centers, which is where we find the greatest opportunity, and as you can see, there we have the highest concentration with 26.6%, and warehouses. We have a little more delayed the purchases of offices and premises on the street or on horizontal properties that are not so exposed.

As for the concentration for the leasing, DaVivienda is still our largest leasing company, it is already almost reaching the limit established in the prospectus. With the new acquisitions that we do once we do the third emission, this leasing is completely diluted, which in any case is a AAA leasing that has represented a lot of security in the portfolio, even in the most difficult times of the pandemic.

As for the distribution by economic sector, we have financial intermediation with the majority at 48.9%, but we are within the limits established in the prospectus, the limit is 50% per asset value according to the CEW code. It is followed by the industrial sector with 28% and food expenditure with 9%. In the geographical distribution, let us remember that we do not have a limit for Bogotá, our greatest concentration is in Bogotá for this reason, and we continue to focus on acquisitions in this city. It is followed by the Atlantic coast with 29.5% and other cities.

Our value of the title, here we see it always growing. Each fall that you see is a return or distribution of monthly returns, but it immediately recovers the next day. Our value of the title from July 1, 2023, to today, to the date of June 30, 2024, will have an increase of 8.64%, and with this cut, it is more or less at 7,466,000.

Here in follow-up to Avalúos, this is a very important issue. We have talked a lot with you about Avalúos, the devaluation of our assets, with all the conjunctures that we have been going through, macroeconomic, political, and health. Obviously, real estate assets had a blow at the time of valuation, the evaluators had in mind a discount rate and a country risk rate that affected the value of the assets. Today we see a recovery of these rates, the risk has already decreased, we already see a recovery of the sector, and the result is reflected here in our Avalúos update indicators.

Then we have Avalúos made with a cut in the second quarter of 2023, we had 183,000 million, and today with a cut in the same quarter but in 2024, a year later, we have an asset value of 196,000 million pesos. The increase was 7.85% in this period. We have made 87, sorry, we have 87 Avalúos programmed with an advance of 60%, and we always do these Avalúos with our independent evaluators that we rotate manually to have greater transparency in the exercise. These independent evaluators are Cushman, Colliers, Logan, and Tinza.

Well, in terms of financial indebtedness, we also have good news. Our debt management is still very active and with very good results. Here we show you that in terms of debt, we have 136,000 million with a cut to June 30, 2024, and compared to December 31, 2023, we had 134,000. What is the difference? We took a credit of 2 billion pesos that represents a 1.51% increase. This credit is the credit that we ask for every year for the payment of loans, so this credit is added month by month, and when it is determined at 12 months, and we start the next fiscal period again, we return and ask for another credit.

The average cost of the debt was at June 30, 2024, at 12.46%. Six months ago, we had it at 14.95%, as you can see, we have been able to lower 249 basic points that represent 16.68%, and the debt limit we could also lower it. We had in December 26.50% of the limit, and today we have it at 25.94, we have lowered 56 basic points. The idea is to continue actively managing this debt, we continue to renew credits, moving from a fixed rate to a variable rate, taking advantage of the decrease in interest rates. We are continually looking for other lending alternatives, such as synthetic credits, and therefore doing a lot of follow-up to be able to make disinvestments that allow us to make capital bonds.

Next, well then, next I leave you with Ana María Salcedo, our Director of Investments and Relations with the Investor, so that she can show you the financial results of the period.

Ana Maria Salcedo

Well, thank you very much, Carolina, and good afternoon to all of you. We remind you that you can ask your questions through the platform, and we will answer them at the end of the question and answer session. Let's start with this second chapter regarding the financial results of the vehicle in the second quarter of 2024.

In the next slide, we see perhaps the most important one in terms of figures and margins. Here, in the first part of the operating revenues, we observe an increase of 6.3% between one period and another. Although income from lending has had a slightly greater increase of about 9.96%, very aligned with the behavior of the IPC and inflation, due to the fact that lending contracts are indexed to this indicator. We see a smaller increase in operating revenues because, in the first period of 2023, there was a penalty that increased these revenues, and by 2024, this penalty, related to the third avenue property, is no longer present.

We also observe some indicators of economic occupancy and a very healthy portfolio, at very favorable levels. Specifically, the portfolio quality index, which was 0.48, is now even lower at 0.16. The economic occupancy of 97.68% is above the 5% vacancy rate that the model considers. Therefore, in terms of projections, the indicators have been more favorable.

Regarding the NOI, we see a margin that increased from 88% to 90% between periods, with a 9.62% increase in absolute values. This increase is closely aligned with inflation and is primarily due to pending maintenance tasks and reduced corporate spending, thanks to discounts granted by administrations. These factors allowed for a greater margin in the NOI.

In terms of the sales margin, it increased from 71% to 74%, with an 11.28% increase in operating revenues, which is also related to the discounts in administration commissions that have been implemented over the past two years, with greater impact in 2024.

Moving to the second part of the slide, we see the financial section, including performance distribution and dividend yield. Here, it is worth noting the decrease in the weighted cost of debt, which fell from 14.71% to 13.69%, in line with the general decrease in interest rates in the economy. The indexing strategy has allowed us to capture the decrease in the IBER monthly rate that we have observed over the past few months. The financial cost also decreased in absolute terms due to lower debt and, consequently, a lower debt cost.

We also see a near 10% increase in performance distribution, reaching 7,266 in the first half of 2024, which is the amount distributed to the titles and investors. The dividend yield margin remains at 34% of operating income. Although the dividend decreased slightly from 381 to 378, this is primarily due to two effects: the higher asset value, considering the high IPC and the activation of dividends. However, it is important to highlight that the value received by investors in the titles increased by about 10%, as reflected in the performance distribution.

In the next slide, we see the balance sheet as of June 30, 2024, showing asset values of 532 billion, which continue to rise, mainly due to investment properties valued at 525 billion pesos. The distribution between liabilities and assets has not changed substantially compared to previous periods, with liabilities at 26%, primarily consisting of financial obligations, and equity at 74% of total assets.

In the following slide, we delve deeper into profitability. The first graph on the left shows the profitability from the beginning, which corresponds to 12.90% annual cash with a composition of 45% flow and 55% valuation. The middle graph displays the composition of profitability over the last 12 months, maintaining a similar structure to the previous quarter, improving from December 2023, where we had an 85% valuation and 15% flow composition. We are now approaching a 30% flow composition, which is closer to what we aim for investors.

The bars on the right indicate the profitability over the last 12 months, showing a decrease in both nominal and real rates, caused by two factors: the activation of avalanches in the last semester of 2023, resulting in a decrease in these avalanches due to increased capitalization rates and discount rates in the cash flow method. This is expected to improve in the second half of 2024. Additionally, inflation is decreasing at a faster rate, impacting the title value more rapidly, while the debt cost does not decrease proportionally, affecting real profitability. However, with the cost of debt falling faster and inflation stabilizing, we expect a reversal in this indicator and an increase in real profitability in the second half of 2024.

The next graph, which we have previously discussed, shows the monthly evolution of different profitability measures from the beginning of the current year and the last 12 months. The profitability from January to June 2024 stands at 15.18% annual cash.

In the following slide, we see the monthly evolution of total profitability, the IPC, and consequently, real profitability. In the gray area indicating June 2024, we observe a real profitability of IPC plus 5.50%.

The next slide highlights one of the most relevant indicators for investors: the dividend yield and the distribution of returns per title. A favorable trend is noted, mainly due to the decrease in debt costs, leading to higher returns for investors and a higher value distributed per title. The average dividend yield over the last 12 months is 3.96%. We have exceeded the initial projection of 3.86%, and the average dividend yield projection for 2024 is set at 4.17%. We are on track to meet this goal, thanks to our management and the results we are achieving.

The next slide provides information about the secondary market. It shows both the transaction amount and the average trading price. In the first half of the year, particularly in May, 57 million pesos were traded at an average price of 55.3. This marks a return to title trading in the market after no transactions were observed in 2023. Despite these transactions, the valuation price remained at 100% with both price providers, without impacting the investors' valuation profitability.

In the following slide, we see the composition of investors, which remains the same as in the previous quarter, with 489 team investors. There have been no changes in the composition, with 30% of investors being natural persons and other unmonitored legal entities considered retail, accounting for 12% and 18%, respectively. The remaining 70% are other institutional segments, including insurance companies, pension fund managers, fiduciary societies, collective investment funds, and mutual funds.

Finally, we see the profitability information of the team compared to other similar and comparable real estate funds. As always, we take the information that each of them publishes in their technical sheets and websites without making any calculations. The team has achieved the highest profitability in this segment for the fourth consecutive year, with a 13.08% annual cash equivalent to IPC plus 5.5%, surpassing inflation and maintaining real positive profitability. It is also noteworthy that the team outperforms some other funds with different and more aggressive risk profiles, while maintaining a core plus profile with stabilized assets. Despite the varying risk profiles, we have consistently maintained the highest profitability.

With this, we conclude this part of financial indicators and vehicle figures. I now hand the floor to Gabriel Flores, manager of the real estate portfolio team and manager of Pentaco, to discuss the real estate market.

Grabriel

Thank you very much, Ana. Good afternoon to all. We want to share a little story about the real estate market.

The first thing I want to show you is the evolution of the approved area of licenses per region. We observe that in the last 12 months, the approved licenses have dropped by about 13%, and in the last six months, they have decreased by 37% compared to the previous 12 months. This change is mainly due to Bogotá, which has seen a drop of about 18%. However, compared to the last six months, there is a generalized fall in the approved area.

As we know, the first semesters are often different from the second semesters and have a distinct dynamic in terms of approvals. Even if we compare the first semesters of the last five years with the average of the last five years' second semesters, this semester has experienced a 16% drop. Excluding the impact of 2020 and 2021, due to the pandemic, the last 12 months have perhaps seen the worst performance in licenses since the 1998-2000 crisis.

If we believe that we are currently at a low point, we are optimistic that it should begin to rise at some point. However, there are external factors, which we will discuss later, that may prevent this recovery from happening quickly.

If we look at the approval of licenses by sector, compared to the last 12 months, the only sector that has shown positive growth is the industrial sector, which has increased by about 20%. The other sectors have seen significant losses. Over the last six months, the decline has been generalized across cities and sectors. For instance, office approvals have fallen by 50%, the industrial sector by 38%, and commercial approvals by 29%. If we take the average of the last five years in each sector, the industrial sector has managed to maintain its position, growing by 2%, while offices have lost 42%.

This indicates that certain sectors are more affected than others. Despite the challenging environment for license approvals, we believe that sectors like the industrial sector continue to show resilience.

Analyzing the office sector, we observe that the inventory has remained stable at the national level, with only a slight decrease. This drop is more due to asset reclassification than the disappearance of assets. As a result, vacancy rates have decreased, not necessarily due to a recovery in the office sector, but rather due to the absorption of previously vacant spaces. New requirements for offices have emerged, and with no new office developments, these existing spaces have been occupied. This trend is reflected in the increase in rental prices, both nationally and in Bogotá, where minimum rental rates have significantly risen compared to six months ago, reaching the highest levels in the last four years.

As long as there is limited office development, we believe that vacancy rates should continue to decrease, maintaining manageable levels. For example, in Barranquilla, the vacancy rate increased by 5.3% in the last semester. However, this is a significant improvement from a previous vacancy rate of over 20%, largely due to the demand from BPOs. The challenge in Barranquilla is the quality of available office spaces, which may not be easily rented, leading to the absorption of existing spaces. We believe that new office construction may begin soon, but in terms of prices and vacancy rates, the market seems to be reaching the lower end of the curve, potentially creating opportunities in the office sector.

We acknowledge that the office sector is still undergoing restructuring, as companies reconsider how they occupy and rent office spaces in the post-pandemic world.

In the warehouse sector, the inventory has remained stable, with minimal growth over the last three years. In Bogotá, warehouse space has only increased by 400,000 square meters over the last four years, which has kept vacancy rates low. The slight increase in vacancy is not due to deterioration but rather a lack of inventory. Existing inventory often does not meet current commercial needs, making some older warehouses difficult to rent.

For example, in Montevideo, there are warehouses built 30 to 40 years ago that are now being rented at favorable rates. This semester marks the first time in the last four to five years that there has been negative absorption of space, albeit a small amount. This trend is driven by a lack of inventory, and it remains uncertain whether this will continue, as land prices have not decreased, materials have become more expensive, and interest rates remain challenging for developers. Additionally, government policies have posed difficulties for businesses and industries.

Another important point is that the average price has also increased. Over the last six to twelve months, prices have risen by more than 25%, indicating a push in average rental rates. For example, warehouses that used to be rented for 18,000 pesos are now being offered for 21,000 pesos, which may explain why they are not being fully occupied.

In the sector of commercial spaces, we see in the graph above to the right that the GLA of shopping centers per 100 inhabitants in Bogotá, distributed by areas, shows an interesting trend. While the indicator for Bogotá is 19.1 square meters per 100 inhabitants, the north of Bogotá has reached close to 54 square meters. This is comparable to levels in Mexico and Chile, though still below the United States. However, this indicator is relatively high for the area, leading us to believe that the north of Bogotá may be saturated in commercial terms.

In contrast, the west and northwest regions of Bogotá have GLA values of 26.5 and 29.25 square meters per 100 inhabitants, respectively. These values are slightly above what we consider ideal, around 25 square meters per 100 inhabitants. In the south, center, and Guaymaral areas, there are still opportunities for development. However, given the current economic climate, we do not anticipate significant construction of new shopping centers, which we view as a positive factor for existing spaces.

This trend is evident in the bottom-left graph, which shows how population growth and GLA growth have evolved. These two curves, which diverged in 2014-2015, are now converging again. If we examine other metrics, such as the evolution of GLA versus sales in shopping centers, we see that sales per square meter have been increasing gradually since the pandemic, despite the slowdown in consumption. As long as this trend continues, we believe that these curves will eventually align again.

Talking to merchants, we find that while this year has been challenging, it has not been as bad as previous years, which positively impacts vacancy rates. The current vacancy rate in shopping centers in Bogotá is 11.6%, a manageable level. In the most consolidated shopping centers, this rate can be below 5%. The higher rate is mainly due to shopping centers that are still in the process of consolidation or those not considered first-tier.

If we consider the relationship between vacancy rates and inflation, represented by the blue line in the lower graph, we see that as inflation began to decrease, vacancy rates also started to decline. We believe that as inflation continues to decrease, vacancy rates will stabilize, especially in established shopping centers.

Having concluded this sector analysis, I would now like to briefly present the portfolio projection. As you know, we have some assets that were acquired with debt between 2021 and 2022, and we have a pending issue regarding the repayment of that debt. We hope to address this within the next 12 months, or perhaps even sooner. This process will involve approximately 180 billion pesos, with a portion dedicated to debt repayment and another portion allocated to the acquisition of additional assets.

We have a broad pipeline of assets where we see significant opportunities, particularly in the industrial sector. One of the assets in the pipeline, valued at around 40 billion pesos, could be a very interesting addition. With an addition of this kind, our portfolio would exceed 560 billion pesos in assets, covering over 103,000 square meters, generating more than 3,860 million pesos in monthly income, comprising over 100 real estate properties, and participating in more than 23 cities and municipalities.

In terms of distribution, I believe this is a crucial point. We would aim for warehouses to comprise about 33% of the portfolio. Street-level commercial spaces and shopping center premises would decrease slightly, as would offices, a sector that, although we like, we do not currently see as strategic for further growth.

Regarding leasing distribution, we are currently not meeting our target. With the new asset, we would reduce our exposure to a single tenant from 40% to 37%, but we would still be above the desired 30% limit. However, we would be moving in the right direction.

In terms of the economic sector, financial intermediation would still be the most significant sector, but its share would decrease from 50% to 46%. In terms of geographical distribution, Bogotá's share would drop from 62% to 58%, which I believe is the most significant change. Both the economic sector and geographical distribution would remain within the limits set by the prospectus.

Carolina Martinez

Thank you very much, Gabriel.

Well, here we are going to present the proposals that we have been discussing for an extraordinary team assembly that we intend to carry out in October of this year. In this assembly, we will present four important points.

First, we have a proposal to modify the limit of diversification by asset typology. Remember that, a few slides ago, I mentioned that we have a concentration in trade, warehouses, and offices. We want to lower the current limit from 70% to 60% precisely to reduce the risk of concentration in the same type of asset within the vehicle, taking into account all the trend changes we have observed in the last five years.

Another modification we will bring to the assembly is the adjustment of the debt limit. Historically, Tine's debt has shown very good results, demonstrating that we do not need to have such high debt to make successful acquisitions. We have found new acquisition alternatives that do not require indebtedness. Therefore, to provide greater peace of mind to our investors, we want to lower this debt limit, and we will gradually reduce it to 30%, depending on the amount of assets in the portfolio.

A third modification we will propose is a change to the administration commission scheme. Remember that a year and a half ago, we were pioneers in the sector by proposing an adjustment to this administration commission, which was calculated on the administered assets and had a perverse incentive for unmeasured acquisition without considering the management results of the vehicle. We then introduced a commission calculation based on a percentage of the net asset value (NAV), encompassing the entire administration exercise, profitability, and indebtedness. Today, after continuing to survey how investors feel about the results, we have found that the cash flow component is very important to you. Regardless of profitability, cash flow is also relevant. Therefore, we will include an indicator for calculating this commission based on the discounted cash flow throughout the year. Additionally, we wanted to set a cap on the commission, ensuring that, even with better results, it cannot exceed 1.15% per year of the assets administered by the vehicle.

Finally, we want to propose that you support and accompany us in migrating to the variable income market. We have been preparing for a couple of years, monitoring the market, observing the results of our colleagues, the behavior of the values of each title in the secondary market, the liquidity, and the opportunities we find with new investors and international markets. That is why we believe it is time to migrate smoothly to our natural market, which is the variable income market. We will bring this to the extraordinary assembly to obtain your vote and approval.

These are the proposals we will present in October. We hope you will join us to cast your vote and, as always, work towards improvement for you.

Now, I will leave you with Ana María to conduct the Q&A session.

Ana Maria Salcedo

Thank you very much again to everyone for joining us.

We are now going to proceed with the second part of today's session, where we will answer the questions you have been sending us through the platform. We also encourage you to continue submitting any additional questions you may have.

In fact, for the first question, we are going to combine three related inquiries on the same topic: the vehicle's debt. The questions are as follows:

1. What are your expectations for the cost of debt in 2024, considering its impact on the distribution of returns?
2. What is the estimated long-term debt level for the vehicle?

3. What is your objective regarding debt, specifically, to what percentage of NAV (Net Asset Value) do you aim to bring it, and in what timeframe?

Now, we will give the floor to Andrés to answer these questions about the debt.

Andres Lozano

Ana, thanks. In terms of the cost of debt for the year 2024, we started the year with a debt cost slightly higher than 15%. Our budget, approved by the advisory committee, aims to bring the end-of-year debt cost down to 8.26%. Based on the interest rate cuts by the Bank of the Republic, we believe we may not reach such a low debt cost below 8.3%, but we are seeing a significant decrease.

As of the end of June, the debt cost was 12.5%, and by the end of August, it had decreased to 11.9%, which is 50 basis points less than in June. Therefore, we expect the cost of debt to end the year at levels below 10%, close to 9%, according to the interest rate cuts. We have also observed a decrease in the spread on the Iber and that the counterparts with whom we have debt are not trading. This has allowed us to take advantage of the institutional presence of the titulado to obtain quite competitive debt rates.

The time and effort we have dedicated to managing debt have yielded positive results in terms of dividend yield. Our budgeted average for the year 2024 is slightly higher than 4%, estimated at 4.17%. We hope to close the year with levels close to our projected 4.2% dividend yield.

Regarding the estimated long-term debt level, our strategy has always been to use short-term debt and bridge debt for asset acquisitions. Currently, we have a 26% debt level because we have not been able to raise new resources to pay off this debt. Our goal is to reduce the debt to zero with the current interest rate levels. If positive interest rate conditions arise, we might consider long-term debt as outlined in the vehicle's prospectus. However, for now, we will only acquire bridge-type debt for asset acquisitions and aim to reduce it to zero once interest rates offer positive profitability.

Thanks, Andrés. Let's move on to a second question related to the holiday. The question is: How is the composition of the economic and physical holiday by type of asset and geographical location? Carolina, we give you the floor.

Thanks, Ana María. Our holiday rate is one of the lowest in the sector. We have a vehicle that has maintained a minimal holiday rate throughout its history, well below structural levels typical of real estate businesses. Currently, we have an economic holiday rate of 2.32%, which translates to a potential income loss of 85 million pesos out of 3,673 million pesos that the vehicle receives monthly in rents. This holiday rate is distributed by type of real estate as follows: 59% in commercial premises and 41% in offices. Geographically, 7% is in Bogotá or the metropolitan area, while 93% is in Barranquilla and Ocaña.

In terms of physical holiday, the rate is 3%. This differs from the economic holiday due to the type of contracts we have, which include strict clauses and penalties that cover the original term of the contract, thus shielding the investor's cash flow more effectively.

Thanks, Carolina. Another question from the last slides of the presentation relates to the potential modification of the administration commission scheme. When is this adjustment proposed to be implemented, and what does it consist of? Andrés, we give you the floor.

A year and a half ago, we introduced an innovative proposal regarding the commission structure, aiming to better align the interests of investors with those of managers. At that time, we shifted from a rate based on the fund's assets to a percentage on the profit over the last 12 months, depending on the fund's real profitability.

We received feedback from some investors and are now planning additional adjustments. We hope to hold an extraordinary assembly in the last quarter of this year to discuss these changes. The new proposal includes maintaining a percentage commission on profit, ranging from 0.79% to 1.13% of the profit over the last 12 months, depending on real profitability. Additionally, we will include a 0.5% commission on the distribution box flow of the last 12 months. We are also proposing a cap of 1.15% on the AUM.

In summary, the commission rate will depend on the real profitability of the vehicle, with a range of 0.79% to 1.13% of profit plus 0.5% of the distribution box flow, without exceeding 1.15% of the AUM. This adjustment would result in a discount of over 5% for 2023 and over 3% for 2024 in the commission rate.

Ana Maria Salcedo

Next question for Carolina: What is the percentage of income per tenant, and who is the main tenant? We see that at this point, the stabilization limit is not being met. What strategies are being implemented to achieve it?

Carolina Martinez

Thanks to everyone. As we saw in the presentation today, the only limit that exceeds the defined threshold within the prospectus is that of the tenant. Currently, the main tenant is giving housing with a 39.08% concentration. The next largest tenants are Hamar Furniture with 15.5%, Tau with 10.6%, Cocorico with 7.2%, Famoc de Panel with 4%, To Use with 3.2%, and Corraps with 2.9%, with other tenants making up 16.7%.

Regarding the stabilization period established by the prospectus and approved in the assembly, we have until October 25, 2025—just over a year—to meet the established limit. We are working hard to complete a pipeline for a new issuance. We have already prepared a third issuance, which we hope to execute at the beginning of next year, along with a pipeline of new acquisitions to reduce the concentration of the main tenant. We will keep you informed about the timing of the next issuance to continue progressing toward stabilization.

Ana María Salcedo

Thanks, Carolina. Next, we are addressing two questions related to the migration to variable income. The first question is about how the migration to variable income has been assessed, when it will occur, and what challenges or opportunities are seen. The second question is similar, asking about the expected timeline for trading on that market.

Regarding the migration, one of the four proposals for the extraordinary assembly this semester involves this issue. For several years, we have been reviewing this matter closely with market participants, considering market conditions, comparable vehicles, and evolving regulations. We believe now is the right time to implement this migration, given the advantages that could materialize with the current market situation.

To summarize the advantages:

- **Consistency with International Practice:** Similar vehicles in other markets are quoted on variable income wheels.
- **Increased Liquidity and Transactionality:** Variable income wheels offer greater potential for liquidity and transactions.
- **Index Participation:** There is potential for inclusion in indexes, which can enhance visibility and price formation.
- **Investor Diversification:** It could attract international and retail investors, increasing market diversification.

However, we also recognize the challenges that have previously delayed migration:

- **Requirements for Migration:** Meeting the necessary criteria can be complex.
- **Timing:** Choosing the right moment for migration has been challenging, as market conditions need to be favorable.

In summary, we believe the short-term market conditions in the coming months will be favorable for migration. We plan to propose a six-month period in the assembly to make the decision, ensuring we migrate at the most opportune time when both local and international market conditions are favorable. With approval from the assembly, we aim to move forward with this plan.

Now, let's turn to evaluations. Gabriel, could you address how the behavior of evaluations has been affected by the decline in profitability during November and December 2023?

Gabriel Flores

Thank you very much, Ana. It is important to note that between November 2023 and December 2023, two evaluation packages were activated, which experienced a decline greater than inflation. This was primarily due to increases in both discount rates and capitalization rates caused by the economic situation at that time. Specifically, capitalization rates rose from 7% to approximately 9%, while discount rates increased from 11% to 13%.

This year, we have observed a decrease in both rates, though not yet to their previous levels. However, there has been some recovery, allowing evaluations to grow at rates similar to inflation. We project that this trend will continue throughout the year.

Regarding the secondary market, there is a question about the low transactionality of the vehicle. The low transactionality can be attributed to several factors:

1. **Smaller Vehicle Size:** Our vehicle is smaller compared to others, which results in fewer available and issued titles, limiting investor participation.
2. **Discount Compared to Peers:** Other comparable vehicles have experienced discounts that have slowed down bids and purchase intentions, despite our vehicle having strong operational results and profitability.
3. **Lower Supply from Investors:** There has been less supply from investors in our vehicle, despite good operational results and profitability over the past four years.

To increase transactionality, we believe that migrating to the variable income wheel is essential. This migration would likely attract new investors, enhance visibility among retail and international segments, and increase liquidity and transactionality. Additionally, being included in indices would further boost the vehicle's liquidity and attractiveness.

Currently, the market situation is more favorable for assets with inflation indexation and long-term characteristics. As interest rates decrease, we anticipate a rise in investor interest and transaction volumes. Promoting and completing the migration to the variable income wheel is crucial for achieving greater transactionality, liquidity, and investor diversification.

Now, let's focus on acquisitions and emissions. Carolina, we give you the floor.

Carolina Martinez

Thank you. For some time now, approximately the last three years, we have paused acquisitions by instruction of the board. This decision was made due to the rise in interest rates, which we wanted to protect our investors' dividends from, and to avoid further indebtedness. As a result, we halted acquisitions.

However, our efforts to manage a well-prepared pipeline within the vehicle's acquisition policy have continued. We have an interesting portfolio, including some acquisitions with payment upon issuance.

Currently, we are very focused on carrying out the issuance of a third tranche. This tranche is already qualified, acquired, and ready to be brought to the market with the participation of all of you. Therefore, we are prepared for next year to launch this package of assets and continue with our pipeline, which is currently focused primarily on commercial properties and industrial parks. Our goal is to ensure excellent performance while managing our indebtedness effectively.

Gabriel Flores

In the next question, it is mentioned that although the cost of debt and interest payments have been decreasing with the management of indebtedness, there is a possibility of making disinvestments to prepay the current debt. Gabriel, disinvestment of assets is indeed one of the tools we use to reduce the level of indebtedness. As we have seen in past years, we have generated some sales.

However, given the current rate environment and the market conditions, we believe that selling assets purely for the sake of selling them could lead to a reduction in their value. This could even result in a loss compared to their book value. Despite this, we will continue to use and evaluate disinvestment opportunities whenever they arise.

It is worth mentioning that this year we have a buy-sell agreement for one of the assets we had vacant, which we hope to close officially this week. This transaction would not only help reduce vacancies but also provide us with some resources, which will be used according to the recommendations of the advisory committee.

Ana María Salcedo

Thank you, Gabriel. One more question for you: We have observed a drop in household expenses in the country. How has this affected the performance of commercial assets?

Gabriel Flores

Thank you very much, Ana. From the income perspective, the vast majority of our assets have a fixed rate, so we expect this should not affect us significantly. However, our tenants are experiencing a drop in sales and, as a result, we have received several requests to renegotiate contracts. As always, we are committed to being long-term partners and we evaluate each request as it arrives.

Despite this, we believe that commercial assets continue to perform well, especially in established shopping centers. Although there has been a decrease in the number of buyers, we have observed an increase in the average ticket size and a stable occupancy rate in these centers. Therefore, while there is an effect, it is more pronounced in less established commercial centers. In most of the centers where we have a presence, we have managed to maintain stable sales despite the overall decline in consumption.

Ana María Salcedo

Thank you Gabriel, finally one last question that says what percentage of the income was allocated

for investments in CAPEX of the assets during 2023 and how much would this percentage be in 2024?

Gabriel Flores

Thank you very much, Ana. During the year 2023, we did not have significant CAPEX expenses. For the year 2024, we plan to allocate about 5% of the income to CAPEX, primarily for a major project involving the renovation of a large portion of the roof at the Mobles Amar CEDI.

Ana María Salcedo

Thank you all for participating in this results event. We invite you to join us for the next event in November, where we will present the results of the third quarter of 2024. We also remind you that the results of this teleconference, including the audio, presentation, and Q&A, will be published on our website in the coming days.

Thank you again, and we look forward to seeing you at the next event.

Thank you very much for participating in this event, we invite you to a next event in November with the results of the third quarter of 2024.