Titularizadora COLOMBIANA

Q&A: SECOND QUARTER 2024 EARNINGS CALL - TIN

1. **What are your debt cost expectations for 2024, considering its impact on yield distributions? What is the estimated long-term leverage level for the vehicle? What is your goal regarding debt, and what percentage of AUM do you aim to achieve and in what timeframe?**

   Assigned to: Andrés Lozano

   We began the year with a debt cost slightly above 15%. Our budget, approved by the Advisory Committee, aims to bring this debt cost down to 8.26% by the end of the year. We believe that, based on the Central Bank's pace of interest rate cuts, we will not reach that low level below 8.3%, but we are seeing a significant decrease in this debt cost.

   As of June, the debt cost stood at 12.5%, and by August, it was 11.9%—50 basis points lower than in June.

   So, we can expect the debt cost to end the year below 10%, closer to 9%. Additionally, we have seen a reduction in spreads over the IBR quoted by counterparties, leveraging the institutional presence of Titularizadora to secure very competitive borrowing rates. A great deal of time and effort has been dedicated to debt management.

   All these efforts to reduce borrowing costs have yielded very positive results in the Dividend Yield. The budgeted average is 4.17%, and based on the 2024 projections, we expect to close the year with levels very close to the budgeted figure.

   In terms of long-term leverage levels, where we want to take the vehicle, we must remember that TIN's debt strategy has always been based on short-term or bridge loans for acquiring assets. Currently, our leverage stands at 26%, mainly because we are waiting to carry out an issuance to cancel the debt. Considering this, we aim to achieve a 0% debt level under the current interest rate conditions. If we see favorable interest rate levels and borrowing conditions that contribute to profitability and the Dividend Yield for investors, we may consider long-term leverage as outlined in the vehicle's prospectus. For now, we will only use short-term bridge loans for asset acquisitions when interest rates offer positive returns on that debt.

2. **What is the economic and physical vacancy composition by asset type and geographic location?**

   Assigned to: Carolina Martinez

   It is worth noting that both the economic and physical vacancy of the vehicle are among the lowest in the sector, well below structural levels and those contemplated in the financial models. As of the cut-off date of this report, the economic vacancy rate is at 2.32%, equivalent to vacant potential income of COP 85 million out of the total potential portfolio income of COP 3,673 million. This economic vacancy is distributed by property type as follows: 59% in commercial premises and 41% in offices. By geographic location, it is 7% in Bogotá Metropolitan Area and 93% in Barranquilla and Ocaña.

As for the physical vacancy, it stands at 3% and differs from the economic vacancy due to the rigidity of lease terminations by tenants, with penalties covering the original contract duration. This ensures a lower economic vacancy and a relocation time that does not register as economic vacancy.

3. **In the final slides of the presentation, you mentioned a potential adjustment to the management fee scheme. When do you plan to implement this adjustment, and what does it entail?**

Assigned to: Andrés Lozano

Let's recall that a year and a half ago, we were pioneers in the sector by introducing an innovative proposal for interest alignment through commission adjustments. At that time, we transitioned from a 1% fee on equity value to a variable fee applied to the last 12 months' NOI, which was essentially tied to the real profitability of the vehicle.

We received feedback from investors suggesting additional adjustments, which we intend to propose in an extraordinary assembly during the last quarter of this year. This time, we want to continue working closely with investors and make a new adjustment that includes the last 12 months' cash flow, along with a fee ceiling based on the value of assets under management (AUM).

As mentioned by Carolina during the presentation, we are maintaining a variable fee on the last 12 months' NOI ranging from 0.79% to 1.13%, depending on the vehicle's real profitability. Additionally, a fixed fee of 0.5% is implemented on the last 12 months' distributed cash flow. We are also introducing an AUM ceiling of 1.15%, resulting in a lower commission for 2023, equivalent to a 5.22% discount, and for 2024, a 3.23% discount.

4. **What is the percentage of income by tenant, and who is the main tenant? Considering the stabilization limits are not currently being met, what strategies are you implementing to achieve them?**

Assigned to: Carolina Martinez

As shown in the presentation, the diversification limit per tenant is the only one currently not being met, with the following breakdown:

- **Davivienda:** 39.8% (Main Tenant)
- **Muebles Jamar:** 15.5%
- **Itaú:** 10.6%

- **Kokorico:** 7.2%
- **Famoc Depanel:** 4.0%
- **Alusud:** 3.2%
- **Decowraps:** 2.9%
- **Others:** 16.7%

Regarding the stabilization period outlined in the prospectus and approved in the assembly, we have until October 25, 2025, to meet the limits established in the prospectus. To achieve this stabilization and reactivate the vehicle's growth, we are actively working on a roadshow with you to carry out the issuance of Tranche 3, which has been in the portfolio since the last quarter of 2024.

With this issuance, we could pay off the debt and resume new vehicle acquisition processes, considering the drop-in interest rates and the vehicle's positive leverage. We will inform you of the date of the next issuance to continue stabilizing the limits.

5. **What is your perspective on migrating to the equity market? When would this occur, and what challenges or opportunities do you foresee? What is the expected timeframe for being listed in this market?**

   Assigned to: Ana Maria Salcedo

   The migration is one of the four proposals we want to present to investors at the upcoming extraordinary assembly. As you know, for several years, we have been evaluating this migration, considering market behavior, comparable vehicles, and regulations for participatory securities. Therefore, we believe this is the right time to migrate to the natural platform for this type of investment vehicle.

   Migration offers advantages such as alignment with international practices, greater liquidity potential, inclusion in index methodologies, visibility, better price formation, and diversification of investors. However, there are still market challenges, such as meeting migration requirements and identifying the right time to make the transition effective.

   In conclusion, we believe this is an opportunity to migrate to the equity market, considering the potential benefits and the possibility of realizing them in the short term, given current market conditions and the nature of these participatory securities. Regarding the timeline, we propose a six-month period to implement this migration, pending favorable voting from attending investors.

6. **How have valuations behaved considering the decline that affected profitability in November and December 2023?**

   Assigned to: Gabriel Flórez

It is important to mention that in November and December 2023, we activated two appraisal packages that experienced a drop exceeding inflation. This was due to increases in both the capitalization rate and the discount rate used in the discounted cash flow method, from 7% to almost 9% and from 11.5% to 13%, respectively. This resulted in a devaluation of the assets in these two packages.

For this year, we are already observing a recovery in these rates: the capitalization rate has decreased from 9% to 8%, and the discount rate has dropped from 13% to 11.75%–12%. Consequently, we see a revaluation of the packages activated during the first half of 2024. The projection for the second half is that rates will remain at historical levels, leading to a normal revaluation of the TIN portfolio, closely aligned with inflation.

7. **How do you explain the vehicle's low trading activity in the secondary market? Is it due to a lack of bids, offers, or a mismatch? Have you considered strategies to increase trading activity?**

Assigned to: Ana Maria Salcedo

Here, we are somewhat entering the realm of speculation, as we cannot determine market conditions with certainty due to their inherent dynamics. That said, the low trading activity may be explained by the vehicle's relatively small size, the discount experienced by similar vehicles in the market (which hinders bids despite strong results), and potentially lower offer volumes due to the positive operational and profitability outcomes that reduce selloffs.

To increase trading activity, we believe migrating to the equity market is essential. This would pave the way for new investors and greater visibility, for instance, with international and retail investors. This migration would also involve a title split to align with market conditions, which could further boost trading activity. Finally, as market interest rates begin to decline, we are noticing growing interest in vehicles like ours, which offer alternative, long-term inflation-indexed underlying assets.

8. **What is your focus regarding acquisitions and issuances in 2024 to continue TIN's growth?**

Assigned to: Carolina Martinez

Regarding acquisitions, given the context of rising interest rates, the Board of Directors and Advisory Committee emphasized being very cautious and prudent about new acquisitions. Consequently, we halted acquisitions, with the last ones taking place in the final quarter of 2021.

However, we have continued to explore the market and maintain a pipeline, conducting thorough analyses of opportunities we observe. This opens the possibility of acquisitions tied to issuances. For now, our focus is on issuing the existing Tranche 3 portfolio to continue growing and paying off the vehicle's debt.

As of today, we have prepared and approved the issuance of Tranche 3, valued at approximately COP 182 billion. We look forward to presenting this portfolio to our current and prospective investors for a potential issuance at the beginning of next year.

9. **Given the reduction in debt cost and interest payments, have you considered asset divestments to prepay current debt?**

   Assigned to: Gabriel Flórez

   The divestment of assets is one of the tools we have in the prospectus to reduce leverage levels. Although it is an alternative, we believe that in the current context, divesting could imply a penalty on the real estate assets' prices, resulting in sales below their book value.

   Therefore, we will evaluate divestments individually to ensure the most favorable returns for our investors, as we have done so far. Currently, the vacant assets in our portfolio are being marketed not only for leasing but also for sale, with the aim of rotating the portfolio, reducing the vacancy indicator, and contributing to debt repayment or the repurchase of titles by the issuer.

   It is important to mention that we have a sales agreement for one of the vacant assets, which we hope to close this week. This operation will allow us to lower vacancy rates and obtain available resources, the use of which will be subject to the Advisory Committee's consideration.

10. **How has the decline in household spending in the country impacted the performance of commercial assets?**

    Assigned to: Gabriel Flórez

    From an income perspective, most of our assets have fixed lease agreements, which means they should not be affected by a decline in household spending.

    However, our tenants do experience a drop in their sales, which is why we have had discussions and negotiations with them. As we have always emphasized, we view our tenants as long-term partners. Each request is evaluated individually, always with the aim of preserving the profitability of the properties in the portfolio.

    Nevertheless, we believe retail has performed well, especially in established shopping centers. While there is a drop in the number of shoppers, the average ticket size has increased, and occupancy levels have remained stable.

11. **What percentage of income was allocated to CapEx investments in 2023, and what is the forecasted percentage for 2024?**

    Assigned to: Gabriel Flórez

In 2023, we did not incur significant CapEx expenses. For 2024, we have projected an expenditure of COP 2,250 million for the renovation of the roof of Jamar's logistics center. This investment represents approximately 5% of rental income.

12. Regarding the mentioned issuance, considering market discounts on real estate assets, will it proceed with these discounts in mind?

Assigned to: Carolina Martinez

The portfolio to be issued as part of Tranche 3 is valued at approximately COP 182 billion, corresponding to assets acquired in 2021. These assets have seen significant appreciation over time due to their IPC indexing and appraisal activation.

As we monitor market conditions, we will proceed with the issuance when appropriate. The final pricing will be determined after the roadshow, considering variables such as the behavior of the title in the secondary market, the equity value, investor returns, and the projected growth of the fund.

It is important to clarify that the underlying asset's accounting value will not be affected, as the appreciation of these assets has been recognized daily since their acquisition. The asset appraisals will be updated and reflected at the time of issuance.