



# AMVEST RESIDENTIAL CORE FUND

ANNUAL REPORT 2017

Zeeburgerkade (Cruquius) - Amsterdam

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*Terms appearing with an initial capital letter in this annual report but not defined herein shall have the meanings ascribed to them in the terms and conditions of management and custody of Amvest Residential Core Fund dated 20 April 2018.*

# PROFILE

## KEY CHARACTERISTICS ARC FUND

- Dutch residential investment fund with focus on the mid-priced rental segment and strong economic areas in the Netherlands.
- Access to development pipeline of new properties developed by Amvest Development Fund B.V. (Right of first Refusal, 'RoFR').
- Broad Investor base (18 Investors including foreign Investors).
- Long-term horizon (17 January 2026) and extension options.
- Transparent for tax purposes (fund for joint account structure).
- Best practice guidelines and governance structure.
- INREV and AIFMD compliant.
- ISAE 3402 Type 2 certified Fund Services Provider.
- EUR 700 million loan facility, EUR 260 million available.
- Conservative leverage policy (target LTV: 25%).
- Undrawn equity commitments: EUR 384 million.
- Flat fee structure (no performance fees).
- Managed by a dedicated team.
- External appraisals and property management.

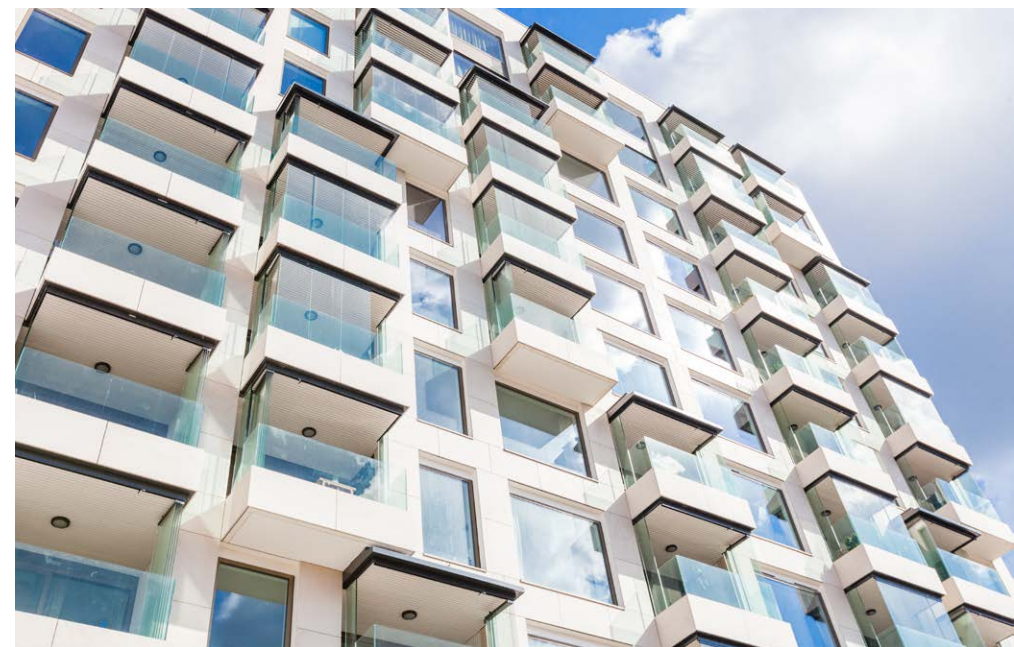
### OPERATIONAL PROPERTIES

**7,800 homes**  
€ 1.9 billion



### PIPELINE PROPERTIES

**3,400 homes**  
€ 0.9 billion



De Fred Amsterdam

## PROFILE

### STRATEGY

The ARC Fund has a core investment strategy, invests in the Dutch residential mid-priced rental sector and focuses on young, high quality, sustainable residential properties located in areas with the best economic and demographic potential (the ARC Fund focus areas). The ARC Fund aims to realise an attractive, stable dividend yield available for distribution and long-term value growth for its Investors. In addition, the ARC Fund aims to provide its Investors with a net IRR derived from rental income, divestment profit and appreciation of 7%, including a dividend yield of approximately 4% per year.

The ARC Fund has a strict regional policy, based on the ARC Fund focus areas. The portfolio has a strong allocation to the Big Four, the largest cities (Amsterdam, Rotterdam, The Hague and Utrecht) and their suburbs in the Netherlands and to other Randstad, Noord-Brabant and Gelderland cities. This area with strong urbanisation perspectives, is defined as the 'Central Circle'. Additional high performance areas are the Regional Economic Centres, which are selected strong cities outside the 'Central Circle'.

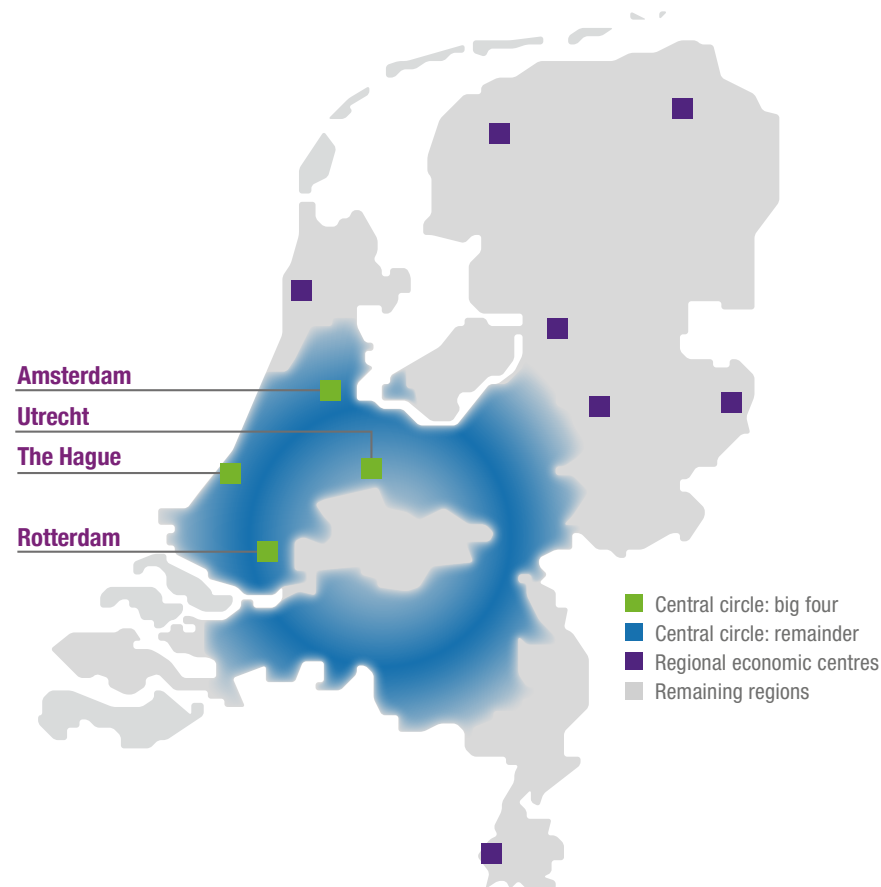
With an average age of around nine years, the portfolio is very young. A dynamic portfolio policy ensures that the quality of the portfolio remains at a high level and operating costs remain relatively low. The ARC Fund aims at an annual rejuvenation of the portfolio of 5%.

The ARC Fund's strategy is incorporated in the annual Portfolio Plan, which is discussed with the Investment Committee and approved by the Advisory Board.

The Fund Manager focuses on strategic and tactical portfolio and asset management. Operational management is outsourced to regional property managers. In addition to maintaining close contact with the property managers, the portfolio manager and asset managers also liaise closely with the Amvest Tenant Platform and the individual tenant organisations in order to have a good understanding of tenants' needs.

The ARC Fund attaches great value to corporate social responsibility and sustainable entrepreneurship. The Fund Manager believes that this can be achieved by permanently adhering to the wishes and expectations of the stakeholders and society. For this reason, the ARC Fund's ESG policy is largely based on the outcome of a materiality survey that was performed among the stakeholders of the ARC Fund.

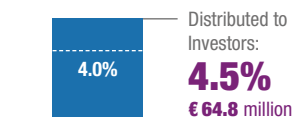
### FOCUS AREA: THE CENTRAL CIRCLE



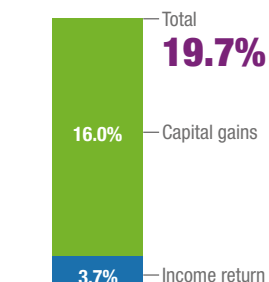


# KEY HIGHLIGHTS

## DISTRIBUTED DIVIDEND YIELD



## FUND RETURN



## NET RESULT

**€ 285 million**



## FUNDING

### Equity

- In 2017 an amount of EUR 187 million was committed by one new (foreign) Investor and two existing Investors.
- In the second quarter of 2017 one Investor filed a redemption request that was settled in July 2017.
- As at 31 December 2017, the ARC Fund has undrawn equity commitments amounting to EUR 384 million.

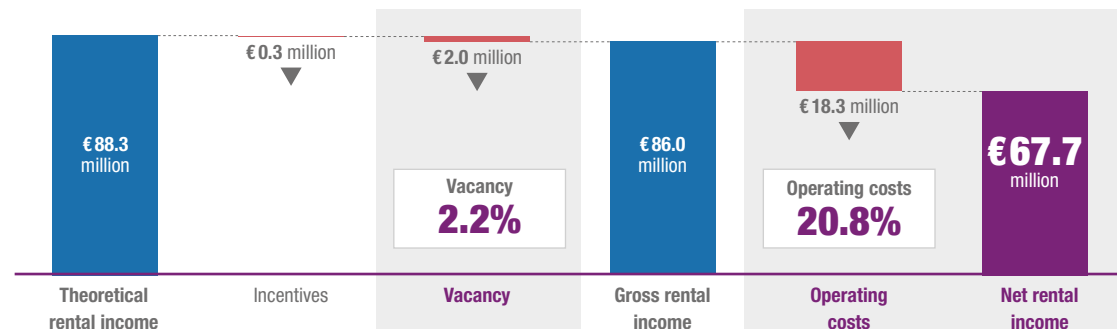
### Debt

- There is a EUR 700 million syndicated loan in place. This loan consists of a bullet loan of EUR 350 million and a revolving credit facility of EUR 350 million.
- The bullet loan has a term up to 17 January 2026. The revolving credit facility initially has a five-year term up to 26 September 2021 and three extension options of one year each.
- As at 31 December 2017 EUR 440 million was drawn (EUR 350 million bullet, EUR 90 million revolving).

## OTHER RESULTS FOR 2017

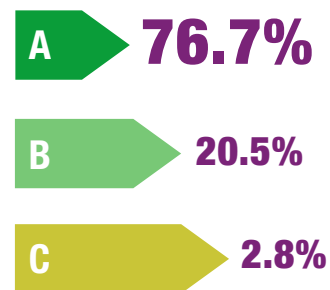
- Unrealised capital gains totalled EUR 220.0 million: EUR 182.4 million derived from investment property (including assets held for sale) and EUR 37.6 million derived from assets under construction.
- The regular annual rent increase was 1.7% on average.
- Restated Terms and Conditions with a state of the art liquidity mechanism (effective as per 20 April 2018).
- New RoFR Agreement with Amvest Development Fund B.V. including a 5-year equity commitment of the shareholders of Amvest.

## RENTAL INCOME

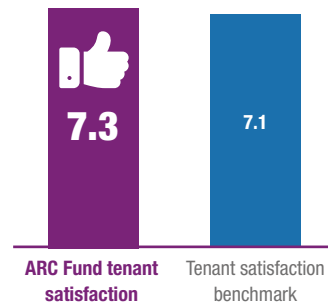


## KEY HIGHLIGHTS

### ENERGY LABEL



### TENANT SATISFACTION



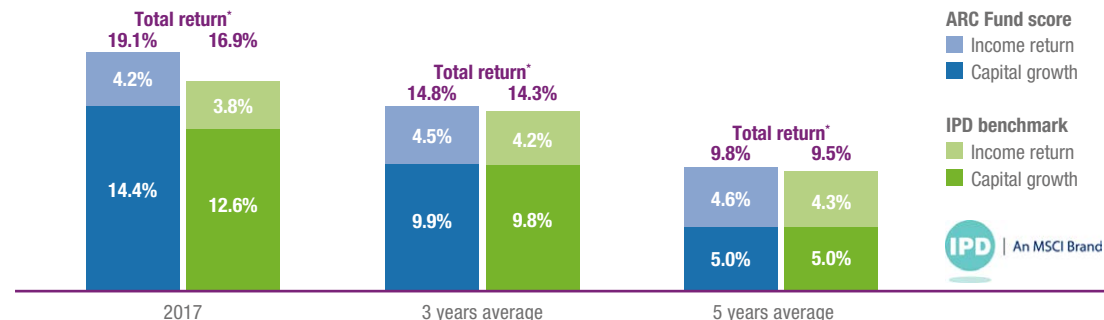
### GRESB SCORE



## MARKET DEVELOPMENTS IN THE NETHERLANDS

- The Dutch economy recorded the highest rate of growth since 2008.  
**Economic growth +3.1%**
- The Dutch residential market experienced a year of strong growth (in number of transactions and prices).  
**Transactions Dutch housing market +31% / Price rise +7.6%**
- The strong housing market is underpinned by sustained economic growth, low mortgage rates and a high level of consumer confidence.
- The housing shortage is exerting pressure on the residential market, resulting in (rental and market value) price rises.
- There is a rising gap between the market value and rental prices of homes in urban and rural areas, due to the long-term trend of urbanisation.
- Government measures have been positive for the private rental market.
- In an international perspective, the risk return profile of Dutch residential investments is still attractive.

### IPD INDEX



\* Income return, Capital growth and Total return are calculated separately.  
Due to the calculation method (time weighted) the sum of the Income return and Capital growth does not always equal the Total return.

## KEY HIGHLIGHTS

**1 Groningen** Melisseweg  
49 single-family



**2 Haarlem** Aquaverde  
54 multi-family



**3 Amsterdam** Cruquius  
58 multi-family



**4 Amsterdam** De Fred  
110 multi-family



**5 Amsterdam** De Spakler  
160 multi-family / commercial



**6 Amsterdam** RIV  
23 multi-family



**7 Almere** Duin Het Anker  
26 multi-family



**8 Almere** Duin  
18 single-family



**9 Gouda** Ambachtsschool  
68 multi-family



**10 Rotterdam** Parkmeester  
70 multi-family / commercial



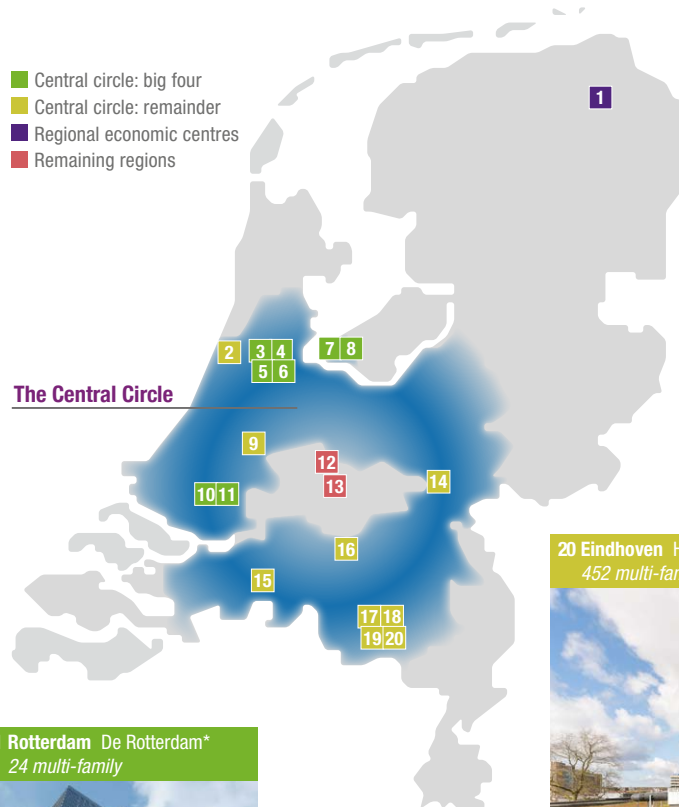
**11 Rotterdam** De Rotterdam\*  
24 multi-family



### PROPERTIES ADDED IN 2017

- Central circle: big four
- Central circle: remainder
- Regional economic centres
- Remaining regions

#### The Central Circle



\* Added existing projects.

**12 Culemborg** Parijsch Zuid  
22 single-family



**13 Geldermalsen** Lingedonk  
55 single-family



**14 Arnhem** Deltakwartier  
15 single-family



**20 Eindhoven** Hartje Eindhoven\*  
452 multi-family / commercial / other



**15 Breda** Haga Lucia  
70 multi-family / other



**16 Den Bosch** Perron 073  
38 multi-family



**17 Eindhoven** Waterfront  
33 single-family



**18 Eindhoven** Waterlinie  
30 single-family



**19 Eindhoven** Strijp R  
24 multi-family



# KEY FIGURES

(amounts in EUR x million)

	2017	2016	2015	2014	2013
<b>Fund returns (/ INREV NAV as at 1 January)</b>					
Income return	3.7%	3.6%	4.3%	4.4%	4.2%
Capital gains	16.0%	11.1%	9.2%	0.3%	-5.3%
<b>Total return</b>	<b>19.7%</b>	<b>14.7%</b>	<b>13.5%</b>	<b>4.7%</b>	<b>-1.1%</b>
Dividend yield (dividend / INREV NAV as at 1 January)	4.5%	4.1%	4.7%	4.7%	4.2%
Dividend	64.8	45.0	43.1	37.3	34.5
Profit of the year	285.0	163.2	123.7	37.4	-9.2
<b>Real estate returns (/ the average operational real estate portfolio value)</b>					
Direct return (1)	4.0%	4.3%	4.7%	4.5%	4.5%
Indirect return by selling (2)	0.7%	0.4%	0.4%	0.2%	0.1%
Indirect return by value changes	10.8%	7.1%	6.9%	0.1%	-4.0%
<b>Total return</b>	<b>15.5%</b>	<b>11.8%</b>	<b>12.0%</b>	<b>4.8%</b>	<b>0.6%</b>
Cash yield (= 1 + 2)	4.7%	4.7%	5.1%	4.7%	4.6%
Gross initial yield	5.1%	5.5%	5.9%	5.9%	5.8%
<b>Real estate results</b>					
Net rental income (1)	67.7	57.4	54.1	50.1	50.1
Realised capital gains (2)	11.6	5.0	4.1	2.3	0.6
Unrealised capital gains	220.0	118.2	80.0	0.7	-44.5
<b>Total capital gains</b>	<b>231.6</b>	<b>123.2</b>	<b>84.1</b>	<b>3.0</b>	<b>-43.9</b>
<b>Total income</b>	<b>299.3</b>	<b>180.6</b>	<b>138.2</b>	<b>53.1</b>	<b>6.2</b>
Cash (= 1 + 2)	79.3	62.4	58.2	52.4	50.7



# KEY FIGURES

(amounts in EUR x million)

	2017	2016	2015	2014	2013
<b>Balance sheet</b>					
Investment property as at 31 December before revaluation	1,739.3	1,350.9	1,124.8	1,105.1	1,079.4
Fair value adjustments investment property and assets held for sale	182.4	95.0	79.0	0.8	-43.9
<b>Investment property as at 31 December after revaluation</b>	<b>1,921.7</b>	<b>1,445.9</b>	<b>1,203.8</b>	<b>1,105.9</b>	<b>1,035.5</b>
Assets under construction as at 31 December	277.6	264.8	73.5	1.8	0.0
Assets held for sale as at 31 December	10.3	10.0	3.9	5.3	64.2
<b>Total property investments</b>	<b>2,209.6</b>	<b>1,720.7</b>	<b>1,281.2</b>	<b>1,113.0</b>	<b>1,099.7</b>
<b>Total assets (balance sheet total)</b>					
	<b>2,270.7</b>	<b>1,775.7</b>	<b>1,333.7</b>	<b>1,138.0</b>	<b>1,115.4</b>
Equity capital	1,796.0	1,449.4	1,063.8	841.0	791.5
Syndicated loan (drawn)	440.0	290.0	240.0	270.0	296.0
Financial income and expenditures	6.4	9.9*	8.5	8.9	9.2
<b>Key indicators/ratios</b>					
Equity capital divided by balance sheet total	79.1%	81.6%	79.8%	73.9%	71.0%
Long-term liabilities compared to total property investments (loan-to-value)	19.9%	16.9%	18.7%	24.3%	26.9%
Average interest rate on long-term liabilities (all in)	1.5%***	3.9%**	3.4%	3.2%	3.1%
<b>Bank covenants (Loan from 26 September 2016)</b>					
Long-term liabilities / total property investments (LTV)	19.9%	16.9%			
Long-term liabilities / mortgaged property investments (LTMV)	32.7%	27.5%			
Ratio of net rental income to gross interest	10.8	7.3			
<b>Bank covenants (Loan until 26 September 2016)</b>					
Long-term liabilities including MtM value IRS / total property investments			19.2%	25.1%	27.7%
Long-term liabilities / mortgaged property investments			29.0%	39.9%	39.7%
Net rental income+proceeds on sales-capital expenditures/interest on long-term liabilities			9.08	11.73	8.43

\* The total cost for unwinding the interest rate swap contracts is included (EUR 2.9 million).

\*\* Excluding the total cost for unwinding the interest rate swap contracts (EUR 2.9 million), the average interest rate would be 2.8%.

\*\*\* The new (September 2016) loan facility significantly reduced the total cost of debt, increasing the fund return.

# KEY FIGURES

(amounts in EUR x million)

	2017	2016	2015	2014	2013
Occupancy rate (/ theoretical rental income)	97.8%	97.3%	96.3%	95.5%	94.2%
Cost percentage excluding the landlord tax (/ theoretical rental income)	20.0%	20.5%	19.2%	20.6%	20.9%
Cost percentage including the landlord tax (/ theoretical rental income)	20.8%	21.4%	20.1%	21.6%	21.0%
INREV NAV as at 1 January	1,451.5	1,106.1	916.7	791.9	831.1
INREV NAV as at 31 December	1,800.9	1,451.5	1,064.2	841.7	791.9
Total Expense Ratio (INREV GAV) (mgt expenses / average INREV GAV)	0.42%	0.50%	0.55%	0.57%	0.57%
Total Expense Ratio (INREV NAV) (mgt expenses / average INREV NAV)	0.52%	0.60%	0.69%	0.78%	0.81%
Total Real Estate Expense Ratio (INREV GAV) (operating costs / average INREV GAV)	0.90%	1.04%	1.15%	1.30%	1.26%
Letting portfolio (number of homes)	7,804	6,743	5,976	5,921	6,004
<b>IPD property indexes</b>					
<i>All residential assets</i>					
IPD	16.9%	15.2%	11.0%	5.2%	0.2%
Amvest Residential Core Fund	19.1%	12.7%	12.6%	5.1%	0.5%

# REPORT OF THE FUND MANAGER



Hartje Eindhoven - Eindhoven

# AMVEST RESIDENTIAL CORE FUND

2017 was a good year for the Dutch economy, with the highest rate of growth in the last ten years. The Dutch residential market also grew strongly in the past year. More existing owner-occupied homes were sold than in 2016 and house prices rose by almost 8%. This strong housing market is underpinned by sustained economic growth, low mortgage rates and a high level of consumer confidence. In line with this strong market growth, the ARC Fund recorded an all-time high total return of 19.7% in 2017.

## Gap between demand and supply

There is a gap between demand and supply on the Dutch housing market, which implies a need for expansion of the housing stock. Despite the fact that more than 62,000 new homes were completed in 2017, an increase of almost 14% compared to 2016 and the highest number since 2009, this is still insufficient to meet the strong demand. The housing shortage exerts pressure on the residential market, resulting in (rental and market value) price rises. Particularly in the urban areas, substantial price increases have been realised, while in the more rural areas price increases are limited, or even do not occur. This is the result of the long-term trend of urbanisation (CBS, 2018).

## Dutch residential investments attractive

As in previous years, the rental market is characterised by solid growth in terms of demand and rental price rises. While the yields are under pressure, the risk return profile of Dutch residential investments is still attractive in an international perspective. This proves the record high investment volume in the Dutch residential investment market in 2017 (Capital Value, 2018).

## Focus on Central Circle

The ARC Fund focuses on the best performing (urban) regions. These urban regions, in particular the Big Four cities in the Central Circle (Randstad) region increased their popularity as residential locations for a diverse range of households. Due to the growing amount of single-person households, there is an increasing demand for small apartments, especially in the urban areas with many amenities. In addition, the demand for shared apartments is also increasing. Sharing an apartment applies to a considerable number of (young) singles as an opportunity to live relatively spaciouly and affordably. Besides, more people are consciously choosing to stay single, but do not want to live alone. In addition, families are increasingly choosing to live in high-density urban areas, so that the demand for larger apartments and single-family homes also remains strong. Prices rose more than the average national level in the Big Four. Because valuations have a strong correlation to the owner-occupier market, the value of the ARC Fund portfolio has also risen considerably.

## Investment strategy

The ARC Fund's portfolio is of high quality. Residential properties are selected based on their ability to make a sustainable contribution to returns. The portfolio is very young, meaning that operating costs are relatively low, and the portfolio is managed efficiently.

The vast majority of the portfolio is situated in the ARC Fund focus areas, defined as the 'Central Circle'. In addition, also some strong economic regions outside the Central Circle are interesting for the ARC Fund to invest in.

## ESG Policy

The ESG policy is focused on a directed and balanced implementation of Environmental, Social and Governance aspects in the management of the ARC Fund. In 2017, a materiality survey was conducted among the stakeholders of the ARC Fund. The output of the survey is reflected in a materiality matrix, which is a guide for the ARC Fund's ESG policy in the coming years.

The ARC Fund pursues an active policy of rejuvenating the portfolio to keep it youthful and sustainable in terms of using technologies that increase comfort and reduce energy consumption and the environmental burden. More than 75% of the homes in the ARC Fund portfolio have energy label A. Solar panels are offered to tenants to reduce carbon emissions. In addition, communal areas of apartment buildings are made energy neutral by installing solar panels.

The ARC Fund participates in the GRESB survey. As from 2014, the ARC Fund has been recognised as a Green Star by GRESB and since 2017 the ARC Fund has had a 4-star ranking (out of 5). The ARC Fund also participates in the IVBN tenant satisfaction benchmark and with a score of 7.3 the ARC Fund outperformed this benchmark in 2017. Reference is made to the ESG Policy chapter with more information on these subjects.



## REPORT OF THE FUND MANAGER

### Funding and distribution policy

The ARC Fund's excellent risk/return trade-off results from its low-risk strategy with very stable dividend returns. In funding, the leverage level is kept low, with a target level of 25%. The EUR 700 million loan facility is very flexible, has favourable conditions as well a maturity date of 17 January 2026 (for the bullet part of the facility), which coincides with the current end date of the fund term of the ARC Fund.

The ARC Fund aims to distribute all rental income and divestment profits to Investors as quarterly dividend net of taxes, fees, costs, expenses, liabilities, and other charges to be borne by the ARC Fund. The nature of the residential sector and the portfolio, with its high occupancy rates, offers Investors the prospect of a stable dividend yield of approximately 4.0% per year (2017: 4.5%). Residential investments are an excellent inflation hedge (on a cash flow basis) due to the link between rent increases and inflation.

### OUTLOOK 2018

The forecast of the CPB shows a continuing economic growth for 2018. Just like 2017, growth is expected to continue above 3%. Prospects for the housing market are also favourable for 2018. Because of this growth, we anticipate achieving a total return of around 10% for 2018.

Over the next few years, we expect an ongoing shortage of mid-priced rental sector homes. Market rental rates continue to rise. As a result, the ARC Fund managed to generate positive annual rental increases compared to inflation. The annual rental increase was 1.7% in 2017 and is expected to reach 2.0% in 2018.

The ARC Fund will persist with the strong allocation to the Central Circle – Big Four over the next few years due to the ongoing tightening in the housing market in the Central Circle region. Due to the high pressure on the Big Four cities, the focus for new acquisitions will also be more on the Central Circle – Remainder.

Dutch residential real estate, especially located in and around the Big Four cities, continues to be very popular among Dutch institutional investors, but also foreign investors increasingly have investment mandates to invest in Dutch housing. This will push yields further down in 2018. In order to fulfil the growth and rejuvenation strategy of the ARC Fund, it is increasingly important to commit new acquisitions at an early stage. Due to the ARC Fund's experience, together with the access to Amvest's development expertise and network, and the RoFR Agreement with Amvest Development Fund BV., the ARC Fund expects to be able to continue acquiring attractive projects in 2018 and beyond.

*Amsterdam, the Netherlands, 26 April 2018*

Wim Wensing, *Fund Director*  
Maarten van der Lienden, *Director Finance and Risk*  
Dennis Wedding, *Portfolio Manager*



De Hoge Hout Haarlem



## REPORT OF THE FUND MANAGER

### THE DUTCH ECONOMY

#### Strong economic growth

In 2017, the Dutch economy recorded the highest rate of growth since 2008 with economic growth of 3.1%. Gross Domestic Product (GDP) has grown continually over the past 15 quarters (quarter on quarter). The high GDP growth in 2017 was widely supported and mainly based on an increase in exports, household consumption and investments (CBS, 2018). The expected GDP growth for 2018 amounts to 2.8 - 3.2%, according to the latest economic forecasts (ABN AMRO, 2018; CPB, 2018; ING, 2017; Rabobank, 2018).

The substantial economic growth is underpinned by several other leading economic indicators. Unemployment rates (seasonally adjusted) showed a further decline from 5.4% at the end of 2016 to 4.4% in December 2017. Altogether, in 2017, there were 100,000 fewer unemployed on average than in 2016 (CBS, 2018). Further, consumer confidence rose over 2017 to a level of 25 last December (CBS, 2017) (graph 1).

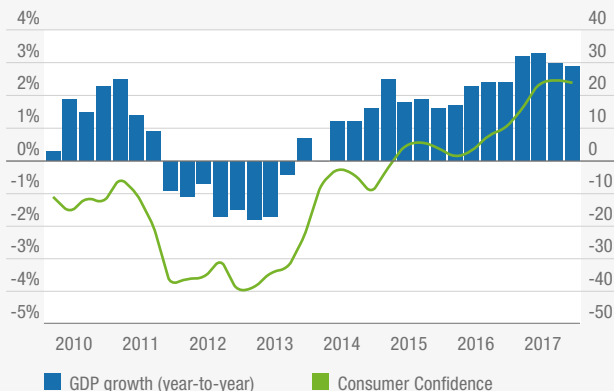
Interest rates stabilised in 2017, after a 5-year period of falling rates which were largely caused by the ECB's monetary policy (DNB, 2017). The interest rate on newly issued residential mortgages with a fixed-rate period of between 5 and 10 years was on average 2.34% in December 2017 (DNB, 2018). A slight increase in the long-term mortgage interest

rates (in line with the 10 year yield on government bonds) is expected for the next year (ABN AMRO, 2018; ABN AMRO, 2017). Inflation in 2017 was relatively modest at a level of – on average – 1.4%, which is lower than the ECB's target level of 2.0%, but substantially higher than the historically low inflation rate of – on average – 0.3% for 2016 (CBS, 2018).

The development of the leading indicators described above implies good economic prospects for the Dutch economy as well as the housing market. Furthermore, the measures in the coalition agreement of the newly formed government are stimulating the economy while it is already operating well (ING, 2017). On the other hand, European economic growth could be affected by the increased uncertainty following the UK's Brexit referendum.

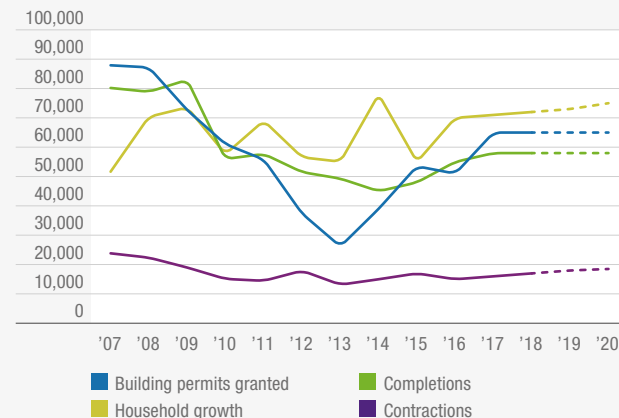
#### 1 ECONOMIC GROWTH AND CONSUMER CONFIDENCE 2010-2017

(Source: Statistics Netherlands)



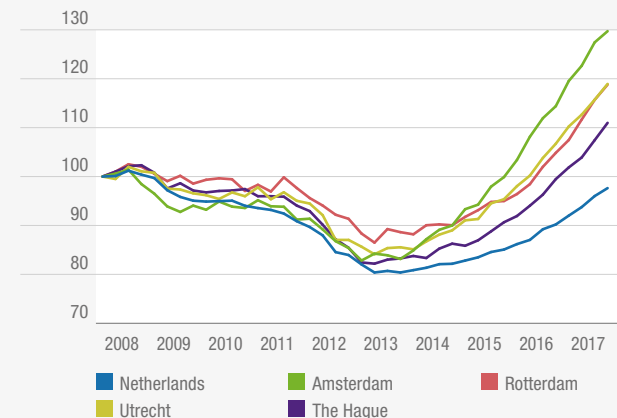
#### 2 SHORT-TERM FUNDAMENTALS DUTCH HOUSING MARKET

(Source: Statistics Netherlands)



#### 3 PRICE DEVELOPMENT (NOMINAL) EXISTING OWNER-OCCUPIED HOMES 2008-2017 (INDEX 2008 = 100)

(Source: Statistics Netherlands)





Holland Park Diemen

### THE DUTCH RESIDENTIAL MARKET

#### Rising housing demand and lack of supply

As well as the flourishing Dutch economy, the realised and expected growth of the population and number of households are having a positive impact on the real estate (investment) market. The population and number of households are expected to increase from 17.1 and 7.8 million respectively (end of 2017) to 18.1 and 8.5 million (end of 2040) (CBS, 2016). While the anticipated population size is expected to stabilise in 2040, the number of households will continue to rise (although at a lower pace) due to a further decrease in the average number of persons per household.

These developments imply that there is an expansion need for housing. This applies in particular to the Central Circle regions, the regions with the best economic and demographic potential, which are the focus areas of the ARC Fund. Therefore, adding properties to the Dutch housing stock will be necessary in order to provide the growing number of residents with a home.

The statistical housing shortage<sup>1</sup>, as a consequence of several years in which the production of new homes has lagged behind the number of households, is estimated to be over 200,000 in 2019 (Capital Value, 2017). Despite the expected increase in the number of building permits granted and new homes completed in 2017 and 2018 (graph 2), the growth of supply is not enough to meet the housing demand. This provides attractive growth opportunities for investors in the private rental sector.

#### Housing shortage puts pressure on the residential market

The Dutch residential market experienced a year of strong growth. The gap between demand and supply is exerting pressure on the Dutch housing market. This resulted in high transaction volumes (241,860 sales, an increase of almost 13% compared to 2016) (CBS, 2018), a decreasing number of homes for sale (85,000 in December 2017 versus 131,000 a year earlier) (HuizenZoeker, 2017; HuizenZoeker, 2016) and high price rises (7.6% on average relative to the previous year) (CBS, 2018). It is to be expected that the price rises will continue in 2018, also supported by the sustained low mortgage interest rates. However, sales volumes are likely to drop in the future due to the increasing scarcity of available homes (ABN AMRO, 2017).

The rising demand and lack of supply have an impact on the Dutch rental housing market. The shrinkage of the social housing sector (Ministerie van BZK, 2016), the price rises in the owner-occupied sector, the stricter mortgage terms (initiated by the Dutch government) and the increased desire for flexibility (FD, 2017; NVM, 2017) are

exerting further pressure on the private rental sector. This is reflected in rental increases (as well as market value price rises), as appears from research by the Association of Institutional Property Investors in the Netherlands (IVBN). In 2017, the average rental increase for the free-market rental homes of Dutch institutional investors amounted to 2.4%. The price rises varied between 0.1% in the province of Limburg and 2.9% in the province of North Holland (IVBN, 2018).

#### Rising gap between residential markets

There is a rising gap between the sales and rental prices of homes in urban and more rural areas. The long-term trend of urbanisation is resulting in a greater housing demand for homes in regions with the best economic and demographic potential. This applies in particular in the Big Four cities (Amsterdam, Rotterdam, The Hague and Utrecht) and is reflected in the price growth over the past four years (graph 3). The ARC Fund portfolio holds property primarily in and around the Big Four (65% at the end of 2017) and will persist with this strong allocation over the next few years.

While the Dutch housing market has recovered in the past four years, the price level is still below the record level of 2008. In contrast, the average sales prices in the Big Four cities have shown a faster pace of recovery and are currently above the pre-crisis level (in nominal terms). However, in real terms (including the effect of inflation) the price level in Rotterdam, The Hague and Utrecht is still at or below the pre-crisis level. The largest price rise was in Amsterdam, where prices are now 30% (nominal) and 10% (real) above the 2008 record.

#### Government measures positive for private rental market

The Dutch government has implemented a number of measures to reform the residential market since 2013. Factors such as the landlord tax, lowering of the maximal allowed loan-to-value ratios (LTV) and reduced mortgage interest relief are already in force and are having an impact on the owner-occupied and social rental sectors.

1. The statistical housing shortage is the difference between the forecast of the available housing stock and the need for housing, based on the expected household growth and the housing requirements.

## REPORT OF THE FUND MANAGER

Furthermore, the recently formed new cabinet strengthened some of these measures. For the coming years, the most important government measures for the housing market are presented below:

- the maximum allowed LTV will be lowered from 101% in 2017 to 100% in 2018 (the maximum LTV was 110% in the recent past);
- the mortgage interest deduction rate will be reduced more quickly. The maximum tax rate at which mortgage interest can be deducted will fall by increments of 3% from 49% (2019) to 37% (2023), instead of the previously intended yearly increments of 0.5% (end year 2042);
- the landlord tax will further increase from 0.591% in 2018 to 0.593% in 2022. The landlord tax will be 0.567% from 2023 on;
- housing associations should allocate their social rental homes per 1 January 2018 as follows:
  - at least 90% to households with incomes < EUR 41,056;
  - at least 80% to households with incomes < EUR 36,798.

For the private rental market, this implies a more level playing field. Both the owner-occupied sector and the social rental sector will be less accessible for home seekers due to the reduction of the financial advantages and the tax measures implemented by the government. Therefore, there will probably be a greater need for housing in the private rental market. This will provide opportunities for investors in private rental homes in the Netherlands.

### Recent government announcements

In contrast to the above-mentioned measures, which are beneficial for the free-market rental sector, the local and national government has announced some measures that could negatively affect the private rental market. First, the local governments of Amsterdam and Utrecht will restrict the (increases in) rental prices for new projects in order to maintain the affordability and accessibility of the housing stock. The municipality of Utrecht is maximising the rental price and yearly rental price increase and setting the minimum period of exploitation in the mid-priced segment at 20 years (Gemeente Utrecht, 2017). In Amsterdam, 40% of the newly-built homes is intended for the social

rental sector, 40% for mid-priced homes with a rent ceiling of EUR 971 per month and 20% for free market rental and owner-occupied homes. While this policy is aimed at providing more homes for middle-income households, it appears from research by the EIB that these measures will probably not be successful (EIB, 2018).

Further, the newly formed cabinet has announced that in the future the Dutch REIT regime, i.e. the regime for investment institutions with a 0% Dutch corporate income tax rate, is no longer available for directly owned real estate investments. The Fund Manager addressed this subject by discussing it with its tax advisor (PwC) and informing the Investors with the outcome and possible impact on their position. Since the ARC Fund is structured as a tax transparent fund for joint account, the proposed changes should not have a direct impact on the ARC Fund. However, for those participants who have pooled their investment via Dutch REITs, the favourable REIT regime is no longer available, and they should (most likely) change their ownership / pooling structure for their investments in the ARC Fund. It should be noted that this is only an announcement, and a lobby of organised interest groups (IVBN, INREV, EPRA etc.) has become active in order to prevent the intended amendment of the tax regime.

## 4 RETURNS DUTCH REAL ESTATE MARKET

Standing investments (%) (Dec 2017)	Annual			Annualised Total Return			
	Total Return	Capital Growth	Income Return	YTD	1Yr	3Yr	5Yr
All property Types	12.4	7.3	4.8	12.4	12.4	10.1	7.0
Retail	6.0	0.5	5.5	6.0	6.0	4.4	3.3
Office	12.5	7.0	5.2	12.5	12.5	8.8	5.5
Industrial	9.2	2.3	6.8	9.2	9.2	10.3	9.1
Residential	15.6	11.1	4.1	15.6	15.6	13.5	9.1

### (Residential) real estate proves to be an attractive asset class

The Dutch (private) rental sector attracts many domestic and foreign investors due to the low interest rates, the growing demand, the expected (rental) price rises and the good risk return profile of private rental homes. In 2017, the investment volume in the Dutch residential investment market reached a record high of EUR 5.5 billion, an increase of 20% compared to 2016. The Dutch institutional investors made the largest contribution and invested around EUR 3.1 billion, especially in the mid-priced rental sector (Capital Value, 2018).

Yields from residential investment opportunities are under pressure as a consequence of the large investment demand and the lack of supply. However, the returns from Dutch residential investments are still attractive. This also applies to the other investment classes, as appears from table 4.

In 2017, all investment classes showed higher total returns compared to 2016. The return figures are shown on a standing investments basis (properties that have been in operation for the complete year; so the effects of buying, selling and development are excluded). The total return in the residential sector was 15.6% in 2017 (Standing investments).

## REPORT OF THE FUND MANAGER

### PORTFOLIO POLICY AND FOCUS AREAS

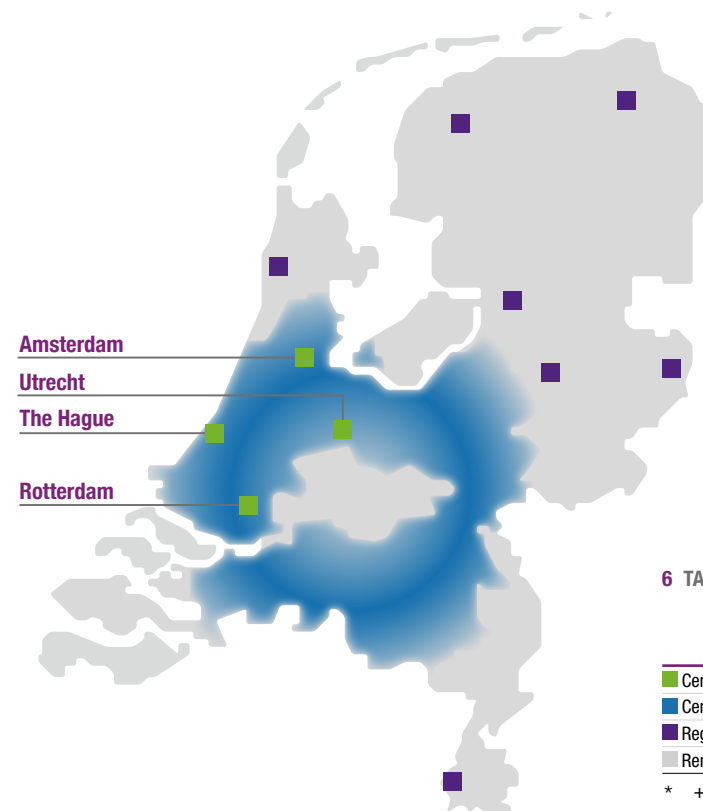
The ARC Fund's portfolio strategy focuses on the urban and strong economic regions in the Netherlands. This urbanisation process is expected to continue in the coming years, but is not restricted to the Randstad area. The area with strong urbanisation perspectives is defined as the 'Central Circle'. In cooperation with an external consultancy company (RIGO), the ARC Fund identified the following three focus areas:

- **Centre Circle - Big Four:** the four largest cities in the Netherlands (Amsterdam, Utrecht, The Hague and Rotterdam) and their suburbs;
- **Centre Circle - Remainder:** remaining urban regions in the Randstad, Brabant and Gelderland (including Haarlem, Leiden, Delft, Arnhem, Nijmegen, Den Bosch and Eindhoven);
- **Regional Economic Centres:** urban regions of Zwolle, Groningen, Leeuwarden, Alkmaar, Maastricht, Deventer and Enschede.

The above-mentioned regions vary with regard to their risk return profile and future demand structures for residential properties in the free rental segment. The Big Four cities have the best prospects (in terms of demographic growth, economic dynamics and housing demand), but smaller cities in urban regions also provide good investment opportunities. Therefore, the ARC Fund aims to maintain its strong position within the Randstad-Big Four area and to gradually extend the portfolio within the remaining Randstad regions.

There is an expected demand of around 40,000 new homes annually in the focus areas of the ARC Fund, of which 10% are free-market rental homes (4,000). Within this growing market segment, the ARC Fund's strategy focuses primarily on the mid-priced rental sector, with monthly rents ranging from EUR 711 to EUR 1,250 per home (depending on the specific region).

### 5 FOCUS AREAS: THE CENTRAL CIRCLE



### 6 TARGET PORTFOLIO OF THE ARC FUND IN FOUR MAIN REGIONS

	Future Demand*	Target portfolio ARC Fund	Mid-priced Segment**
Central Circle: Big Four	+	65% - 90%	EUR 711 - 1,250
Central Circle: Remainder	+	10% - 35%	EUR 711 - 1,100
Regional Economic Centres	0	0% - 10%	EUR 711 - 1,000
Remaining Regions	-	0% - 5%	EUR 711 - 900

\* + Above average, 0 average, - below average.

\*\* Monthly rent excluding parking place.

Rental segments based on Portfolio Plan 2017. In the Portfolio Plan for 2018, the upper limit of the mid-priced segment is increased to EUR 1,000 – EUR 1,300 (depending on region).

## REPORT OF THE FUND MANAGER

### Qualitative focus ARC Fund

To ensure an attractive portfolio in terms of market demand (and consequently a stable rental income as well as a long-term attractive capital growth), an insight into trends and new markets is required. The urgency for trend analysis is encouraged by the expected fast portfolio growth in the coming years and the ongoing changes in society. How will the housing market and residential environment of the future be affected by increasing urbanisation, demographic ageing, green cities, digital services, robotisation and sustainability?

The ARC Fund has collaborated with an external consultancy firm (ZWIRT) and investigated which mega trends and residential market developments provide opportunities for and could influence the portfolio of the ARC Fund. Based on this research, the following four options to enhance the portfolio with new market focus and facilities were selected:

- **Property manager 2.0 - digital service & tenant platform:** the Fund Manager wants to evolve into a home provider in the longer term; greater efforts put into digital services and a move towards smart homes.
- **Social & Sustainable as a conceptual tool:** the circular economy could create new earning models; more emphasis will be placed on circularity and sustainability in development, investment and marketing of projects.
- **Enhanced lifestyle approach:** segregation of the housing market compels a stronger connection between specific locations and the residential needs / perceptions of the target groups and their lifestyles.
- **Concept management for major properties:** concept management (design and implementation of (semi-) public, private and commercial areas in the immediate vicinity of the property) will become more important, since the number of larger properties (> 100 homes) will increase within the portfolio.

### PORTFOLIO AND FUND FIGURES 2017

In 2017, the ARC Fund's portfolio profited from active management and favourable market conditions. The average vacancy rate dropped to 2.2%, the lowest level since the start of the ARC Fund. Due to the young portfolio, operating costs were relatively low. The average monthly rent of the residential portfolio increased with 2.7% to EUR 989.

The ARC Fund strives to renew a modest proportion of the portfolio each year in order to rejuvenate and maintain the high quality of the portfolio. Due to the growth and rejuvenation ambitions, the ARC Fund invests in both new and existing properties while at the same time the ARC Fund wants to sell some properties by means of block sales and individual sales. The rejuvenation of the portfolio will be financed out of proceeds from divestments (book value) and capital from the Investors.

The portfolio grew considerably in 2017. Almost 1,400 homes (EUR 389 million book value as at 31 December 2017) were added to the portfolio. Part of these acquisitions are fourteen apartment buildings consisting of 452 multi-family fully rented homes in the residential district "Hartje Eindhoven" (next to the PSV stadium in Eindhoven).

Due to the ARC Fund's experience, its network and extensive track record, the ARC Fund has been able to acquire attractive projects from Amvest Development as well as third parties, which will be completed and added to the portfolio in the next years (commitments and pipeline). In addition, the RoFR Agreement with Amvest Development also ensures that the ARC Fund expects to be able to acquire more attractive and profitable projects in the coming period, contributing to the results of the ARC Fund. Properties considered suitable for the ARC Fund must fit the parameters set in the Terms and Conditions and the Portfolio Plan. In 2017, the portfolio's pipeline of properties (including commitments) increased to an estimated investment of EUR 949 million.

The number of privatised homes increased to 132. Besides these individual sales, 206 homes and nine commercial care homes were sold by way of two block sales. The total sales profit amounted to EUR 11.6 million, adding 0.7% to the portfolio's total return.

The portfolio's composition, operation and dynamics, as well as the portfolio's and the fund's performance are explained in the following paragraphs.

### Portfolio - composition

In 2017, portfolio dynamics and revaluations resulted in a residential investment portfolio of 160 properties with a total of 7,804 homes and a book value of EUR 1.889 billion (compared to 133 residential properties, 6,743 homes and EUR 1.425 billion book value in 2016). The average book value per home increased by 14.7%, from EUR 211,000 as at 31 December 2016 to EUR 242,000 as at 31 December 2017. The ARC Fund also has eighteen properties defined as 'commercial/other' real estate. These eighteen properties have a total book value of EUR 42.8 million (2.2% of the total investment portfolio value).



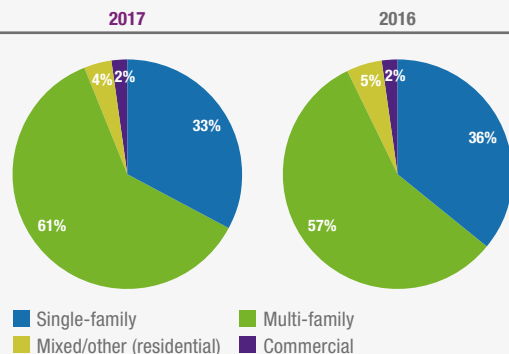
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## REPORT OF THE FUND MANAGER

### 7 TOTAL PORTFOLIO BY TYPE\*

Composition by rental income

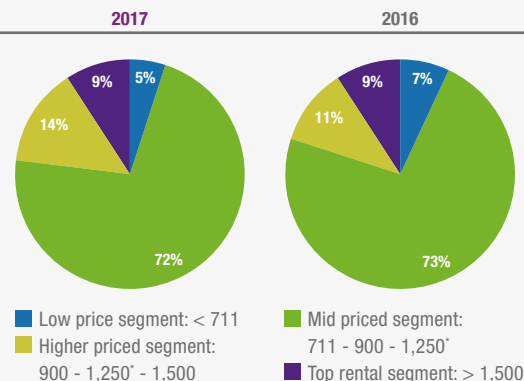


\* 'Mixed/Other (residential)' properties consist of residential properties that have single-family and multi-family homes combined in one property ('mixed'), or residential properties that are rented out on the basis of a commercial lease contract ('other').

- A true residential portfolio; only 2% of the rental income is generated from commercial real estate.
- Around one third of the portfolio consists of single-family homes.

### 8 RESIDENTIAL PORTFOLIO BY PRICE SEGMENT

Composition by rental income

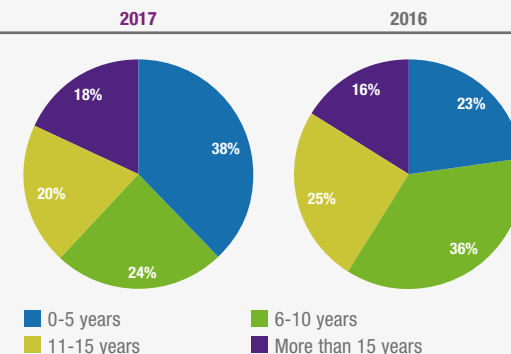


\* Rental price limit of the segment EUR 900 to EUR 1,250 per home per month: depending on specific region.

- Strong focus on mid-priced rental segment.
- Only 5% of the portfolio is rented out below EUR 711.
- Exposure to the top rental segment is limited to 9%.
- In the Portfolio Plan for 2018 the upper limit of the mid-priced segment is increased to EUR 1,000 – EUR 1,300 (depending on region) following market developments, resulting in an exposure to the mid-priced segment of around 80%.

### 9 TOTAL PORTFOLIO BY AGE

Composition by book value

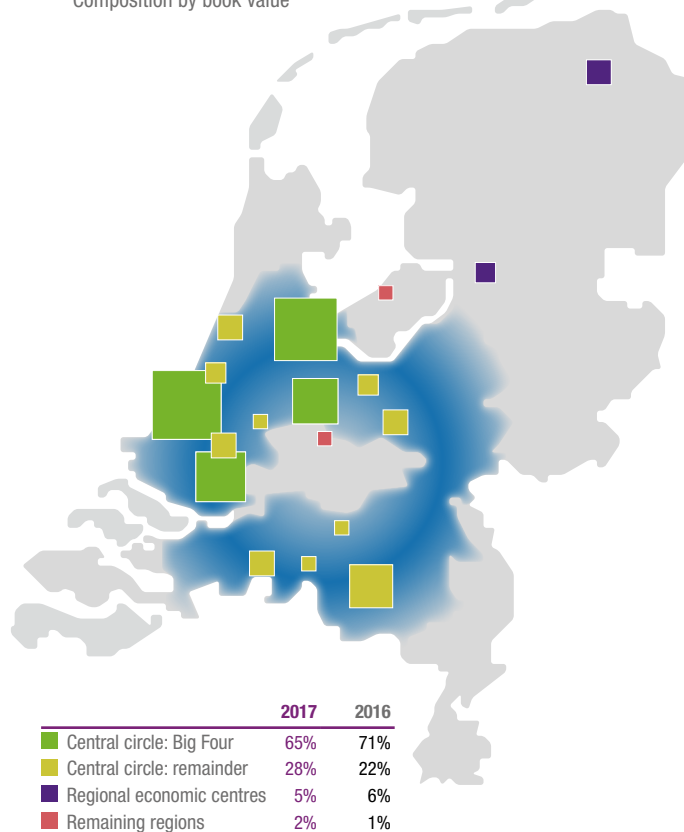


- Young and sustainable portfolio / 62% < 10 years.
- The average age of the portfolio was around nine years in 2017.

## REPORT OF THE FUND MANAGER

### 10 TOTAL PORTFOLIO BY REGION

Composition by book value



- The portfolio is strongly concentrated in the focus areas.
- Two thirds of the portfolio is located in the Big Four (largest cities in the Netherlands and their suburbs).
- Remaining properties are situated in regions with attractive prospects, for example Haarlem, Leiden and the bigger Noord-Brabant cities.

Although more larger properties will enter the ARC Fund's portfolio, the portfolio is well diversified across properties in terms of book value per property. Because of this diversity, the portfolio's performance and risk is minimally affected by individual properties. Based on book value, the largest concentration of properties (the residential district "Hartje Eindhoven") has a 6.0% share of the portfolio's value. The ten largest properties / districts based on book value represent 28.0% of the total portfolio value.

### 11 THE TEN LARGEST PROPERTIES / DISTRICTS

#	Town	Address (Name)	Number of homes	Housing type/ Commercial	Construction year	Title to the land*	Region	Operation or disposition	Average rent per home/ month in EUR
1	Eindhoven	Anton, Gerard Philipslaan (Hartje Eindhoven)	452	multi-family	2013	freehold	Central Circle: Remainder	operation	918
2	The Hague	Anna van Buereplein (New Babylon City Tower)	106	multi-family	2012	leasehold	Central Circle: Big Four	operation	1,801
	The Hague	Bezuidenhoutseweg (New Babylon Park Tower)	70	multi-family	2010	leasehold	Central Circle: Big Four	operation	1,839
3	The Hague	Cornelis de Wittlaan (De Staten I)	128	multi-family	2000	freehold	Central Circle: Big Four	operation	1,222
	The Hague	Cornelis de Wittlaan (De Staten II)	80	multi-family	2000	freehold	Central Circle: Big Four	disposition	1,197
4	Rotterdam	Wilhelminakade (De Rotterdam)	142	multi-family	2013	freehold	Central Circle: Big Four	operation	1,404
5	Amsterdam	Spaklerweg (De Spakler)	160	multi-family	2017	leasehold	Central Circle: Big Four	operation	1,048
6	Amsterdam	Fred Roeskestraat (De Fred)	110	multi-family	2017	leasehold	Central Circle: Big Four	operation	1,378
7	Rotterdam	Joost Banckertsplaats**	242	multi-family	2015	freehold	Central Circle: Big Four	operation	718
8	Amsterdam	Emmy Andriessenstraat (Terrazze)	76	multi-family	2010	leasehold	Central Circle: Big Four	operation	1,553
	Amsterdam	Jan Vrijmanstraat (Mura)	26	multi-family	2010	leasehold	Central Circle: Big Four	operation	1,437
9	Haarlem	Bellevuelaan (De Hoge Hout)	91	multi-family	2010	freehold	Central Circle: Remainder	operation	1,644
10	Groningen	Boterdiep (Ciboga)	145	mixed	2002	freehold	Regional Economic Centres	operation	886

#### \* Title to the land

*Freehold: the title to the land is held by Amvest RCF Custodian B.V.*

*Leasehold: the land was acquired on a long lease.*

#### \*\* Rotterdam - Joost Banckertsplaats

*This property was fully renovated in 2014/2015 (initial construction year was 1956).*

## REPORT OF THE FUND MANAGER

### PORTFOLIO - OPERATION

#### Rental income, average rent

Net rental income from the portfolio in 2017 was EUR 67.7 million (2016: EUR 57.4 million). The year-end 2016 average monthly theoretical rent per home was EUR 989 (2016: EUR 963).

The growth of rental income is determined by the annual rental increase and portfolio dynamics. Excluding portfolio dynamics (like-for-like), the rental growth of the standing properties was 1.9%. The average annual rental increase of the rental contracts was 1.7% (2016: 1.8%), which is high compared to the average inflation for 2016 of 0.3%. (Note: the annual rental increase of 2017 is based on the inflation in the previous year).

#### 12 AVERAGE MONTHLY RENT PER HOME BY TYPE AND REGION

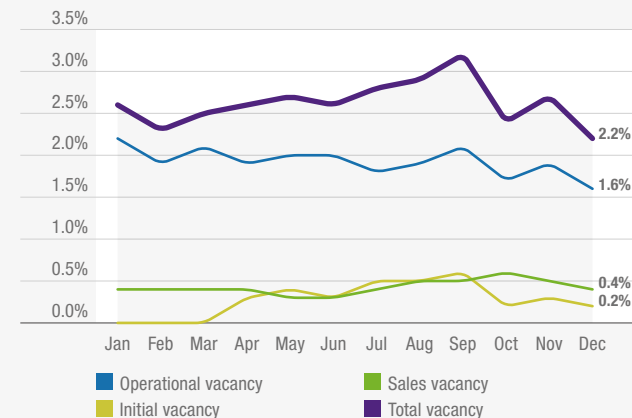
	2017	%	2016	%
Single-family	963	34%	953	38%
Multifamily	1,009	63%	975	59%
Mixed	892	3%	879	3%
<b>Average rent per home per month</b>	<b>989</b>	<b>100%</b>	<b>963</b>	<b>100%</b>
Central Circle: Big Four	1,009	71%	970	71%
Central Circle: Remainder	969	22%	967	22%
Regional Economic Centres	899	6%	880	6%
Remaining Regions	957	1%	943	1%
<b>Average rent per home per month</b>	<b>989</b>	<b>100%</b>	<b>963</b>	<b>100%</b>

#### Occupancy

The average occupancy rate based on the operational and initial vacancy in 2017 improved to 97.8% (2016: 97.3%). The occupancy rate decreased somewhat during the second and third quarter due to some initial vacancy in newly completed properties, but improved again in the last quarter of 2017. The initial vacancy decreased to 0.2% by the end of 2017. The operational vacancy rate was particularly low last year and fluctuated around 2%. The all-time low initial and operational vacancy indicates the good market conditions.

Graph 13 shows the development of the different components of vacancy during 2017.

#### 13 BREAK DOWN OF VACANCY RATE 2017



## REPORT OF THE FUND MANAGER

Table 14 shows the ten properties with the highest vacancy as a percentage of the total portfolio vacancy. Initial vacancy, higher turnover rates and renovations are the main cause for the higher vacancy. The newly built property Haarlem – Aquaverde was purchased from a housing association and was completely constructed before delivery. However, the rental process could not start before approval from the Housing Associations Authority. The Hague – Bezuidenhoutseweg (New Babylon, Citytower) is a large property with a higher turnover rate and relatively high rents. Vacant homes in the Cornelis de Wittlaan property are renovated before re-letting or before selling on the owner-occupied market.

### Turnover rate

The turnover rate in 2017 was 19.6%, a decrease compared to 2016 (24.1%). This decrease is a correction to the high turnover rate in 2016, which was a result of rising consumer confidence, which led to many relocations in the market. In 2017, there was still a great demand for high quality rental homes. A number of tenants moved to an owner-occupied home to profit from the current attractive mortgage rates. Table 15 presents the ten properties with the highest turnover rates.

### Operating costs

Property management has been outsourced to six local property management organisations, which, supervised by asset management, carry out the portfolio's technical, administrative, and commercial management. Due to a takeover of property manager Actys by MVMG, Actys expertise in the Amsterdam region has been retained for the ARC Fund.

Operating costs as a percentage of the theoretical rental income decreased in 2017 to 20.8% (2016: 21.4%). For a breakdown of the operating costs, see note 2 in the financial statements.

Due to the portfolio's relatively recent construction, maintenance costs are significantly lower than the IPD benchmark average. Based on the IPD definition, the operating costs of the ARC Fund as a percentage of the gross rent were 21.0% in 2017 (IPD: 25.2%).

### 14 THE TEN PROPERTIES WITH THE HIGHEST VACANCY RATE

#	Town	Address (Name)	Number of homes	Housing type/ Commercial	Construction year	Vacancy as % of total portfolio vacancy	Region	Vacancy on property level (%)	Average rent per home/ month in EUR
1	The Hague	Anna van Buurenplein (New Babylon City Tower)	106	multi-family	2012	8.2%	Central Circle: Big Four	8.3%	1,801
2	The Hague	Cornelis de Wittlaan (Staten II)	80	multi-family	2000	6.1%	Central Circle: Big Four	10.8%	1,197
3	Amsterdam	Emmy Andriessestraat (Terrazze)	76	multi-family	2010	5.5%	Central Circle: Big Four	9.1%	1,553
4	Haarlem	Botterboulevard (Aquaverde)	54	multi-family	2016	5.2%	Central Circle: Remainder	22.7%	1,315
5	The Hague	Cornelis de Wittlaan (Staten I)	128	multi-family	2000	3.6%	Central Circle: Big Four	4.6%	1,222
6	Amsterdam	Krijn Taconiskade (Havenmeester)	69	multi-family	2007	3.6%	Central Circle: Big Four	7.9%	1,277
7	Schiedam	Prof. Kamerlingh Onneslaan	81	multi-family	2007	3.5%	Central Circle: Big Four	9.1%	935
8	The Hague	Bezuidenhoutseweg (New Babylon Park Tower)	70	multi-family	2010	2.8%	Central Circle: Big Four	4.3%	1,839
9	Breda	Luciastraat (Haga Lucia)	70	multi-family	2017	2.5%	Central Circle: Remainder	20.7%	904
10	Amsterdam	Jan Vrijmanstraat (Mura)	26	multi-family	2010	2.2%	Central Circle: Big Four	11.4%	1,437

### 15 THE TEN PROPERTIES WITH THE HIGHEST TURNOVER RATE\*

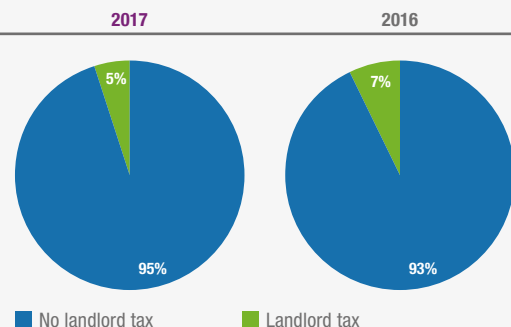
#	Town	Address (Name)	Number of homes	Housing type/ Commercial	Construction year	New rented (or sold) in 2017 as a % of number of homes	Region	Operation or disposition	Average rent per home/ month in EUR
1	The Hague	De Mok	3	single-family	1997	75%	Central Circle: Big Four	disposition	1,907
2	Amsterdam	Jan Vrijmanstraat (Mura)	26	multi-family	2010	58%	Central Circle: Big Four	operation	1,437
3	The Hague	Van Campenvaart	21	single-family	2001	57%	Central Circle: Big Four	disposition	1,065
4	Hoofddorp	Burg. van Stampein (Milaan)	4	single-family	2004	55%	Central Circle: Big Four	disposition	1,534
5	Oosterhout	Gebint	31	single-family	2014	45%	Central Circle: Remainder	operation	964
6	Zwolle	Sprengpad	42	single-family	2004	42%	Regional Economic Centres	operation	932
7	Pijnacker	Wollebrand	12	multi-family	2005	42%	Central Circle: Big Four	operation	910
8	The Hague	De Bruijnvart	32	single-family	2004	41%	Central Circle: Big Four	disposition	966
9	Tilburg	Pieter Vreedeplein	29	mixed	2008	38%	Central Circle: Remainder	operation	1,110
10	Vleuten	Leersumseveld	41	single-family	2010	37%	Central Circle: Big Four	operation	1,135

\* 'disposition': a disposition property is a property earmarked to be privatised (individual sales).

## REPORT OF THE FUND MANAGER

### 16 LANDLORD TAX RESIDENTIAL PORTFOLIO ARC FUND

Composition by rental income



De Rotterdam Rotterdam

#### Landlord tax

A landlord tax is payable for homes with a monthly rent below the free market rental level of EUR 710.68 (social market segment). While the ARC Fund's exposure to the landlord tax is relatively limited, the significant increase of the landlord tax brackets in 2017, from 0.491% to 0.543% of the WOZ value, accounted for an extra EUR 654,000 in operating costs (fixed charges) in 2017, compared to EUR 638,000 in 2016.

The ARC Fund's exposure to the landlord tax is relatively limited. In 2017, the landlord tax applied to 5% of the ARC Fund's portfolio, based on rental income. This exposure will fall over the next few years to around 2%, with the end of social rental holding period agreements with municipalities. Additionally, the ARC Fund actively manages the portfolio to reduce the landlord tax's exposure by increasing (market) rent when possible.

#### Portfolio - dynamics

In 2017, transaction volume (excluding assets under construction) was 31.0% (2016: 17.3%). Compared to the book value as at 1 January 2017, 26.2% of the portfolio value was added to the portfolio and 4.8% of the portfolio value was divested (2016: 15.0% added and 2.3% sold).

Fourteen apartment buildings in the residential district "Hartje Eindhoven" were acquired and added to the portfolio (452 multi-family homes, 35 short stay apartments and commercial units; EUR 116 million). Furthermore, 24 multi-family homes in operation in Rotterdam (in "De Rotterdam") were acquired and added to the portfolio (EUR 8 million). In total, eighteen new development projects were (partially) completed and added to the portfolio (923 homes, two commercial properties and one care related property; EUR 265 million) (reference is made to the Key Highlights, properties added in 2017).

#### Investments

In 2017 EUR 219 million was invested in assets under construction and EUR 118 million was invested in existing residential real estate (reference is made to note 8 and 9 of the financial statements).

#### Pipeline

At 31 December 2017, the ARC Fund has a total of EUR 582 million in commitments following from signed SPA's (Sale and Purchase Agreement) (2016: EUR 689 million). The off balance sheet commitments amount to EUR 331 million (2016: EUR 448 million). Besides these 'hard' commitments, investment proposals have been approved for several new developments. This pipeline amounts to an expected investment volume of EUR 349 million, adding up to a total pipeline (including commitments) of  $600 + 349 = \text{EUR } 949$  million (reference is made to figure 17 and table 18 with an overview of the commitments and pipeline).

The pipeline properties make a positive contribution to the portfolio's quality and structure. The portfolio's allocation in the mid-priced rental segment is increasing as the pipeline properties are predominantly positioned in the mid-priced rental segment. The portfolio's geographical spread among the Big Four cities is becoming more balanced, as a large part of the pipeline is situated in Amsterdam and Utrecht. Also, the pipeline investments in attractive cities like Leiden, Delft, Eindhoven and Haarlem are contributing to the geographical spread. As a result of the rejuvenation, the portfolio continues to be of high quality, young and well diversified.

#### Divestments

Properties that might no longer meet the requirements of the investment strategy of the ARC Fund may be eligible for sale. Property divestments consist of sales of individual homes to private individuals (individual sales) or the disposition of entire properties to professional investors (block sales).



## REPORT OF THE FUND MANAGER

### Individual sales

In 2017, 132 individual homes were sold and transferred for EUR 34.8 million (gross). This resulted in a profit of EUR 4.6 million (15.4% of the book value of EUR 29.7 million), before deducting costs of vacancy. Taking into account the vacancy costs, the net result amounts to EUR 4.2 million (14.1%). In 2016, 129 individual homes were sold for EUR 34.1 million (gross) with a net result of EUR 5.0 million (19.1%).

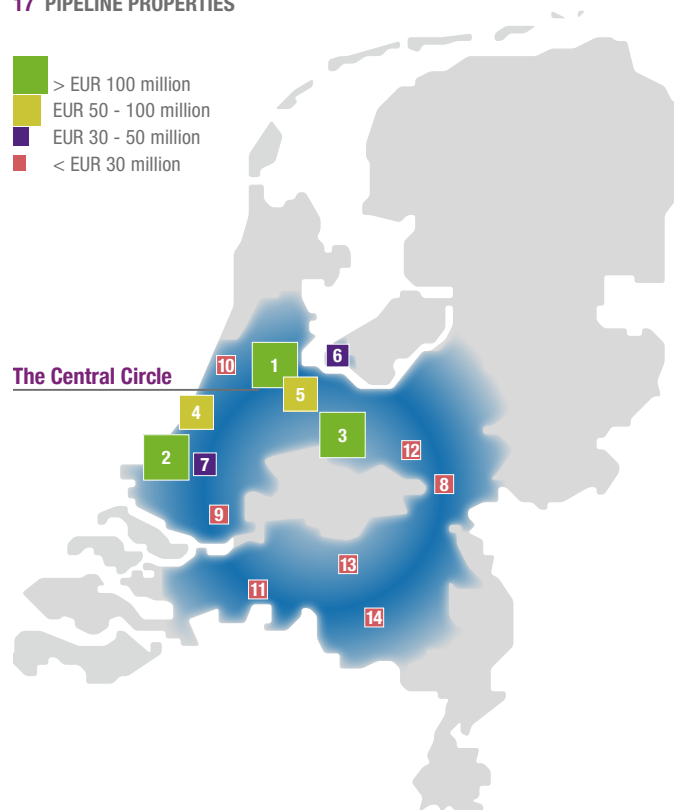
### Block sales

During 2017, nine homes were sold as a block sale to a healthcare company and the block sale of the property Steentijdsingel in The Hague, Ypenburg (206 apartments) was completed. This resulted in a turnover of EUR 47.8 million (gross); the net result from sales after deducting sales costs was EUR 7.4 million, equalling a net profit of 18.4%. The completed block sale of Ypenburg is in line with the rejuvenation strategy of the ARC Fund. The total net result on block sales of EUR 7.4 million is part of the operational result and was distributed to the Investors.

### 17 PIPELINE PROPERTIES



#### The Central Circle



	City	Pipeline (EUR x million)	Percentage
1	Amsterdam	423.6	44.6%
2	The Hague*	120.4	12.7%
3	Utrecht	103.8	10.9%
4	Leiden	75.3	7.9%
5	Diemen	55.7	5.9%
6	Almere	44.0	4.6%
7	Delft	35.6	3.8%
8	Arnhem	28.7	3.0%
9	Rotterdam	13.8	1.5%
10	Haarlem	13.2	1.4%
11	Breda	11.7	1.2%
12	Ede	10.6	1.1%
13	Den Bosch	7.5	0.8%
14	Eindhoven	4.9	0.5%
<b>Totaal</b>		<b>948.7</b>	<b>100%</b>

\* Including Voorburg and Scheveningen.

## REPORT OF THE FUND MANAGER

### 18 COMMITMENTS AND PIPELINE

Property (EUR x million)	Total Investment (expected)	Number of homes	Housing type/ Commercial	Commitment from SPA	Charged up to 31 Dec 2017	Commitment from 2018 onwards	Region	Start construction	Completion
<b>COMMITMENTS (SIGNED SPA)</b>									
<b>Amvest Development (RoFR)</b>									
Almere, Noorderduin		44	single-family				Central Circle: Big Four	2017	2018
Almere, Duin (Sydney)		107	multi-family				Central Circle: Big Four	2018	2020
Amsterdam, Cruquius		100	multi-family / commercial				Central Circle: Big Four	2015	2018
Amsterdam, Kop Grasweg (City Icon)		113	multi-family				Central Circle: Big Four	2018	2020
Arnhem, Deltakwartier		136	single-family				Central Circle: Remainder	2017	2018
The Hague, Scheveningseweg*		155	multi-family				Central Circle: Big Four	2018	2019
Eindhoven, Strijp R		20	multi-family				Central Circle: Remainder	2018	2019
Leiden, Haagwegkwartier (Churchill park)		77 / 22	multi-family / single-family				Central Circle: Remainder	2016	2018
<b>Third parties / Combi</b>									
Amsterdam, IJburg (Het IJland)		271	multi-family				Central Circle: Big Four	2016	2018
Breda, Stationslocatie (Breda Vooruit)		42	multi-family				Central Circle: Remainder	2017	2019
Delft, Spoorzone		130	multi-family				Central Circle: Remainder	2017	2019
The Hague, Koningin Sophiestraat (De Sophie)		67	multi-family				Central Circle: Big Four	2017	2018
Diemen, Hollandpark		201	multi-family				Central Circle: Big Four	2016	2018
Ede, Park Reehorst		46	single-family				Central Circle: Remainder	2017	2018
Haarlem, Pim Mulier		59	multi-family				Central Circle: Remainder	2018	2019
Leiden, Wasenaarseweg		213	multi-family				Central Circle: Remainder	2017	2019
Scheveningen, De Zuid		33	multi-family				Central Circle: Big Four	2016	2018
Utrecht, Van Sijpesteijnkade (De Syp)		267	multi-family / commercial / other				Central Circle: Big Four	2016	2018
Utrecht, Nijenoord		192	multi-family				Central Circle: Big Four	2016	2019
Voorburg, 't Loo		38	multi-family				Central Circle: Big Four	2017	2018
<b>Total commitments</b>	<b>600</b>	<b>2,233</b>		<b>582</b>	<b>251</b>	<b>331</b>			

\* The project The Hague Scheveningseweg is, based on its initial plans, unlikely to proceed. Management is currently negotiating new conditions, (re-)transfer of the object is optional.

## REPORT OF THE FUND MANAGER

### 18 COMMITMENTS AND PIPELINE (continued)

Property (EUR x million)	Total Investment (expected)	Number of homes	Housing type/ Commercial	Commitment from SPA	Charged up to 31 Dec 2017	Commitment from 2018 onwards	Region	Start construction	Completion
<b>PIPELINE (APPROVED INVESTMENT PROPOSAL)</b>									
<b>Amvest Development (RoFR)</b>									
Amsterdam, Cruquius Fase 2		264	multi-family				Central Circle: Big Four	2018	2020
Amsterdam, Overhoeks		164	multi-family				Central Circle: Big Four	2018	2020
Amsterdam, Overhoeks vervolg		336	multi-family				Central Circle: Big Four	2019	2022
<b>Third parties / Combi</b>									
Amsterdam, Jan Tooropstraat		66	multi-family				Central Circle: Big Four	2018	2019
Den Bosch, Empelse Schans		42	multi-family				Central Circle: Remainder	2018	2019
The Hague, KJ Plein		147	multi-family				Central Circle: Big Four	2018	2020
Rotterdam, Koningslaan		68	multi-family				Central Circle: Big Four	2018	2019
<b>Total pipeline</b>	<b>349</b>	<b>1,087</b>		<b>0</b>	<b>0</b>	<b>0</b>			
<b>TOTAL</b>	<b>949</b>	<b>3,321</b>		<b>582</b>	<b>251</b>	<b>331</b>			

## REPORT OF THE FUND MANAGER

### PORTFOLIO - PERFORMANCE

#### Unrealised capital gains on investments

In 2017, the value of the investment portfolio (including assets under construction) increased by EUR 182.4 million (10.8%; 2016: 7.1%). The increase in 2017 was the result of strongly improving demand and transaction volumes and higher price levels in both the private housing market and the institutional market. The increasing price levels were driven by increased vacant values and sales volumes in the private market (which have a positive effect on the value when selling off) and decreasing yields for residential real estate investments.



Ambachtsschool Gouda

In 2017, the gross initial yield fell by 0.4% to 5.1% (compared to 5.5% in 2016). The average residential portfolio value per home, assuming all properties are vacant (vacant possession value) increased by 11.5% from EUR 242,000 per home in 2016 to EUR 270,000 in 2017. The vacant value ratio represents the ratio between the investment value of a let property and its vacant possession value. This ratio increased from 87.4% in 2016 to 89.7% in 2017.

#### Like-for-Like

In order to provide more transparency on the performance of the ARC Fund, a performance analysis based on like-for-like (LfL) figures is provided. The LfL figures only take into account the residential properties, which were in the portfolio during the full year (2017), and no individual homes were sold.

#### 19 LIKE-FOR-LIKE FIGURES

	2017	2016
Direct return	4.2%	4.3%
Indirect return	11.4%	7.5%
<b>Total return</b>	<b>16.0%</b>	<b>11.8%</b>
Vacancy	2.5%	3.0%
Operating expenses as % of gross rental income	21.0%	22.6%
Rental growth	1.9%	1.6%

As table 19 shows, on a LfL basis, the ARC Fund had a total return of 16.0%. The main driver of direct return was the net rental revenue. Yield movements were largely the driver for the indirect return.

#### Return on operational property (unleveraged)

The total return on real estate property, expressed as a percentage of the average operational real estate portfolio value, was 15.5% in 2017 (2016: 11.8%). Direct return from leasing activities was 4.0% (2016: 4.3%). Indirect return from disposals (realised) was 0.7% (2016: 0.4%) and changes in value (unrealised) was 10.8% (2016: 7.1%).

#### IPD Netherlands Annual Property Index

Using the IPD calculations based on the all residential index, the ARC Fund's 2017 direct performance (income return) amounted 4.2% (IPD: 3.8%). Its indirect performance (capital growth) amounted 14.4% (IPD: 12.6%). This resulted in a total performance of 19.1% (IPD 16.9%). ARC Fund also outperformed the IPD all residential benchmark on 3 and 5 years.

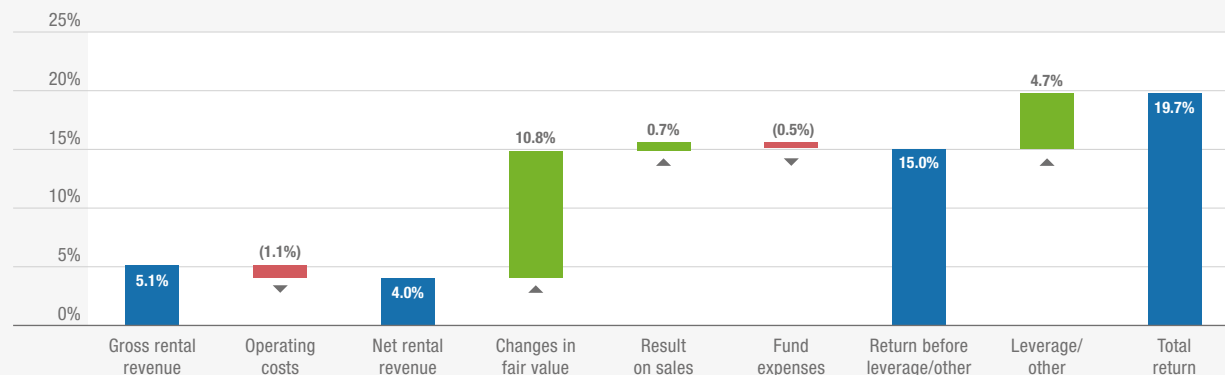
Due to the strong focus on high-quality mid-priced rental properties in the Central Circle that have increased in value relatively strongly last year, together with the high capital growth of newly completed properties in Amsterdam and other large cities in the Central Circle, an outperformance of the IPD benchmark has been achieved. Furthermore, the ARC Fund outperformed due to the strong operational performance and active management.

Using the IPD calculations based on the standing investment index, the ARC Fund's 2017 income return amounted to 4.2% (IPD: 4.1%). Its capital growth amounted to 11.4% (IPD: 11.1%). This resulted in a total return of 16.0% (IPD: 15.6%).

A complete breakdown of the IPD benchmark for 2017 and the last 3 and 5 years is provided in the Annexes.

## REPORT OF THE FUND MANAGER

### 20 BREAK DOWN OF TOTAL RETURN (in %)



## FUND PERFORMANCE

### Return on investment (leveraged)

Total fund return for 2017, expressed as a percentage of the NAV based on the INREV Guidelines as at 1 January 2017, was 19.7% (2016: 14.7%). This return comprises an income return of 3.7% and 16.0% from capital gains.

The dividend yield, i.e. the operational result to be distributed as a percentage of the INREV NAV as at 1 January 2017, was 4.5% (2016: 4.1%). Under the Terms and Conditions, the dividend yield for Investors for the period 2012-2021 averages 4.0% per year. In 2017, the dividend yield was above average mainly caused by the block sale of the property The Hague – Steentijdsingel which was sold with a book profit of 18.2% (EUR 6.8 million).

The graph above shows a summary with a complete breakdown of the total return at a fund level. It starts on the left with the gross rental income at an operational real estate level and ends on the right with the total return at a fund level. The contribution of every single component is shown.

### Financial income and expenditures

In 2017, the balance of income and expenditures totalled EUR 5.9 million (2016: 9.9 million, including EUR 2.9 million for the unwinding of the interest rate swap contracts). The financial income and expenditures relate almost entirely to the loan facility.

### Management expenses

Management expenses, which totalled EUR 8.5 million (2016: EUR 7.4 million), consisted of a EUR 7.3 million management fee (2016: EUR 6.3 million) and other expenses of EUR 1.2 million (2016: EUR 1.1 million).



De Zuid Scheveningen

The largest part of the other expenses consists of fees paid to external appraisers (EUR 0.6 million) and legal, tax and oversight fees (EUR 0.4 million).

The Total Expense Ratio (TER) based on the Gross Asset Value (GAV) amounted to 0.42% in 2017 (2016: 0.50%). The same ratio based on the Net Asset Value (NAV) amounted to 0.52% (2016: 0.60%). Both GAV and NAV are calculated according to the INREV Guidelines.



# REPORT OF THE FUND MANAGER

## ESG POLICY

The ESG policy is focused on a directed and balanced implementation of Environmental, Social and Governance aspects in the management of the ARC Fund. In 2017, considerable attention was paid to this theme. This led, amongst other things, to a top 3 ranking (in the peer group) in the GRESB and an improvement from 3 to 4 stars (out of 5).

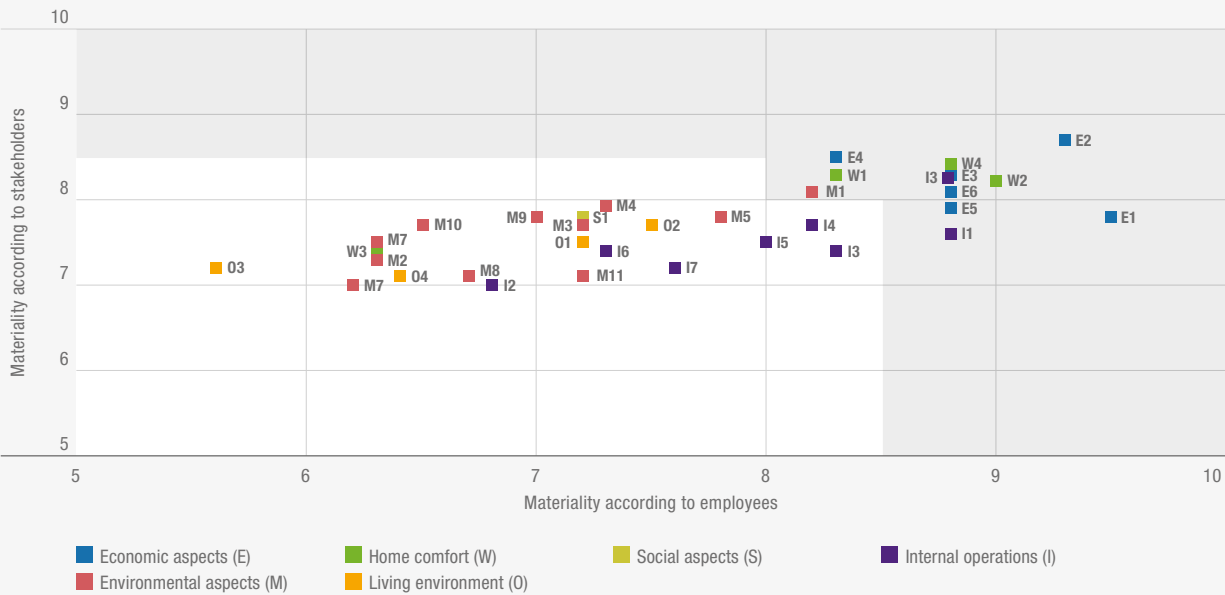
As an investment fund with a client base of institutional investors and a large portfolio rented out to many households, the ARC Fund has a large social impact. In order to be successful as a socially responsible Fund in the long run, it is of great importance that the ARC Fund sets high standards for sustainability. An ESG programme has been established in collaboration with an external consultancy company (RoyalHaskoningDHV, 2017).

### Materiality analysis

The ARC Fund attaches great value to corporate social responsibility and sustainable entrepreneurship. The Fund Manager believes that this can be achieved by permanently adhering to the wishes and expectations of the stakeholders and society. A materiality analysis has been conducted in order to assess the interests of external stakeholders of the ARC Fund and employees related to the ARC Fund. The materiality survey was broadly composed, covered ESG factors and consisted of six sections:

- economic aspects;
- home comfort;
- social aspects;
- internal operations;
- environmental aspects;
- the living environment.

## 21 MATERIALITY MATRIX



The output of the survey is reflected in a materiality matrix that shows which themes are material according to the external stakeholders and the employees related to the ARC Fund. This matrix is drawn up in accordance with the guidelines of the Global Reporting Initiative (GRI)<sup>1</sup>, an independent international organisation that sets (inter alia) the

Sustainability Reporting Standards (SRS). The GRI SRS are considered to be the worldwide standard in the field of sustainability reporting. In order to be able to report on sustainability, ESG factors should be fully embedded in the ARC Fund's strategy.

1. Reference is made to <https://www.globalreporting.org>

## REPORT OF THE FUND MANAGER

### ESG measures

Fourteen themes were selected as most material for the ARC Fund in the coming years (items in the grey shaded area of graph 21). These most material themes were selected in the following manner:

- themes which scored 8.0/10 or higher by both the stakeholders of the ARC Fund and the employees related to the ARC Fund;
- themes which scored 8.5/10 or higher by the stakeholders or the employees related to the ARC Fund;
- themes which are closely related to other selected themes (M4 and M5, see graph 21 and table 22).

The ESG policy focuses in particular on the aspects on which the Fund scored low (the respondents also judged the performance of the Fund on the deemed material themes). In order to achieve its targets and to check the Fund's progress on a periodic basis, the Fund Manager specified several Key Performance Indicators (KPI's) for the most important ESG aspects per theme.

### Economic aspects

The ARC Fund was established to generate economic value for its shareholders by paying an attractive and stable dividend yield and long-term value growth of the homes, taking into account a certain degree of risk. However, this theme is broader than just a sound business case. The type of investments and the way in which the investment occurs are of great importance in the real estate sector and in particular among institutional investors. The starting point for the fund's working method is to provide as much transparency as possible to its stakeholders. As can be seen from graph 21 and table 22, all economic aspects are considered material by both the stakeholders and the employees to the ARC Fund.

### E5 Supply of sufficient high quality and affordable private rental homes

The ARC Fund invests in high-quality mid-priced rental homes with a focus on urban areas and strong economic regions in the Netherlands. As a result, the ARC Fund contributes to an improvement and increase in the current supply of mid-priced rental housing, meeting the high demand from the market.

## 22 MATERIAL THEMES FOR THE ARC FUND

Economic aspects (E)	Home comfort (W)	Internal operations (I)	Environmental aspects (M)
<b>E1 Generated economic value</b>	<b>W1 Health and safety for inhabitants</b>	<b>I1 Training and education of staff</b>	<b>M1 Energy consumption and energy saving</b>
<b>E2 Integrity and anti-corruption</b>	<b>W2 Tenant satisfaction</b>	<b>I8 Fair marketing and communication</b>	<b>M4 Carbon emissions and climate change</b>
<b>E3 Prevention of vacancy and occupancy rate</b>	<b>W4 Fire safety</b>		<b>M5 Generation of renewable energy</b>
<b>E4 Compliance to legislation</b>			
<b>E5 Supply of sufficient high quality and affordable private sector rental homes</b>			
<b>E6 Shareholder rights</b>			

### E2 Integrity and anti-corruption

#### E4 complying fully with (socio-economic) legislation

Integrity and anti-corruption are of paramount importance to the Fund Manager. As well as complying fully with (socio-economic) legislation, various pro-active measures are taken in this context. There is a code of conduct for all Amvest employees, which must be signed annually. In addition, Customer Due Diligence (CDD) is performed to all related parties, so that it can be prevented that the ARC Fund can be misused for the wrong purposes.

### E6 Shareholders rights

Further, the ARC Fund is supervised by the AFM (AIFMD license Amvest REIM B.V.). Therefore, (as well as besides the regular supervision) an independent depositary is hired to check the cash flows of the ARC Fund. In 2017, the depositary did not detect any irregularities.

Additionally, the ARC Fund operates in accordance with the requirements described in the ISAE 3402 Type 2. This is checked annually by an independent auditor, after which the results are shared with the shareholders (Investors). In 2017, an ISAE 3402 Type 2 report was drawn up without relevant findings with respect to the financial processes of the ARC Fund.

## 23 KPI'S AND TARGETS ECONOMIC ASPECTS

Number	Theme	KPI	Target	Result 2017
<b>E1</b>	<b>Generated economic value</b>	Dividend yield	>= 4.0%	4.5%
<b>E3</b>	<b>Prevention of vacancy and occupancy rate</b>	Vacancy rate	<= 2.5%	2.2%
<b>E5</b>	<b>Supply of sufficient high quality and affordable private sector rental homes</b>	Investing in the mid-priced rental segment	>= 75%	72%*

\* In the Portfolio Plan for 2018 the upper limit of the mid-priced segment is increased to EUR 1,000 – EUR 1,300 (depending on region) following market developments, resulting in an exposure to the mid-priced segment of around 80%.

## REPORT OF THE FUND MANAGER

### ■ Home comfort

The ARC Fund considers the home comfort, safety and satisfaction of its tenants to be of great importance.

#### W4 Fire safety

Within the home comfort section, (fire) safety is crucial to the ARC Fund, in the operation as well as in the acquisition of new properties. In addition to adhering to strict Dutch regulations (Building Decree), the ARC Fund demands from related parties that they should comply with high standards with respect to (fire) safety. For example, all homes will be equipped with smoke detectors and all of these smoke detectors and dry fire extinguishing pipes will be checked annually. The ARC Fund also considers it important to inform tenants about fire safety on a proactive basis.

#### W1 Health and safety for inhabitants

Apart from fire safety, ensuring a healthy indoor climate for tenants is also an important issue. In addition to complying with regulations on this issue and maintaining the properties well, this subject will be discussed more extensively in the coming years. In 2017, we investigated whether (parts of) the GPR-building certificate could be included in our 'Schedule of Requirements (SoR)'. As a result, the SoR was further refined on these points, letting us set our level of ambition regarding safety and home comfort for new-build projects.

#### W2 Tenant satisfaction

The ARC Fund actively supports the establishment of tenants' associations in its properties. These tenants' associations discuss daily management and service levels with the property managers on a regular basis. Tenants' associations can also give advice to the Fund Manager on more strategic issues.

Overarching tenants' associations, there is the Amvest tenant platform. This platform is a national umbrella organisation that represents the interests of all tenants' associations affiliated with Amvest. Because

Amvest takes the opinions expressed by the platform very seriously, there are periodic meetings with the platform and the Fund Manager. These meetings take place at least twice a year. The platform organises an annual meeting for members and an annual event based on a theme related to renting or living. Every Amvest tenants' association is automatically a member of the platform and is welcome to attend these meetings.

Every year, a survey is conducted among the tenants of the ARC Fund to investigate tenant satisfaction with respect to the service level and the quality of the home and living environment. This survey is carried out by an independent agency, Customeyes. In addition to this survey, the ARC Fund participates in the IVBN tenant satisfaction benchmark.

### 24 TENANT SATISFACTION

(Source: Customeyes)

	Scores ARC Fund 2017	Scores benchmark 2017
Overall score	7.3	7.1
Quality of home	7.7	7.3
Living environment	7.6	7.6
Property Management	6.6	6.4
Repair requests	7.1	7.0
Complaints management	4.8	4.8

The overall score improved to 7.3 in 2017 (2016: 6.8). The ARC Fund outperformed the benchmark on the overall score, quality of home, property management and repair requests. Results of the materiality analysis however, indicate that the stakeholders require a better performance of the ARC Fund on tenant satisfaction. The aim is to score 7.5 as an overall score. Therefore, improving tenant satisfaction will be addressed continuously over the coming years. In particular, complaints management needs to be improved.

Based on the results of the annual tenant satisfaction survey, several individual meetings with external property managers were organised to discuss their performance relating to tenants. The property managers are actively encouraged to improve performance. As part of the management fee, the property managers are entitled to a bonus scheme based on a Service Level Agreement (SLA). The service level of the property manager is an important part of the SLA, which is based on the results of the tenant satisfaction survey.

### ■ Internal operations

The internal operational process is a prerequisite for good performance of the ARC Fund. With respect to this issue, two aspects were considered material by the stakeholders in the survey.

#### I1 Training and education of staff

First, it is important that the employees related to the ARC Fund receive sufficient training and education in the field of residential investments in order to be able to manage the ARC Fund well and to keep cooperation with relevant stakeholders to the optimum. Additionally, it is part of the strategy of the ARC Fund to share knowledge and remain innovative in the field of residential investments across the board.

#### I8 Fair marketing and communication

Second, fair marketing and communication (internally and externally) are of great importance in order to be able to meet the high standards that the ARC Fund sets itself with respect to transparency. These will contribute to well-informed decisions by the shareholders (Investors) of the ARC Fund. More attention will be paid to this issue over the coming years. For example, the further development of computerisation of the rental process will provide more information and transparency, resulting in fairer marketing and communication.

## REPORT OF THE FUND MANAGER

### ■ Environmental aspects

The most tangible and concrete results with respect to sustainability and real estate can be achieved by means of reducing energy consumption. According to the stakeholders and employees, the ARC Fund performs reasonably well on this theme, but improvements are possible.

The ARC Fund has a young portfolio and in the past few years, more attention has been paid to the environment during the completion of new properties. Consequently, more than 75% of the homes in the ARC Fund portfolio have energy label A.

### M4 Carbon emissions and climate change

#### M5 Generation of renewable energy

Furthermore, we have offered more tenants (single-family homes) a solar energy package for their homes to generate their own electricity. As a result, more than 3,000 solar panels were installed in 2017 and more are to be installed in the coming years. Additionally, renewable energy generation is preferred to traditional systems and this will be included explicitly in the SoR of the ARC Fund. In addition, the communal areas of apartment buildings will be made energy neutral and more solar panels will be placed on apartment buildings and single-family homes, resulting in the reduction of carbon emissions because of less fossil fuel consumption. Apart from installing solar panels, the Fund Manager will provide green energy to all tenants on a competitive basis.

### M1 Energy consumption and energy saving

In the coming years, the ARC Fund wants to have more insight into the consumption and generation of energy in the properties. This will allow more targeted control of energy-saving measures and make it easier to emphasise the importance of energy-saving opportunities to tenants.



**De Spakler** Amsterdam

In 2017, the project 'De Spakler' in Amsterdam was completed and added to the portfolio of the ARC Fund. De Spakler contains 160 net zero energy apartments and about 70% of these apartments are rented out in the mid-priced rental segment to approximately EUR 950 per month. To achieve this net zero energy result, the facades and the roof are particularly well insulated. In addition, energy-efficient installations, CO<sub>2</sub>-controlled ventilation and underfloor heating linked to the district heating system are used. All of the apartments have solar panels (1,610 in total / 302 MWh). This generates enough energy for 160 small households. De Spakler is the first residential tower in the Netherlands with an energy performance coefficient (EPC) of zero.



## REPORT OF THE FUND MANAGER

### STRUCTURE AND GOVERNANCE

#### Structure

Amvest Residential Core Fund is structured as a (semi) open fiscally transparent fund for joint account (FGR) with the Cornerstone Investors AEGON and PfiZW holding a substantial stake, alongside new investors. Amvest REIM B.V. is the Fund Manager and Amvest RCF Custodian B.V. is the custodian. The ARC Fund's legal structure can be found in the Annexes.

#### Initial closing

Following the initial closing on 17 January 2012, the ARC Fund is open to new investors, alongside AEGON and PfiZW.

The ARC Fund has a modern structure and management style. An excellent risk/return trade-off and special features that appeal to investors will contribute to future success. Shortly after the initial closing, the ARC Fund welcomed its first new investor. As at 31 December 2017, the total number of Investors was eighteen.

#### Cornerstone Investors

Since the closing date, the Cornerstone Investors have had the intention of broadening the Investor base of the ARC Fund, while continuing to express their long-term commitment.

Both expressed their commitment to the ARC Fund for the entire term (initially ten years and in 2016 extended by four years up to 17 January 2026). Each Cornerstone Investor will retain a stake of at least EUR 200 million. Their involvement in the ARC Fund and expertise in the residential market is safeguarded.

#### Partnership with Amvest Development

Amvest Development B.V. is one of the leading property developers in the Dutch residential market. The company has broad experience with integrated area development and complex co-development projects. Its experience with long-term investment funds like the ARC Fund

makes the Amvest development company a partner of interest to public authorities and public-private partnerships.

The partnership with Amvest Development B.V. is highly beneficial to the ARC Fund. The development company's extensive knowledge of markets (including rental markets) makes it possible to develop a high-quality product for tenants. In addition, the right of first refusal (RoFR) the ARC Fund had with Amvest Development B.V. was transferred to Amvest Development Fund B.V.<sup>1</sup> as per 16 February 2018.

This means that all rental homes developed by Amvest Development Fund B.V. must first be offered to the ARC Fund, which has the right to acquire them on arm's length conditions (same as the previous RoFR Agreement with Amvest Development B.V.).

The ARC Fund is obviously entitled to waive this right. The RoFR gives the ARC Fund access to a high-quality pipeline of properties that are aligned with the ARC Fund strategy.

#### Governance structure

A modern governance structure guarantees reliable, efficient, and professional advice and supervision by property experts and investors. The Fund Manager is responsible for both the overall portfolio and risk management of the ARC Fund.

For key decisions (such as the Portfolio Plan and larger acquisitions and sales), the Fund Manager will seek advice or approval from the Investment Committee (and/or the Advisory Board), which consists of three independent experts in development, investment management and the Dutch residential market.

The Investment Committee and the Fund Manager had three formal meetings in 2017.

The Advisory Board also plays a key role. Its duties include supervising the handling of conflicts of interest, approving the Portfolio Plan,

approve changes of the risk management policies, and the appointment of the members of the Investment Committee. The Advisory Board met four times in 2017. Also several conference calls were held with both the Investment Committee and the Advisory Board. Investors' Meetings were held twice in 2017.

#### Term, investors, units

The initial closing marked the official start of the ARC Fund. The ARC Fund initially had a term of ten years (17 January 2012 – 17 January 2022). In 2016, the Investors agreed to extend the term by four years up to 17 January 2026.

In 2017, one new (foreign) Investor joined the ARC Fund and two existing Investors increased their commitments totalling EUR 187 million of new commitments.



Havenmeester Amsterdam

1. Following a restructuring of Amvest, a new development company (Amvest Development Fund B.V.) was incorporated on 16 February 2018.



## REPORT OF THE FUND MANAGER

In 2017, new units were issued amounting to EUR 145 million. As at 31 December 2017, the ARC Fund has eighteen Investors and EUR 384 million of undrawn commitments.

### Corporate integrity, Code of conduct

At a corporate level, integrity and customer due diligence are key. Amvest maintains an internal complaints procedure, a confidant and an incident reporting system that is reviewed by the external auditor. Corporate integrity is a regular agenda item at the corporate Management Board and Supervisory Board meetings. At the ARC Fund level, the compliance officer attends the management team meeting at least every quarter.

There is a transaction register in place, in compliance with the NEPROM and IVBN guidelines. This register documents the ARC Fund's property transactions in a transparent manner. All business-to-business property transaction are investigated and documented so that they can be checked for correctness, legality and integrity.

In 2017, as in 2016, all employees of Amvest were again asked to sign the internal Amvest Code of Conduct. The Code of Conduct is an inseparable part of the employment contract.

The Code of Conduct is available to customers, suppliers, and partners on the Amvest website. Active compliance with the Code of Conduct is a matter for all Amvest employees and the Management Board. Therefore, this is discussed regularly as a periodic agenda item in meetings at all levels within Amvest.

The compliance officer acts as a source of information for all issues in the area of integrity. All information needed will be made available to the compliance officer. When considered necessary, the compliance officer can use the expertise of professional advisors.

In 2017, there were no noteworthy incidents in relation to corporate integrity. Amvest believes that the measures implemented as part of its

corporate integrity policy have been effective.

In addition to the Amvest Code of Conduct, Amvest complies as a member of IVBN and the NEPROM with the codes of conduct applicable to members of these associations.

## RISK AND COMPLIANCE

### Corporate Risk Strategy Amvest

Risk management is an essential part of Amvest's business model and management organisation, and is fully incorporated into its strategy. This strategy focuses on two key activities:

- Dutch residential area and property development activities in strong economic regions; and
- setting up and managing Dutch residential investment funds and portfolios.

With these two activities, Amvest operates across the complete value chain and creates and benefits from synergetic effects within this chain. For instance, the Right of First Refusal (RoFR) agreement gives the ARC Fund access to high-quality mid-priced residential investment opportunities in strong economic areas.

Together with a thorough knowledge of the Dutch residential market, solid market research, and an extensive relationship network on both the development side and the investment side, this business model resulted in various new projects and rented properties for the ARC Fund in 2017.

In this business model, the 'Conflict of interest risk' is one of the risks that actively needs to be mitigated. In part, this risk is mitigated by the structure and governance of the ARC Fund (Terms and Conditions, RoFR Agreement, Portfolio Plan, etc.) and the oversight role from the auditor, the depositary and the AFM. However, the 'first line of defence' lies with line management (portfolio management, management of the property assets).

In order to pursue its risk management policy effectively, all key officers who work for the ARC Fund have a residential market background, along with many years of experience in their areas of expertise, including portfolio, asset and technical management. The Fund Manager has an experienced financial staff for the ARC Fund's financial reporting, planning and control cycle, risk, compliance and appraisal procedures at its disposal.

### Risk management framework

The ARC Fund is assessed quarterly against eleven defined risks. In the quarterly Investor report findings are reported by way of a Risk Management Dashboard.

The risk management framework is used to appropriately identify, measure, manage and monitor risks, and sets the risk limits and risk appetite for these risks. It also describes reporting lines to all relevant stakeholders.

The 'identify, measure, manage and monitor' cycle ensures that the risk profile disclosed to the Investors is made transparent, in accordance with the risk 'appetite' and limits set.

To ensure that the necessary measures and precautions are taken in the event of breach or near-breach, risk management is an ever-recurring item at all formal internal and external meetings. This ensures a continuous process of risk monitoring and incorporation into the operational business processes.

### Evaluation of Risk Management

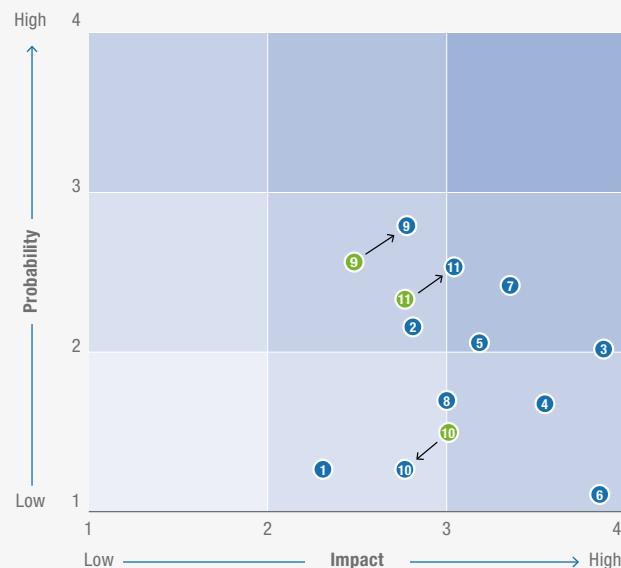
The risk management framework is a dynamic framework. The Fund Manager will assess, monitor and review the risk management function, policy, framework and its risk appetite and limits on a yearly basis and report on these matters to the Advisory Board and Investors of the ARC Fund. If necessary, the Fund Manager will adjust previously described risk items in close consultation with the ARC Fund's stakeholders.

## REPORT OF THE FUND MANAGER

### Impact/probability map

The risk management framework sets the risk limits and risk appetite for these risks and describes reporting lines to all relevant stakeholders. The director finance and risk is responsible for quarterly reporting on the framework as well as the scores on risk limits. The graph below plots the previously described risks on an impact/probability axis. The 'heat map' as well as the risk management framework were evaluated with the Advisory Board. This evaluation led to adjustments presented in the graph below (adjustments compared to the risk management framework of the previous year). Adjustments are clarified in the previous paragraph.

### 25 PLOTTED RISKS ARC FUND (IMPACT/PROBABILITY)



### Risks of the ARC Fund

- 1 **Sales/rental risk:** the risk that a home or a property cannot be sold/rented out within the envisaged period at the targeted sales/rental price.
- 2 **Operational risk:** the risk that daily management (commercial, technical, administrative) is not performed in accordance with fund documents, management/Service Level Agreements (SLA), contracts and budgets. The risk arising from inadequate or failed operational processes and/or systems.
- 3 **Matching risk:** the risk that there is a mismatch between available equity and new investment opportunities.
- 4 **Financing risk:** the risk the ARC Fund is unable to (re-) finance its portfolio on the desired conditions (flexibility, pricing, term, collateral).
- 5 **Portfolio risk:** the risk that the portfolio policy and operational results are not in line with the Portfolio Plan.
- 6 **Counterparty risk:** the risk that a counterparty fails to fulfil contractual or other agreed obligations. The main counterparties for the ARC Fund are Investors, banks, developers, appraisers, property managers, tenants and buyers.
- 7 **Conflict of interest risk:** the risk that the ARC Fund or ARC Fund structure (in the perception of Investors) is inadequately equipped (governance, checks and balances) to operate in the event of a conflict of interest, and / or the risk that a conflict of interest arises as a result of inadequate governance, checks and balances.
- 8 **Liquidity risk:** the risk that liquidity shortages occur due to the insufficient coordination (by timing and amount) of cash inflows and outflows in managing the ARC Fund.
- 9 **Performance risk:** the risk that the targeted return of the ARC Fund is not achieved.
- 10 **Valuation risk:** the risk that the value of the real estate portfolio in the financial reports of the ARC Fund does not represent the fair value and/or is not in line with the IFRS accounting principles.
- 11 **Strategic risk:** the risk that developments outside Amvest, including economic, political and demographic developments and disasters force changes in the strategic objectives of the ARC Fund and adjustments in the target portfolio.

In the fourth quarter of 2017, the risk management framework was evaluated with the Advisory Board. The risks plotted on the impact/probability map were adjusted, and the risk definitions themselves were also sharpened.

### Evaluation 2017

- The large pipeline and opportunities, significant amount of completions and implementation of new valuation and asset management software<sup>1</sup> have an impact on the ARC Fund team. The operational risk has been mitigated by increasing the commercial and support staff.
- The RoFR procedure was implemented in the ISAE 3402 control framework, safeguarding an external (Auditor) control on transparent recording of RoFR projects (conflict of interest).
- Current market conditions lead to a higher probability of delays stemming from sharply elevated construction costs and municipal procedures, thereby increasing the strategic risk (11). These delays and elevated construction costs also affect the portfolio (5) and performance risk (9).
- The performance risk (9) is increasing and will continue to be significant due to the revaluation of the portfolio outpacing the annual rent increase (low inflation rate) and sharply elevated construction costs.
- By implementing new appraisal management software and decreasing the use of spreadsheets, the risk of flaws in the valuation process (10) is minimised (valuation risk).
- Strategic risk (11) has increased due to increasing political risks. Firstly, the Amsterdam (and Utrecht) municipality introduced rent level and privatisation constraints for future developments. Other Municipalities are looking into similar policies. Secondly, the new cabinet has published plans to raise the corporate tax rate from 0% to 21% for FBIs while simultaneously removing dividend tax.

1. New software from Reasult was implemented in 2017.

## REPORT OF THE FUND MANAGER

### Findings

In 2017, the risk limits set by the Fund Manager for the eleven risks were not exceeded, and are not likely to be exceeded in the short term. Stress testing on liquidity showed no breaches in relation to the distribution policy as described in the Terms and Conditions and the Portfolio Plan. A base case and a best estimate scenario on liquidity up to and including 2020 (the Portfolio Plan horizon) are being monitored. Various cash flow scenarios for liquidity were explained at the Advisory Board meetings in 2017. Uncalled commitments (EUR 384 million), the availability of undrawn debt (EUR 260 million) and the cash position (EUR 55 million) ensure that no liquidity issues are expected.

### Three lines of defence

The functional and hierarchical separation of the risk management function from the portfolio management function and the safeguards against conflicts of interest form the basis of a good risk management system.

Amvest group is committed to a strong culture of risk management, combined with a sharp focus on three effective lines of defence (the “three lines of defence model”):

- The first line of defence: line management (portfolio management, management of the operating units, management of the property assets).

- The second line of defence: risk management (risk manager; independent of line management).
- The third line of defence: escalation line and audit (Advisory Board and auditor respectively; both act independent of line and risk management and are not part of the Amvest organisation<sup>1</sup>).

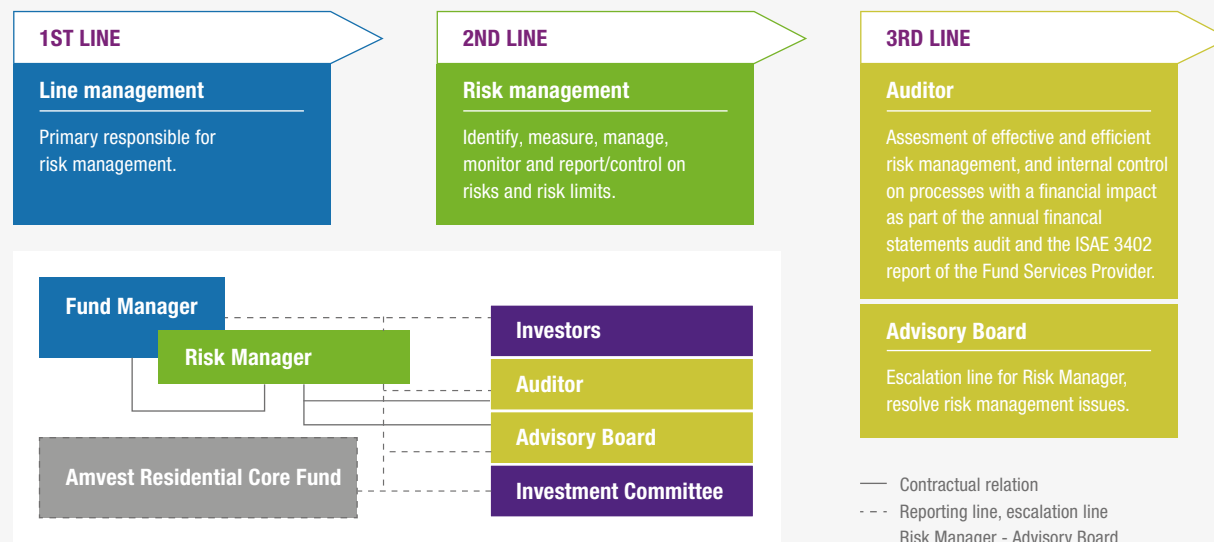
These defences are used to guarantee the independence of the risk management function in relation to portfolio management. The three lines of defence model is visualised in graph 26.

### Fund Management

The authorities and responsibilities of the ARC Fund are clearly set out in the ARC Fund’s fund documents: the Private Placement Memorandum including the Terms and Conditions, the Fund Services Agreement and the Portfolio Plan. These documents describe the parameters within which Amvest is authorised to act as a Fund Manager, e.g. the annual investment and divestment volume and required returns for new investments and annual budgets. The management and operation of the portfolios of the individual funds and the related control measures are described in the ISAE 3402 framework.

Portfolio management is aimed at optimising the portfolio’s long-term return on property. Tenant satisfaction is surveyed regularly and tenant processes are adjusted where necessary. Each year, residential properties are assessed on the basis of their contribution to fund returns, using hold-or-sell analyses. The fund team uses a hands-on approach assisted by a research department that maintains an independent position from the ARC Fund. The team focuses continuously on improving and monitoring operating cash flows from the individual residential properties.

### 26 THREE LINES OF DEFENCE



1. Due to the size of the Amvest organisation, the auditor acts as independent third line with a limited role (financial statements and ISAE assurance). The auditor is not part of the Amvest organisation.

## REPORT OF THE FUND MANAGER

Property management is outsourced to leading companies, managed directly by the ARC Fund team. An experienced financial staff supports the Fund Manager in the financial reports of the ARC Fund. For the appraisal of the residential properties, the Fund Manager works with external appraisers with proven track records in residential appraisal in the Netherlands. The ARC Fund's property portfolio is appraised by external appraisers only.

### ISAE 3402

The Fund Manager is structured with an affiliated Fund Services Provider (Amvest Management B.V.), which employs all employees of Amvest group. An ISAE 3402 Type 2 framework is in place to ensure a consistent high quality level of services by the Fund Services Provider to the investment management department.

ISAE 3402 provides guidance to enable investors to issue an opinion on a service organisation's description of controls through an independent service auditor's assurance report. The scope includes the classes of transactions in the service auditor's operations that are significant to the user organisation's financial statements, and processes that are specifically defined by the service organisation.

The ISAE 3402 framework in the context of the ARC Fund consists of the following processes:

- 1 Create and authorise Portfolio Plan
- 2 Authorise investment/divestment proposals
- 3 Contract matching
- 4 Investment authorisation
- 5 Right of First Refusal
- 6 Valuation
- 7 Property management
- 8 Payments
- 9 External reporting
- 10 NAV calculation
- 11 Distributions
- 12 Subscription and redemption of units, capital calls
- 13 Fund governance and deadline management
- 14 General IT controls

These key processes carried out by the Fund Services Provider under the responsibility of the Fund Manager are described at an operational level and control objectives and controls within these processes are defined. These controls are tested internally and externally several times a year. After a test round period, the external auditor determines whether the control objectives and controls are suitably designed and in place (Type 1) and performs tests on the operating effectiveness of the controls defined (Type 2). In the end, the external auditor issues a yearly assurance report.

The ISAE 3402 framework is a very helpful and relevant addition to the risk management framework and gives the Fund Manager with the comfort that procedures on relevant operational processes are being followed as agreed.

Every year, the process and framework are evaluated. Fund Management does this in close consultation with the fund team, the Fund Services Provider and the external auditor of the ARC Fund. Besides implementing the RoFR procedure, minor adjustments were made in 2017.

For 2017 (1 December 2016 - 30 November 2017), an ISAE 3402 Type 2 report was received without relevant findings with respect to the financial processes of the ARC Fund.

### Stress testing

The Fund Manager aims to give the Investors an attractive return against acceptable risks. Stress testing allows the Fund Manager to examine the effect of exceptional but plausible future events on the performance and liquidity position of the ARC Fund. The Fund Manager considers stress testing to be a central tool in identifying, measuring, managing and monitoring performance and liquidity risks, providing a complementary and forward-looking perspective to other performance and liquidity risk management tools.

Stress testing results are reported and used for policymaking and for monitoring the Portfolio Plan. The Fund Manager can take mitigating actions or other control measures as required, given the business strategy and risk appetite of the ARC Fund. After discussing the outcome, the most important results will be presented to the Investors through the quarterly report.

### Liquidity management

Liquidity management is an important element of risk management. The Fund Manager uses several tools for monitoring its cash flows. Most important is the liquidity forecast, which forecasts all real estate and fund related cash flows. In addition, the Fund Manager employs a number of control measures to prevent liquidity shortages and takes corrective actions if a liquidity shortage occurs or if a liquidity shortage could arise in the near future, as indicated by stress testing results.

As at 31 December 2017, the balance of cash and cash equivalents, receivables and payables amounts to EUR 26.6 million (positive). Also EUR 260 million (loan facility) is fully available within three working days. Besides this, the ARC Fund also has undrawn capital commitments from new Investors amounting to EUR 384 million and no redemption requests pending.

## REPORT OF THE FUND MANAGER

In conclusion, there is no need for additional external debt funding in the short term. However, because of the size of the pipeline and investment opportunities, liquidity needs for the period up to 2020 are being closely monitored.

### AIFMD

The Alternative Investment Fund Managers Directive (AIFMD) entered into force on 21 July 2011. The aim of AIFMD is to create a comprehensive and effective regulatory and supervisory framework for alternative investment fund managers within the EU. EU Member States had to implement the Directive in national Member State law and from 22 July 2014, all alternative investment funds (AIF) have to meet the complete legislation and require a licence.

The ARC Fund and its Fund Manager are fully within the scope of the AIFM Directive. Accordingly, the Fund Manager submitted an AIFM licence application to the Netherlands Authority for the Financial Markets (Autoriteit Financiële Markten, AFM) in January 2014 and received the AIFM licence on 26 November 2014. As of 26 November 2014, Amvest RCF Management B.V. was replaced by Amvest REIM B.V. as Fund Manager of the ARC Fund. This was done in view of the ambitions of the Amvest group to possibly take on the management of additional alternative investment funds that fall within the scope of AIFMD, and, at the same time to obtain only one AIFM licence for all such management activities instead of separate licences for each (special purpose) manager.

### Professional liability (Article 9(7) AIFMD)

To cover potential professional liability risks resulting from activities carried out by the Fund Manager, AIFMD allows the Fund Manager two options:

- 1 hold additional funds which are appropriate in relation to the potential risks arising from professional negligence;
- 2 carry a professional indemnity insurance against liabilities related to professional negligence, which is appropriate in relation to the potential risks.

The Fund Manager has chosen to hold additional own funds. The amount of the additional funds is calculated in accordance with criteria set out in the AIFM Directive and discussed with the Dutch Central Bank (DNB). At the close of every quarter, the Fund Manager recalculates the value of the portfolio (one of the AIFMD criteria) to determine if significant increases have occurred. If this is the case, the Fund Manager recalculates the additional own funds required without undue delay and adjusts the additional own funds accordingly.

The Fund Manager ensures that the additional own funds are held in cash on the balance sheet of the Fund Manager.

### Leverage: gross and commitment method (Article 109(3) Level II)

For the purpose of AIFMD (report to competent authorities) the leverage of the fund is expressed as the ratio between the exposure of the fund and its NAV. The Fund Manager calculates the exposure of the funds managed in accordance with the gross method and the commitment method. AIFMD stipulates a limit of three for the leverage.

Leverage - gross method: (total of assets + notional contract value derivatives -/- cash) / (INREV NAV).

Leverage - gross ARC Fund:  $(2,270 + 0 -/- 55) / 1,801 = 1.23$  (2016: 1.20).

Leverage - commitment: (total of assets) / (INREV NAV).

Leverage - commitment ARC Fund:  $2,270 / 1,801 = 1.26$  (2016: 1.22).

### Dutch law

The AIFMD requires investment funds to prepare an annual report including fund manager report according to Dutch law. Certain requirements included in the law should be disclosed in the fund manager report. ARC Fund complies with these requirements. Requirements that are not applicable due to the nature and structure of the ARC Fund are:

- Disclosure on research and development (art 391.2 BW2) is not applicable due to nature of the fund.
- Disclosure on personnel developments (art 391.2 BW2) is not applicable while the fund has no own employees.

### INREV

Since 2002, the European Association for Investors in Non-listed Real Estate Vehicles (INREV) has published various guidelines and recommendations that were incorporated into a set of standard INREV Guidelines (last revised in 2014). The ARC Fund follows these guidelines for all financial ratios, such as NAV, TER and REER (reference is made to the key figures).

As for property valuations, the appraisal process of the ARC Fund is fully compliant with the INREV Guidelines. In order to provide Investors with information on the transition from the Net Asset Value (NAV) according to IFRS to the adjusted NAV based on INREV valuation principles, the ARC Fund reports the adjustments according to the INREV valuation principles. The adjusted INREV NAV is based on the IFRS valuation principles (also see the annex).



Wassenaarseweg Leiden



## REPORT OF THE FUND MANAGER

### PORTFOLIO FUNDING

#### EUR 700 million loan facility

There is a loan facility of EUR 700 million in place. This facility was supplied by a banking consortium of three banks, with ABN AMRO Bank N.V. acting as Facility Agent and Deutsche Hypotheken Bank AG as Valuation and Security Agent and ING DiBa.

The EUR 700 million loan facility consists of a bullet loan of EUR 350 million supplied by Deutsche Hypothekenbank AG (EUR 250 million) and ING DiBa (EUR 100 million) and a revolving credit facility of EUR 350 million supplied by ABN AMRO Bank N.V. The bullet part has a term up to 17 January 2026 and the revolving part has a term of five years and three extension options of one year each.



Noorderduin Almere

As at 31 December 2017, EUR 440 million (EUR 350 million bullet part and EUR 90 revolving part) had been drawn, leaving EUR 260 million of the revolving credit facility available on demand.

#### Covenants

At year-end 2017, the ARC Fund was performing well within the covenants set by the bank.

#### Interest rate risk

The ARC Fund's policy is to minimise the interest rate risk at reasonable costs, keeping the interest rate level low and at the same time remaining flexible for future investments and divestments.

For the EUR 700 million loan facility, 50% (EUR 350 million) of the interest rate risk is limited by way of a term loan with a fixed interest rate of 1.283% up to 1.318% (depending on the LTMV ratio). The revolving part of the loan is floating at a 3-month Euribor rate plus a premium of 80 base points.

The Fund Manager performs stress tests on the relevant risk drivers to monitor the sensitivity of the bank and fund covenants (also see Risk and Compliance chapter). One important risk driver in this regard is the 3-month Euribor rate. Fund management closely monitors the Euribor rate (including an alert service) together with the financial advisor EY Montesquieu.

With this solid funding position, interest rate risk is very low; flexibility remains, costs are low and covenants are comfortably met.

#### Leverage

Fund Management aims to keep the LTV ratio at the 25% target level (and in any case below the maximum level of 30%). Because of increasing prices, yield shift and capital growth, the leverage level was 19.9% as at 31 December 2017. During the time frame of the Portfolio Plan (2018 - 2020), the LTV ratio is expected to rise to 25%.

The ARC Fund will be growing over the next few years. Fund management must therefore closely monitor and balance various means of funding (cash position, sales proceeds, equity/debt) so as to maintain a current and future healthy financial position.

The cash flow to finance the pipeline of acquisitions is needed between now and 2021. The exact timing of these cash flows is uncertain because the timing of project development is also uncertain. This is why it is important for the ARC Fund to have some flexibility in managing its funding.

#### Cash flow management

It is essential that the cash flows in the ARC Fund are strictly monitored. Both outgoing and incoming cash flows are monitored weekly for a six-week period 'rolling forward'. The liquidity position is constantly projected one year ahead (and for new acquisitions with material cash flows even further), ensuring that incoming and outgoing cash flows become clear in a timely manner. The revolving credit element of the loan facility can be adapted accordingly.

As well as all property related cash flows and fund management fees, financial expenditures and management costs, distributions and cash flows from subscriptions and redemptions are also monitored. The cash position of the ARC Fund is stress tested on a quarterly basis. The Fund Manager thus monitors the commitments from third party transactions, distributions to Investors, bank and fund covenants.

*Amsterdam, the Netherlands, 26 April 2018*

Wim Wensing, *Fund Director*  
Maarten van der Lienden, *Director Finance and Risk*  
Dennis Wedding, *Portfolio Manager*

# FINANCIAL STATEMENTS



Van Sijpesteijnkade (De Syp) - Utrecht

# STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

(amounts in EUR x thousand)

	notes	2017	2016
<b>PROFIT OR LOSS</b>			
<b>Income from investments</b>			
Gross rental income	1	85,995	73,634
Operating costs	2	(18,264)	(16,186)
<b>Net rental income</b>		<b>67,731</b>	<b>57,448</b>
Realised capital gains on investments	3	11,556	5,048
Unrealised capital gains on investments	4	220,014	118,189
<b>Net gains on investments</b>		<b>231,570</b>	<b>123,237</b>
Changes provision for onerous contracts	5	101	(146)
Management expenses	6	(8,523)	(7,425)
<b>Result from operating activities</b>		<b>290,879</b>	<b>173,114</b>
Financial expenditures	7	(6,401)	(11,185)
Financial income	7	478	1,288
<b>PROFIT OF THE YEAR</b>		<b>284,956</b>	<b>163,217</b>
<b>Other comprehensive income</b>			
Items that may be reclassified subsequently to comprehensive income			
Hedging reserve		0	6,301
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>284,956</b>	<b>169,518</b>

The notes are an integral part of these Financial Statements.

# STATEMENT OF FINANCIAL POSITION

Before appropriation of the profit of the year (amounts in EUR x thousand)

Assets	Notes	31 Dec 2017	31 Dec 2016
<b>Non-current assets</b>			
Investment property	8	1,921,656	1,445,804
Assets under construction	9	277,646	264,823
		<b>2,199,302</b>	<b>1,710,627</b>
<b>Current assets</b>			
Trade and other receivables	10	6,125	21,169
Assets held for sale	11	10,272	10,005
Cash and cash equivalents	12	55,024	33,946
		<b>71,421</b>	<b>65,120</b>
<b>TOTAL ASSETS</b>		<b>2,270,723</b>	<b>1,775,747</b>

Equity and liabilities	Notes	31 Dec 2017	31 Dec 2016
<b>Equity (attributable to the Investors of the Fund)</b>			
Capital contributions	13	66	62
Share premium reserve	14	1,200,048	1,138,394
Hedging reserve	15	0	0
Retained earnings	16	310,913	147,696
Total comprehensive income of the period		284,956	163,217
		<b>1,795,983</b>	<b>1,449,369</b>
<b>Non-current liabilities</b>			
Syndicated loan	17	440,000	290,000
Provision for onerous contracts	18	206	307
Derivatives	19	0	0
		<b>440,206</b>	<b>290,307</b>
<b>Current liabilities</b>			
Trade and other payables	20	34,534	36,071
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,270,723</b>	<b>1,775,747</b>

The notes are an integral part of these Financial Statements.



# STATEMENT OF CHANGES IN EQUITY

(amounts in EUR x thousand)

	Notes	Capital contributions	Share premium reserve	Hedging reserve	Retained earnings	Profit of the year	Total equity
<b>2017</b>							
<b>Balance as at 1 January 2017</b>		62	1,138,394	0	147,696	163,217	1,449,369
Profit of the year						284,956	284,956
Capital contributions	13	7	(7)				0
Subscriptions	14		190,767				190,767
Hedging reserve	15			0			0
Retained earnings	16				163,217	(163,217)	0
<b>Total comprehensive income for the year attributable to Investors of the ARC Fund</b>		<b>7</b>	<b>190,760</b>	<b>0</b>	<b>163,217</b>	<b>121,739</b>	<b>475,723</b>
<i>Transactions with Investors of the ARC Fund</i>							
- Redemptions		(3)	(64,356)				(64,359)
- Dividend			(64,750)				(64,750)
		<b>4</b>	<b>61,654</b>	<b>0</b>	<b>163,217</b>	<b>121,739</b>	<b>346,614</b>
<b>BALANCE AS AT 31 DECEMBER 2017</b>		<b>66</b>	<b>1,200,048</b>	<b>0</b>	<b>310,913</b>	<b>284,956</b>	<b>1,795,983</b>
<b>2016</b>							
<b>Balance as at 1 January 2016</b>		99	922,276	(6,301)	23,975	123,721	1,063,770
Profit of the year						163,217	163,217
Capital contributions	13	(37)	37				0
Subscriptions	14		261,081				261,081
Hedging reserve	15			6,301			6,301
Retained earnings	16				123,721	(123,721)	0
<b>Total comprehensive income for the year attributable to Investors of the ARC Fund</b>		<b>(37)</b>	<b>261,118</b>	<b>6,301</b>	<b>123,721</b>	<b>39,496</b>	<b>430,599</b>
<i>Transactions with Investors of the ARC Fund</i>							
- Redemptions			0				0
- Dividend			(45,000)				(45,000)
		<b>(37)</b>	<b>216,118</b>	<b>6,301</b>	<b>123,721</b>	<b>39,496</b>	<b>385,599</b>
<b>BALANCE AS AT 31 DECEMBER 2016</b>		<b>62</b>	<b>1,138,394</b>	<b>0</b>	<b>147,696</b>	<b>163,217</b>	<b>1,449,369</b>

The notes are an integral part of these Financial Statements.



# CASH FLOW STATEMENT

(amounts in EUR x thousand)

	Notes	2017	2016
<b>Cash flows from operating activities</b>			
Profit of the year	284,956	163,217	
Adjustments for			
- Unrealised capital gains on investments	(220,014)	(118,189)	
- Changes in provision for onerous contracts	(101)	146	
- Results on sale of investments	3 (11,556)	(5,048)	
- Net financial income and expenditures	7 5,923	9,897	
<b>Operating cash flow before change in working capital</b>		<b>59,208</b>	<b>50,023</b>
Change in			
- Trade and other receivables	14,242	(18,628)	
- Trade and other payables	781	(1,354)	
<b>Change in working capital</b>		<b>15,023</b>	<b>(19,982)</b>
Paid interest	(5,584)	(9,244)	
Received interest	802	0	
		(4,782)	(9,244)
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>		<b>69,449</b>	<b>20,796</b>
<b>Cash flows from investing activities</b>			
Investments in completed investment property	8 (118,142)	(157,697)	
Investments in capitalised subsequent expenditure in investment property	(2,068)	(3,299)	
Divestments of investment property and assets held for sale	69,771	28,286	
Divestments of assets under construction	0	14,794	
Prepayments for assets under construction	(221,644)	(192,003)	
Results on sale of investments	11,556	5,048	
<b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>		<b>(260,527)</b>	<b>(304,871)</b>

	Notes	2017	2016
<b>Cash flows from financing activities</b>			
Increase / (decrease) in capital contributions	14 190,761	261,081	
Redemption of units	14 (64,356)	0	
Dividend paid to Investors	(64,250)	(43,000)	
Proceeds from loans and borrowings	17 150,000	50,000	
<b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>		<b>212,155</b>	<b>268,081</b>
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>21,078</b>	<b>(15,994)</b>
Cash and cash equivalents at the beginning of the period		33,946	49,940
Cash and cash equivalents at end of the period		55,024	33,946
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>21,078</b>	<b>(15,994)</b>

# ACCOUNTING PRINCIPLES AND COMMON NOTES TO THE FINANCIAL STATEMENTS

## 1 Reporting entity

The Amvest Residential Core Fund (ARC Fund) consists of two combined funds for joint account domiciled in the Netherlands. The ARC Fund operates as a fund under the laws of the Netherlands. The address of the ARC Fund's registered office is De entree 43, 1101 BH, Amsterdam. The ARC Fund is an investment fund investing in a diversified portfolio of residential rental properties located in the Netherlands. On 17 January 2012, the ARC Fund was converted from a limited partnership (C.V.) into two fiscally transparent funds (FGR), which marked the closing date of the fund. On 1 January 2016, FGR2 was terminated due to the fact that the fiscal advantage of the structure with two separate funds for joint account no longer existed. All assets and liabilities of FGR2 have been transferred to FGR1.

In the second quarter of 2017, the former Investor AEGON Core Fund Participations B.V. merged with AEGON Levensverzekering N.V., being the new Investor.

For the participations of the Investors as at 31 December 2017, reference is made to note 13.

On 26 November 2014, an AIFMD licence was granted by the AFM. The licence was granted to Amvest REIM B.V. being the Fund Manager of all funds that act under the AIFM Directive. The Fund Manager has no employees. All personnel are employed by Amvest Management B.V., the Fund Services Provider of the ARC Fund.

The financial statements were authorised for issue by the Fund Manager on 26 April 2018.

## 2 Basis of preparation

### (a) Accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS). The ARC Fund applied all standards effective on or before 31 December 2017 to these IFRS financial statements.

A number of new standards, amendments to standards, and interpretations are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the ARC Fund.

### IFRS 9 Financial Instruments

IFRS 9, published in July 2014 and endorsed as per 22 November 2016, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

#### *Recognition and classification*

The new standard includes revised regulations for recognition and classification of financial assets. In case of ARC Fund, this will be limited to positions in trade receivables and cash, which are held within a business model to collect the contractual cash flows (including any interest where applicable). Financial liabilities are limited to a loan agreement and changes for financial liabilities do not affect the ARC Fund. Hedge accounting is not applicable to the ARC Fund and therefore changes do not affect the ARC Fund.

### *Measurement*

IFRS 9 contains a new impairment model where expected losses are assessed instead of incurred losses. This will result in an earlier recognition of impairment losses.

Financial assets are assessed for financial impact and due to low risk portfolio, nature of balance sheet exposure and limited ageing will result in a very limited impact. Based on 31 December 2017 figures we have estimated a non-significant effect and thus will not result in affect equity.

The ARC Fund will apply IFRS 9 retrospectively as per 1 January 2018.

### IFRS 15 Revenue from Contracts with Customers

IFRS 15, endorsed as per 22 September 2016 and effective date as per 1 January 2018 will replace existing revenue recognition standards amongst which IAS 18 and contains new regulations for revenue recognition.

For the ARC Fund revenue on investment property transactions is recognised at a point in time (transfer of ownership, which is executed by a notary). This will not change when IFRS 15 is applied.

According to IFRS 15, the ARC Fund acts as principal with relation to provided services to their tenants. This will lead to a separate presentation of the revenue that is related to provided services. Up to 2017 the margin on provided services was presented as operating costs.

IFRS 15 will not impact any results for the ARC Fund, but the presentation of service costs and service revenue will be changed as per 2018.

## ACCOUNTING PRINCIPLES AND COMMON NOTES TO THE FINANCIAL STATEMENTS

### IFRS 16 Leases

IFRS 16, endorsed as per 31 October 2017 and effective date as per 1 January 2019, will replace existing leasing standard IAS 17 and contains new regulations for recording leases by lessee and lessor. Main impact will relate to activation of a right of use asset for lessees (tenant).

The ARC Fund is only impacted where it acts as a lessee. This is the case for leaseholds related to land where residential property was built on, but where ownership remains at local government. Based on a high level assessment no or limited impact is expected. A detailed analysis remains to be performed.

### Other standards

The following amended standards and interpretations are not expected to have a significant impact:

- Annual Improvements to IFRS's 2014-2016 Cycle Amendments to IFRS 1 and IAS 28.
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).
- Transfers of Investment Property (Amendments to IAS 40).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).
- IFRIC 22 Foreign Currency Transactions and Advance Consideration.
- IFRIC 23 Uncertainty over Income Tax Treatments.

### (b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- investment property including assets held for sale and assets under construction are measured at fair value;
- derivative financial instruments are measured at fair value.

### (c) Functional and presentation currency

These financial statements are presented in euros (EUR), which is the

ARC Fund's functional currency. All financial information presented in euros has been rounded to the nearest thousand.

### (d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future period affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the paragraph regarding Investment property.

### (e) Going concern

The financial statements have been prepared on a going concern basis.

## 3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by the ARC Fund.

### (a) Investment property

Investment property, which includes all properties held to earn rentals and/or for capital appreciation, is initially accounted for at cost (including purchase expenses like transfer tax, broker fees, civil notary, if applicable).

After initial recognition, investment properties are measured at fair value, assuming a knowledgeable willing buyer and a knowledgeable willing seller in an at arm's length transaction. Gains or losses arising

from changes in the fair value of investment property are included in the statement of profit or loss and other comprehensive income for the period in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the derecognition of an investment property are recognised in the statement of profit or loss and comprehensive income in the year of derecognition.

Fair value is based on quarterly external appraisals and updates of the appraised portfolio by independent external appraisers, based on the IPD guidelines. The portfolio was externally appraised in 2017 by independent appraisers in order to determine the fair value.

The full portfolio is externally appraised every quarter. A representative part of 25% of the total portfolio is appraised by a "full" valuation, and the remaining portfolio (75%) is updated at the same time using a "desk top" valuation.

The appraisals are based on both the yield method (BAR/NAR) and a DCF calculation with an average discount rate of 6.0% (2016: 6.6%).

The yield method on IPD guidelines is based on:

- cash flows estimated on the basis of market rent;
- allowable deductions for owners' charges in line with market conditions;
- capitalisation at net initial yields (minus purchasing costs payable by the purchaser) of similar transactions;
- adjusting entries for (initial) vacancy, overdue maintenance, and future renovations.

Investments made in existing properties since the last appraisal was carried out are capitalised at cost price in addition to the carrying amount of the investment until the next appraisal.

## ACCOUNTING PRINCIPLES AND COMMON NOTES TO THE FINANCIAL STATEMENTS

In the statement of profit or loss and comprehensive income, changes in fair value are recorded as unrealised capital gains on investments.

### **(b) Assets under construction**

Assets under construction are initially recognised when a turnkey contract is signed with a development company and are recognised at fair value.

There are two types of turnkey contracts:

- a clear turnkey contract;
- a quasi-turnkey contract.

Within a clear turnkey contract, the property is bought (in ownership) after completion by paying the entire turnkey amount.

Within a quasi-turnkey contract, the land is sold and legally transferred to the ARC Fund first and construction starts after this transaction.

Through accession, everything built on the land becomes the property of the ARC Fund. The economic risk of capital growth fluctuations lies with the ARC Fund. All construction risks are borne by the developer until completion of the construction.

Fair value is determined as the most probable price reasonably obtainable in the market on the reporting date (therefore not on a date in either the past or the future). Fair value is based on current prices in an active market for similar properties in the same location and condition. Since this information is unavailable for unfinished property, the best estimate of the fair value is determined to be at cost unless the property is nearly completed. For Assets under Construction which are nearly completed the fair value is determined using the discounted cash flow valuation method or a conventional method. Conventional methods determine the value on the basis of capitalisation at net initial yields of similar transactions.

Any gain or loss arising from a change in fair value is recognised through profit or loss. When the fair value of the unrealised part of an asset under construction is expected to be lower than future prepayments according to the turnkey contract, a separate provision is recognised.

Assets under construction include prepayments incurred directly in relation to projects for which the feasibility of development has been established and where there is a high probability that the project will be successful.

Assets under construction are classified as not in operation until the time the construction is completed. At such time, they are transferred into the caption "Investment property".

### **(c) Assets held for sale**

Investment property is transferred to "assets held for sale" when it is expected that the carrying amount will be recovered principally through sale rather than from continuing use.

For this to be the case, the property must be available for immediate sale in its present condition and its sale must be highly probable. For the sale to be highly probable:

- the Fund Manager must be committed to a plan to sell the property and an active programme to locate a buyer and complete the plan must have been initiated;
- the property must be actively marketed for sale at a price that is reasonable in relation to its current fair value;
- the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Assets held for sale are stated at fair value.

### **(d) Financial instruments**

#### **(i) Non-derivative financial instruments**

The ARC Fund classifies non-derivative financial assets into the following categories: trade and other receivables and cash and cash equivalents.

The ARC Fund classifies non-derivative financial liabilities into the following categories: loans and borrowings, and trade and other liabilities.

#### **(ii) Non-derivative financial assets**

The ARC Fund initially recognises financial assets on the date that they originate or on the trade date at which the ARC Fund becomes a party to the contractual provisions of the instrument.

The ARC Fund derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which all the risks and rewards of ownership of the financial asset are substantially transferred.

Any interest in transferred financial assets that is created or retained by the ARC Fund is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the ARC Fund has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

#### *Trade and other receivables*

Trade and other receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, trade and other receivables are measured at amortised cost using the effective interest method, less any impairment losses.

#### *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances.

#### **(iii) Non-derivative financial liabilities**

The ARC Fund initially recognises financial liabilities (including liabilities designated at fair value through profit or loss) on the trade date, which is the date that the ARC Fund becomes a party to the contractual provisions of the instrument.

## ACCOUNTING PRINCIPLES AND COMMON NOTES TO THE FINANCIAL STATEMENTS

The ARC Fund derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire.

Financial assets and liabilities are offset and the net amount is presented in the balance sheet when, and only when, the ARC Fund has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The ARC Fund classifies non-derivative financial liabilities into the other financial liabilities category.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

### (iv) Capital contributions

Capital contributions are classified as equity. The dividend paid to Investors has been deducted from the share premium reserve. Retained earnings only shows the total comprehensive income of the year.

### (v) Derivative financial instruments, including hedge accounting

The ARC Fund held derivative financial instruments to hedge its interest rate risk exposure.

On initial designation of the hedge, the ARC Fund formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

The ARC Fund makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instruments are expected to be “highly effective” in offsetting the changes in fair value or cash flows of the respective hedged items attributable to the hedged risk, and as to whether the actual results of

each hedge are within a range of 80 to 125%. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

#### *Cash flow hedges*

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability, or a highly likely forecast transaction that could affect profit or loss, the effective portion of changes in fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity.

Any ineffective portion of changes in fair value of the derivative is recognised immediately as profit or loss. When the hedged item is a non-financial asset, the amount accumulated in equity is included in the carrying amount of the asset when the asset is recognised. In other cases, the amount accumulated in equity is reclassified to profit or loss in the same period when the hedged item affects profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires, or is sold, terminated, or exercised, or the designation is revoked, hedge accounting is then discontinued prospectively. If the forecast transaction is no longer expected to occur, the balance in equity is then reclassified in profit or loss.

As from the end of September 2016, all derivative contracts have been terminated.

### (e) Syndicated loan

Long-term liabilities are appraised at amortised cost, being the sum received, and taking into account buyer's premium or discount and minus transaction costs.

The difference between the determined book value and the ultimate repayment value, along with the interest payable, is determined in such a way that the effective interest is incorporated in the income statement during the term of the liabilities.

### (f) Provisions

Provisions are recognised when the ARC Fund has a current obligation as a result of a past event, when it is probable that the ARC Fund will have to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provision on onerous contracts includes turnkey contracts from which the ARC Fund can no longer withdraw without a penalty. A provision is recognised if all the following criteria have been met:

- there is a signed contract with a development or construction company;
- there is a high degree of certainty that the project will be acquired and can be operational within an agreed period;
- the project is expected to be completed within six quarters after the reference date (the first day of the first of six consecutive quarters).

### (g) Impairment

#### **Financial assets**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it has to be impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.



## ACCOUNTING PRINCIPLES AND COMMON NOTES TO THE FINANCIAL STATEMENTS

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the ARC Fund on terms that the ARC Fund would not otherwise consider, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the ARC Fund, economic conditions that correlate with defaults, or the disappearance of an active market for a security.

### **Trade and other receivables**

The ARC Fund considers evidence of impairment for receivables at a specific asset level.

All individually significant receivables are assessed for specific impairment.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted at the asset's original effective interest rate.

Losses are recognised in profit or loss and reflected in an allowance account against trade and other receivables.

Interest on the impaired asset continues to be recognised, if applicable. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

### **(h) Income from investments**

#### **Net rental income**

Rental income from investment property relates to the rents charged to tenants during the year under review and is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Operating costs are the costs that can be directly allocated to the rental income.

### **Capital gains on investments**

Results realised through the sale of investment property are recorded in relation to the book value after deduction of sales costs. These results are recognised as realised capital gains on investments.

Unrealised gains on investments include the movements in value of investment property in relation to the previous year, as mentioned under the paragraph Investment property.

### **(i) Management expenses**

Management expenses consist of the fees of the Fund Manager as well as costs such as auditors, legal and other costs, including appraisal costs.

### **(j) Financial income and expenditures**

Financial income and expenditures comprises interest income and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Financial costs comprise interest expense on loans and borrowings, fair value losses on financial assets at fair value through profit or loss, impairment losses recognised on financial assets (other than trade receivables), and losses on hedging instruments that are recognised in profit or loss.

Borrowing costs that are not directly attributable to the acquisition, construction, or production of a qualifying asset are recognised in profit or loss using the effective interest method.

### **(k) Income tax**

The ARC Fund is transparent in the fiscal sense with respect to corporate income tax.

## **4 Determination of fair value**

A number of the ARC Fund's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair value has been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

### **(i) Investment property / assets under construction / assets held for sale**

The ARC Fund's portfolio is appraised every quarter by external, independent appraisal companies having appropriate recognised professional qualifications and recent experience in the location and category of property (residential real estate) being appraised. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the appraisal between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably.

In the absence of current prices in an active market, the appraisals are prepared by considering the actual rental value of the property. A market yield is applied to the actual rental value to arrive at the gross property valuation.

Appraisals reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, the allocation of maintenance and insurance responsibilities between the ARC Fund and the tenant, and the remaining economic life of the property.

## ACCOUNTING PRINCIPLES AND COMMON NOTES TO THE FINANCIAL STATEMENTS

When rental reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices, and when appropriate counter-notices, have been served validly and within the appropriate time.

The Fund Manager has established a control framework with respect to the measurement of fair values. This includes real estate analysts who have overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and report directly to Fund Management.

The real estate analysts regularly review significant unobservable inputs and valuation adjustments and assess the evidence obtained from the external independent appraisers to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Fund Management.

When measuring the fair value, the company uses observable market data as much as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: valuation on the basis of quoted prices in active markets for identical assets.
- Level 2: values based on (external) observable information.
- Level 3: values based wholly or partially on non (external) observable information.

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in Table E.

### (ii) Derivatives

The fair value of interest rate swaps (Level 2 fair value) is based on inputs other than quoted prices that are observable for the derivatives, either directly or indirectly. Those inputs are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument on the measurement date.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the ARC Fund and counterparty when appropriate.

The following assumptions regarding the significant unobservable inputs are made when determining the fair value:

- a combination of EUR cash rates, EURIBOR futures and EUR IRS rates versus 3-month EURIBOR for forward interest rate curve building purposes;
- the EUR OIS curve for discounting purposes
- mid-market rates;
- end-of day rates as of the last trading day of the year.

## 5 Principles for the cash flow statement

The cash flow statement has been drawn up according to the indirect method, separating the cash flows from operating activities, investment activities, and financing activities.

The result has been adjusted for accounts in the statement of profit or loss and comprehensive income and movements in the statement of financial position that have not resulted in cash flows in the financial year.

The cash and cash equivalents and bank overdraft amounts in the cash flow statement include those assets that can be converted into cash without any restrictions and with insignificant changes in the value as a result of the transaction.

Distributions are included in the cash flow from financing activities.

## 6 Financial risk management

### Overview

The section 'Report of the Fund Manager' describes the risk management framework of the ARC Fund with eleven defined risks. In this section, risks are grouped with an emphasis on financial risk and its impact on the financial statements.

The ARC Fund is exposed to the following financial risks:

- a) market risk;
  - i real estate risk
  - ii interest rate risk
- b) credit risk;
- c) liquidity risk (including funding risk).

The ARC Fund manages these risks using the services provided by the Fund Services Provider. The Fund Services Provider has in-house knowledge and expertise in order not to depend entirely on third parties. This is very important for mitigating risks.

The Fund Services Provider delivers various services such as Compliance, Legal, Human Resources Management, Payment Process, Business Continuity Management, Information Management, and Research. An internal control system according to the International Standards of Assurance Engagements 3402 (Type 2) is in place. An external auditor has tested this.

The ARC Fund invests in residential properties in the Netherlands. The following describes the risks involved and the risk management applied.

### **(a) Market risk**

#### **(i) Real estate risks**

The yields available from investments in residential real estate depend primarily on the amount of income earned and capital appreciation generated by the relevant properties, as well as expenses incurred. If properties do not generate revenues sufficient to meet expenses, including debt service and capital expenditures, the ARC Fund's income will be adversely affected.

Income from properties may be adversely affected by the general economic climate, local conditions such as oversupply of properties or a reduction in demand for properties in the market in which the ARC Fund operates, the attractiveness of the properties to tenants, the quality of the management, competition from other available properties, and increased operating costs (including real estate taxes).

In addition, income from properties and/or real estate values is also affected by factors such as the cost of regulatory compliance, interest rate levels, and the availability of financing.

Investments made by the ARC Fund are generally illiquid. The eventual liquidity of all investments of the ARC Fund will be dependent upon the success of the realisation strategy proposed for each investment, which could be adversely affected by a variety of risk factors. Realisation of the ARC Fund's assets, for instance in connection with redemption requests, on termination or otherwise could be a process of uncertain duration.

In addition, the ARC Fund's income would be adversely affected if a significant number of tenants were unable to pay rent or if its properties could not be rented at favourable terms.

Certain significant expenditures associated with each equity investment in real estate (such as real estate taxes and maintenance costs) generally are not reduced when circumstances cause a reduction in income from properties.

The report from the management describes the main aspects of the ARC Fund's portfolio strategy. By implementing the described strategy, management expects to mitigate the above real estate risks to an acceptable level.

Management expects to lower the portfolio's risk profile by diversifying and concentrating on focus areas, the mid-priced rental segment, the type of real estate (residential), and risk categories.

All properties are appraised externally by the end of each quarter by independent residential experts. CBRE Valuation Advisory, Colliers International, Cushman & Wakefield, and Dynamis Taxaties and MVGM Vastgoedtaxaties appraised all properties in the portfolio using both the yield method (BAR/NAR) and a DCF calculation in accordance with the IPD guidelines applicable in the Netherlands.

The appraisals per property are executed by two independent experts from each appraiser, whereby both independent experts have to agree on the value of the individual property. Every year, approximately 20% of all properties circulate among the external appraisers.

A complete overview of all properties in the ARC Fund's portfolio is given in the Annexes.

The impact of a possible yield shift in the market values of the investment property (including assets held for sale) is included in Table A.

The total fee charged by the external appraisers for 2017 is EUR 597,000.

#### **(ii) Interest rate risk**

The ARC Fund is exposed to interest rate risk as the ARC Fund borrows funds at both fixed and floating interest rates. The ARC Fund manages this risk by maintaining an appropriate mix of fixed and floating rate borrowings through by the use of interest rate swap contracts. Hedging activities are evaluated monthly to align with interest rate views and defined risk appetite, ensuring that optimal hedging strategies are applied, either by positioning the statement of financial position or protecting interest expense through different interest rate cycles.

Until 26 September 2016, the ARC Fund had a loan facility in place of EUR 320 million of debt from a syndicate of five banks. The loan facility agreement stated that a minimum of 50% of the interest rate risk of the loan must be hedged (EUR 160 million).

Until 26 September 2016, there were four interest rate swaps in place. These swap agreements were concluded with four of the five syndicate banks (and/or subsidiaries) with the same maturity date as the loan (21 April 2017). These four interest rate swaps cover the interest rate risk on EUR 240 million of the remaining total loan facility of EUR 290 million (82.8%).

As of 26 September 2016, the EUR 320 million loan facility was refinanced by a EUR 700 million loan facility. This facility was concluded with a syndicate of three banks and consists of a bullet part of EUR 350 million with a fixed interest rate (no risk) and a revolving part with a floating interest rate (3-month Euribor). The 3-month Euribor rate is monitored closely.

A consequence of refinancing the loan facility was unwinding the existing interest rate swap contracts that were connected to the EUR 320 million loan facility.

The loan documentation facilitates a possibility to convert (parts) of the revolving part of the loan into a bullet part without interest rate risk. As at 31 December 2017, EUR 440 million of the EUR 700 million loan has been drawn. Reference is made to note 17.

## ACCOUNTING PRINCIPLES AND COMMON NOTES TO THE FINANCIAL STATEMENTS

The inherent risks related to these debts are outlined in Table B. This Table shows the impact on the net result of the ARC Fund's interest due to a 1% parallel shift in the interest rates, holding all other variables constant. The financial derivatives are included in this calculation; changes in fair value are not.

Table C sets out the carrying amount, by maturity, of the ARC Fund's financial instruments that are exposed to interest rate risk on 31 December 2017.

The ARC Fund's policy is to manage exposure to rising interest rates. We further refer to our hedge accounting paragraph.

### **(b) Credit risk**

Credit risk refers to the risk that counterparties will default on their contractual obligations, resulting in financial loss to the ARC Fund.

The ARC Fund has adopted a policy of dealing only with creditworthy counterparties and of obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The ARC Fund's exposure is monitored and the compliance officer of the Fund Services Providers checks parties concerning relevant contracts before signing any of them (customer due diligence).

#### *Credit risk management for tenants and property managers*

Receivables from tenants and property managers consist of large numbers of counterparties spread across geographical areas. Ongoing credit evaluation is performed for the financial condition of accounts receivable, and where appropriate, a bank guarantee or a deposit is obtained.

The ARC Fund's credit risk is primarily attributable to its rental receivables and lease receivables. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the ARC Fund's management based on prior experience and their assessment of the economic environment.

#### *Credit risk management for financial instruments*

The ARC Fund does not have any significant credit risk exposure to a single counterparty or any group of counterparties having similar characteristics. The ARC Fund adopted the policy of minimising the credit risk by dealing only with banks with positive credit ratings assigned by international credit rating agencies.

Except as detailed in Table D, the carrying amount of the financial assets recorded in the financial statements, grossed up for allowances for losses, represents the ARC Fund's maximum credit risk exposure without taking account of the value of any collateral obtained. The yield curve of the connected credit institution is used to determine the fair value of the individual derivative. The valuation is based on market observable data.

The credit risk on cash and cash equivalents and derivatives is limited because the counterparties are banks with positive credit ratings assigned by international credit rating agencies.

The ARC Fund has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. The ARC Fund held cash and cash equivalents of EUR 55.0 million at 31 December 2017, which represents its maximum credit exposure for these assets.

### **(c) Liquidity risk**

Ultimate responsibility for liquidity risk management rests with the management, which has built an appropriate liquidity risk management framework for the management of the ARC Fund's short, medium and long-term funding and liquidity management requirements. The ARC Fund manages liquidity risk by maintaining adequate reserves, banking facilities, and reserve borrowing facilities and by monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

A maturity overview of the ARC Fund's financial liabilities is provided in notes 17 and 19. The ARC Fund has credit facilities available with banks and is allowed to obtain debt from credit institutions within its leverage ratio limits as stated in the PPM. The year-end LTV of the ARC Fund amounts to 19.9%, while the maximum ratio as defined by the ARC Fund is 30.0%.

The maturity overview of financial instruments of the ARC Fund is provided in Table C.

### **Funding risk**

The ARC Fund undertakes external borrowings in connection with its investments to increase potential equity performance. There can be no assurance that the ARC Fund will be able to secure the necessary external financing. Although the use of leverage may enhance returns and increase the number of investments that can be made, it may also increase the risk of loss. This includes the risk that available funds will be insufficient to meet required payments and the risk that existing datedness will not be able to be refinanced or that the terms of such refinancing will be as favourable as the terms of existing indebtedness.

Subject to the expected future trends of interest rates and the nature of real estate, the policy of the ARC Fund is to make use of a certain level of debt financing.

## ACCOUNTING PRINCIPLES AND COMMON NOTES TO THE FINANCIAL STATEMENTS

### REAL ESTATE SENSITIVITY ANALYSIS ARC FUND

#### A Real Estate Sensitivity Analysis by movement in gross current yield

2017 (EUR x thousand)	Movement in gross current yield				
	-25 bps	-12,5 bps	0 bps	+12,5 bps	+25 bps
<b>As at 31 December 2017</b>					
Market value property*	2,036,463	1,982,819	1,931,928	1,883,584	1,837,601
Gross current yield based on theoretical rent**	4.620%	4.745%	4.870%	4.995%	5.120%
Revaluation of investment property in EUR*	104,535	50,891	0	(48,344)	(94,327)
Revaluation of investment property in %*	5.4%	2.6%	0.0%	-2.5%	-4.9%
Effect on total return	6.2%	3.0%	0.0%	-2.9%	-5.6%
Loan-to-value	19.0%	19.5%	19.9%	20.4%	20.8%

2016 (EUR x thousand)	Movement in gross current yield				
	-25 bps	-12,5 bps	0 bps	+12,5 bps	+25 bps
<b>As at 31 December 2016</b>					
Market value property*	1,526,091	1,490,122	1,455,809	1,423,041	1,391,716
Gross current yield based on theoretical rent**	5.178%	5.303%	5.428%	5.553%	5.678%
Revaluation of investment property in EUR*	70,282	34,313	0	(32,768)	(64,093)
Revaluation of investment property in %*	4.8%	2.4%	0.0%	-2.3%	-4.4%
Effect on total return	5.3%	2.6%	0.0%	-2.5%	-4.8%
Loan-to-value	16.2%	16.5%	16.9%	17.2%	17.5%

\* 'property' and 'investment property' include assets held for sale.

\*\* The gross current yield is based on the theoretical rent as stated in the overview of the portfolio (annexes).

#### B Sensitivity to a 1% parallel shift in interest rates

2017 (EUR x thousand)	+1%	-1%
Interest debts	(526)	526
Interest derivatives	0	0
<b>Total impact on net result</b>	<b>(526)</b>	<b>526</b>

2016 (EUR x thousand)	+1%	-1%
Interest debts	0	0
Interest derivatives	0	0
<b>Total impact on net result</b>	<b>0</b>	<b>0</b>

#### C Undiscounted amount by contractual maturity of financial instruments exposed to floating rate

2017 (EUR x thousand)	< 1 year	1-5 years	> 5 years
<b>As at 31 December 2017</b>			
Cash and cash equivalents	55,024		
Secured bank loans			(440,000)
Derivatives		0	

2016 (EUR x thousand)	< 1 year	1-5 years	> 5 years
<b>As at 31 December 2016</b>			
Cash and cash equivalents	33,946		
Secured bank loans			(290,000)
Derivatives		0	



## ACCOUNTING PRINCIPLES AND COMMON NOTES TO THE FINANCIAL STATEMENTS

### D Fair value hierarchy to reflect the level of judgment involved in estimating fair values

2017 (EUR x thousand)	Level 1	Level 2	Level 3
Investment property, assets held for sale and assets under construction			2,209,574
Trade and other receivables		6,125	
Cash and cash equivalents	55,024		
Syndicated loan		(440,000)	
Derivatives		0	
Trade and other payables		(34,534)	
2016 (EUR x thousand)	Level 1	Level 2	Level 3
Investment property, assets held for sale and assets under construction			1,720,632
Trade and other receivables		21,169	
Cash and cash equivalents	33,946		
Syndicated loan		(290,000)	
Derivatives		0	
Trade and other payables		(36,071)	

Level 1: quoted prices; Level 2: market observables; Level 3: unobservable.

## ACCOUNTING PRINCIPLES AND COMMON NOTES TO THE FINANCIAL STATEMENTS

### E Valuation techniques used in measuring the Level 2 and 3 fair values as well as the unobservable inputs used

Valuation technique	Significant unobservable input	Inter-relationship between key unobservable inputs and fair value measurement
<b>Investment property, assets held for sale and assets under construction</b>		
The appraisal has to be carried out using both 'Rental Value Capitalisation' ("yield method") and the 'Discounted Cash Flow' method including the 'reletting' scenario and the 'unit based sale' scenario. The Fund Manager has decided that the appraisal has to be carried out using both methods to ensure that the appraisal is as accurate as possible.	<i>Rental Value Capitalisation</i> <ul style="list-style-type: none"><li>• cash flows estimated on the basis of market rent;</li><li>• allowable deductions for owners charges in line with market conditions;</li><li>• capitalisation at net initial yields (minus purchasing costs payable by the purchaser) of similar transactions;</li><li>• adjusting entries for (initial) vacancy, overdue maintenance and future renovations.</li></ul>	The estimated fair value carried out using the Rental Value method would increase (decrease) if: <ul style="list-style-type: none"><li>• cash flows estimated on the basis of market rent were higher (lower);</li><li>• allowable deductions for owners charges in line with market conditions were lower (higher);</li><li>• capitalisation at net initial yields (minus purchasing costs payable by the purchaser) of similar transactions were lower (higher);</li><li>• adjusting entries for (initial) vacancy, overdue maintenance and future renovations were lower (higher).</li></ul>
	<i>Discounted Cash Flow</i> <ul style="list-style-type: none"><li>• an estimated average increase in value of vacant possession, the rent and the operating costs;</li><li>• a property specific rental turnover rate;</li><li>• the exit value, which is the estimated realisable value at the end of the review period;</li><li>• the estimated yield (mostly recent 10-year government bonds, plus a risk premium).</li></ul>	The estimated fair value carried out using the Discounted Cash Flow method would increase (decrease) if: <ul style="list-style-type: none"><li>• an estimated average increase in value of vacant possession is higher (lower), the rent is higher (lower) and the operating costs are lower (higher);</li><li>• a property specific rental turnover rate is higher (lower);</li><li>• the exit value, which is the estimated realisable value at the end of the review period is lower (higher);</li><li>• the estimated yield (mostly recent 10-year government bonds, plus a risk premium) is lower (higher).</li></ul>
<b>Trade and other receivables/payables</b>		
Trade and other receivables/payables are measured at amortised cost using the effective interest method, less any impairment losses.	Not applicable	Not applicable

# NOTES TO THE STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

(amounts in EUR x thousand)

<b>1 Gross rental income</b>	<b>2017</b>	<b>2016</b>
Theoretical rental income	88,267	76,132
Incentives	(335)	(454)
Vacancy	(1,937)	(2,044)
<b>GROSS RENTAL INCOME</b>	<b>85,995</b>	<b>73,634</b>

Theoretical rental income from residential properties (including parking spaces) represents EUR 85,410 thousand (2016: EUR 73,167) and commercial real estate income represents EUR 2,857 thousand (2016: EUR 2,965 thousand).

The nature of the theoretical rent has an indefinite duration because there are no fixed contract periods.

<b>2 Operating costs</b>	<b>2017</b>	<b>2016</b>
Maintenance costs	(7,557)	(5,461)
Property management costs	(1,994)	(1,822)
Fixed charges	(4,069)	(3,589)
Letting expenses*	(1,184)	(2,072)
Service charges**	(135)	(977)
Contributions to owners associations	(3,056)	(2,259)
Other expenses	(269)	(6)
<b>OPERATING COSTS</b>	<b>(18,264)</b>	<b>(16,186)</b>

\* In 2017 letting expenses related to tenant mutations are presented as maintenance costs.

\*\* In 2017 part of the service charges are presented as maintenance costs.

In the fixed charges for 2017, an amount of EUR 654 thousand relates to the landlord tax (2016: EUR 638 thousand).

<b>3 Realised capital gains on investments</b>	<b>2017</b>	<b>2016</b>
Proceeds from sales	81,327	33,334
Historical costs of properties sold	(68,474)	(27,326)
<b>Realised gains on historical costs</b>	<b>12,853</b>	<b>6,008</b>
Cumulative changes in fair value of properties sold	(1,297)	(960)
<b>REALISED CAPITAL GAINS ON INVESTMENTS</b>	<b>11,556</b>	<b>5,048</b>

<b>4 Unrealised capital gains on investments</b>	<b>2017</b>	<b>2016</b>
Unrealised capital gains on investments	220,014	118,189
<b>UNREALISED CAPITAL GAINS ON INVESTMENTS</b>	<b>220,014</b>	<b>118,189</b>

<b>5 Provision for onerous contracts</b>	<b>2017</b>	<b>2016</b>
Provision for onerous contracts	101	(146)
<b>PROVISION FOR ONEROUS CONTRACTS</b>	<b>101</b>	<b>(146)</b>

The provision for 2017 relates to the projects Utrecht Nijenoord, Den Bosch Perron 073 and The Hague De Sophie. The provision for 2016 relates to the projects Den Bosch Perron 073 and Breda Haga Lucia.

## NOTES TO THE STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

### 6 Management expenses

	2017	2016
Management fee Amvest REIM B.V.	(7,310)	(6,259)
Auditor's fee	(92)	(92)
Legal and tax fee	(401)	(536)
Valuation fee	(597)	(410)
Other expenses	(123)	(128)

<b>MANAGEMENT EXPENSES</b>	<b>(8,523)</b>	<b>(7,425)</b>
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#### Remuneration

Amvest REIM B.V. is the Fund Manager of the ARC Fund. The management fee paid for the year 2017 amounted to EUR 7,310 thousand (2016: EUR 6,259 thousand). In consideration of the management activities with respect to the ARC Fund, the Fund Manager receives an annual management fee, until EUR 90 million gross rental income the management fee equals 8.5% per annum and for every euro gross rental income above EUR 90 million, the management fee equals 7.5%. The management fee is payable quarterly in advance.

All fund team members, (identified) staff and board members are employed by Amvest Management B.V., the Fund Services Provider of the ARC Fund. The Fund Services Agreement between the Fund Manager and Amvest Management B.V., contains agreements on the fees payable to the Fund Services Provider for the services provided. The remuneration of the members of the statutory board (2) of the Fund Manager is included in the management fee.

In accordance with Article 13 of the AIFM Directive, a remuneration policy is in place for the identified staff and other staff members who provide services for the ARC Fund.

In 2017, the members of the Advisory Board (2) did not receive any fee; the members of the Investment Committee (3) each received a fee of EUR 16,286 (excluding VAT).

### 7 Financial income and expenditures

	2017	2016
Interest expenses on syndicated loan facility	(4,751)	(2,880)
Interest expenses on interest rate swaps	0	(3,702)
Termination interest rate swaps	0	(2,948)
Other expenses	(1,650)	(1,655)
Other income*	478	1,288

<b>FINANCIAL INCOME AND EXPENDITURES</b>	<b>(5,923)</b>	<b>(9,897)</b>
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\* In 2017 this is related to Flierbosdreef (Amsterdam), Stationskwartier (Breda) and Scheveningseweg (The Hague).

# NOTES TO THE STATEMENT OF FINANCIAL POSITION

(amounts in EUR x thousand)

8 Investment property	2017	2016
At 1 January	1,445,804	1,203,809
Investments in completed investment property	118,142	157,697
Transferred from assets under construction	243,523	20,954
Investments in capitalised subsequent expenditure in investment property	1,860	2,741
Divestments of investment property	(44,520)	(11,000)
Transferred to assets held for sale	(27,513)	(25,347)
Transferred from assets held for sale	1,995	1,974
Fair value adjustments	182,365	94,976
	<b>475,852</b>	<b>241,995</b>
<b>AT END OF PERIOD</b>	<b>1,921,656</b>	<b>1,445,804</b>

The ARC Fund's investment properties are appraised by independent professionally qualified appraisal experts, being an IFRS Level 3 valuation. There has been no change to the valuation technique during the year and there were no transfers between levels 2 and 3 during the year.

A mortgage on part of the ARC Fund's property portfolio serves as security for the loan. The total value of the residential portfolio mortgaged as at 31 December 2017 is EUR 1,344.134 thousand (2016: EUR 1,053.005 thousand) (also see note 17).

9 Assets under construction	2017	2016
At 1 January	264,823	73,522
Prepayments for assets under construction	218,697	203,836
Transferred to investment property	(243,523)	(20,954)
Divestments of assets under construction*	0	(14,794)
Fair value adjustments	37,649	23,213
	<b>12,823</b>	<b>191,301</b>
<b>AT END OF PERIOD</b>	<b>277,646</b>	<b>264,823</b>

\* 2016: This relates to the dissolution of the turnkey contract with Flierbosdreef C.V. (acquisition of 141 appartments in Amsterdam Zuid-Oost).

Prepayments were made in accordance with the completion of investment property under construction. All risks regarding the development of new properties remain with the developer, as the ARC Fund cannot take on development risks.

The legal ownership of the land on which the property is constructed was transferred to the ARC Fund together with the first payment.



## NOTES TO THE STATEMENT OF FINANCIAL POSITION

<b>10 Trade and other receivables</b>	<b>31 Dec 2017</b>	<b>31 Dec 2016</b>
Accounts receivable	2,287	2,053
Prepayments on borrowing costs	2,779	3,115
Amvest REIM B.V.	408	0
Flierbosdreef C.V. (dissolution of the turnkey contract)	0	15,497
Other receivables and prepayments	651	504
	<b>6,125</b>	<b>21,169</b>

Borrowing costs for the syndicated loan amounted to EUR 2,779 thousand as at 31 December 2017 (2016: EUR 3,115 thousand). The capitalised expenses are amortised during the term of the loan facility. The ARC Fund management fee has been prepaid to the Fund Manager during the year, Amvest REIM B.V. Final settlement resulted in a resititution of EUR 408 thousand.

### Accounts receivable

	<b>2017</b>	<b>2016</b>
Provisions on accounts receivable		
<b>At 1 January</b>	<b>361</b>	<b>619</b>
Amounts written off	0	(476)
Increase / (decrease) in allowance	9	218
	<b>9</b>	<b>(258)</b>
<b>AT 31 DECEMBER</b>	<b>370</b>	<b>361</b>

All accounts receivable are non-interest bearing and are typically due within 30 days. As at 31 December 2017, receivables with a nominal value of EUR 370 thousand (2016: EUR 361 thousand) were impaired due to tenant defaults and were fully provided for. In 2017, no receivables were directly written off (2016: EUR 476 thousand).

The ARC Fund holds EUR 5,117 thousand (2016: EUR 4,390 thousand) as collateral by means of tenants' deposits (also see note 20).

<b>11 Assets held for sale</b>	<b>2017</b>	<b>2016</b>
<b>At 1 January</b>	<b>10,005</b>	<b>3,918</b>
Divestments of assets held for sale	(25,251)	(17,286)
Transferred to investment property	(1,995)	(1,974)
Transferred from investment property	27,513	25,347
	<b>267</b>	<b>6,087</b>
<b>AT END OF PERIOD</b>	<b>10,272</b>	<b>10,005</b>

As at 31 December 2017, 44 homes (2016:43) were actively being marketed, under offer, or conditionally sold to third parties, with all transactions to be finalised during 2018. The assessed fair value of these properties as at 31 December 2017 was EUR 10,272 thousand (2016: EUR 10,005 thousand).

<b>12 Cash and cash equivalents</b>	<b>31 Dec 2017</b>	<b>31 Dec 2016</b>
ABN AMRO Bank N.V.	55,024	33,946
<b>CASH AND CASH EQUIVALENTS</b>	<b>55,024</b>	<b>33,946</b>

All balances are available on demand. Cash and cash equivalents serve as a pledge for the syndicated loan; reference is made to note 17.

## NOTES TO THE STATEMENT OF FINANCIAL POSITION

### 13 Capital contributions

The ARC Fund's capital is divided into participating units with a nominal value of EUR 1 per participating unit. Each FGR unit is entitled to distributions from the Fund. All Investors in the ARC Fund participate in the ARC Fund's capital in the following manner:

Capital	31 Dec 2017		31 Dec 2016	
	Number of participant interests	Nominal value	Number of participant interests	Nominal value
AEGON Levensverzekering N.V.*	21,001	21.001	19,772	19.772
PGGM Core Fund Participations B.V.	19,772	19.772	19,772	19.772
Investor "A"	456	0.456	456	0.456
Investor "B"	0	0.000	2,545	2.545
Investor "C"	1,214	1.214	1,010	1.010
Investor "D"	3,278	3.278	2,457	2.457
Investor "E"	1,010	1.010	1,010	1.010
Investor "F"	709	0.709	505	0.505
Investor "G"	2,000	2.000	2,000	2.000
Investor "H"	2,710	2.710	2,710	2.710
Investor "I"	1,581	1.581	1,581	1.581
Investor "J"	1,396	1.396	1,355	1.355
Investor "K"	677	0.677	677	0.677
Investor "L"	6,568	6.568	5,268	5.268
Investor "M"	616	0.616	0	0.000
Investor "N"	410	0.410	0	0.000
Investor "O"	1,025	1.025	0	0.000
Investor "P"	1,025	1.025	0	0.000
Investor "Q"	757	0.757	0	0.000
	<b>66,205</b>	<b>66.205</b>	<b>61,118</b>	<b>61.118</b>

\* In the second quarter of 2017 the former Investor AEGON Core Fund Participations B.V. merged with AEGON Levensverzekering N.V., being the new Investor.

### 14 Share premium reserve

	2017	2016
At 1 January	1,138,394	922,276
AEGON Levensverzekering N.V.*	30,963	0
Subscription Investor "C"	5,140	0
Subscription Investor "D"	19,991	0
Subscription Investor "F"	5,140	0
Subscription Investor "H"	0	59,986
Subscription Investor "I"	0	34,998
Subscription Investor "J"	1,040	29,994
Subscription Investor "K"	0	14,985
Subscription Investor "L"	32,790	121,118
Subscription Investor "M"	14,999	0
Subscription Investor "N"	9,983	0
Subscription Investor "O"	25,825	0
Subscription Investor "P"	25,825	0
Subscription Investor "Q"	19,071	0
Redemption Investor "B"***	(64,356)	0
Transfer from/to capital	(7)	37
Dividend paid to Investors	(64,750)	(45,000)
	<b>61,654</b>	<b>216,118</b>
AT END OF PERIOD	1,200,048	1,138,394

\* In the second quarter of 2017 the former Investor AEGON Core Fund Participations B.V. merged with AEGON Levensverzekering N.V., being the new Investor.

\*\* During the second quarter of 2017 Investor 'B' filed a redemption request. The Fund Manager honored this request resulting in a prepayment of the estimated corresponding (INREV) NAV in the second quarter of 2017. Final settlement took place in July 2017, based on the second quarter (INREV) NAV.

For 2017, a total amount of EUR 64,750 thousand (2016: EUR 45,000 thousand ) of the share premium reserve was distributed to the Investors, being the final dividend distribution over 2017. Within the share premium reserve, EUR 426,337 thousand is restricted from distribution due to cumulative net positive unrealised changes in fair value of investment property (including assets held for sale) (2016: EUR 234,091 thousand).

## NOTES TO THE STATEMENT OF FINANCIAL POSITION

<b>15 Hedging reserve</b>	<b>2017</b>	<b>2016</b>
<b>At 1 January</b>	<b>0</b>	<b>(6,301)</b>
Fair value adjustments	0	3,353
Termination interest rate swaps	0	2,948
	<b>0</b>	<b>6,301</b>
<b>AT END OF PERIOD</b>	<b>0</b>	<b>0</b>

The hedging reserve comprises the effective portion of the cumulative net change in fair value (Market-to-Market value) of cash flow hedging instruments.

<b>16 Retained earnings</b>	<b>2017</b>	<b>2016</b>
<b>At 1 January</b>	<b>147,696</b>	<b>23,975</b>
Total comprehensive income of the previous year	163,217	123,721
	<b>163,217</b>	<b>123,721</b>
<b>AT END OF PERIOD</b>	<b>310,913</b>	<b>147,696</b>

The net result of 2016 was added to the retained earnings. The dividend distributed to the Investors has been deducted from the share premium reserve. Retained earnings only shows the total comprehensive income of prior years.

## 17 Syndicated loan

This note provides information about the contractual terms of the ARC Fund's interest bearing loan, which is measured at amortised cost. For more information about the ARC Fund's exposure to interest rate, foreign currency and liquidity risks, see the previous mentioned accounting principles and information about the financial statements. The carrying amount of the syndicated loan approximates the fair value, given the recent closing of the syndicated loan.

	<b>2017</b>	<b>2016</b>
<b>At 1 January</b>	<b>290,000</b>	<b>240,000</b>
Loans taken	150,000	35,000
Repayments	0	(275,000)
Loan facility (refinancing)	0	290,000
	<b>150,000</b>	<b>50,000</b>
<b>AT END OF PERIOD</b>	<b>440,000</b>	<b>290,000</b>

The key elements of the facility are mentioned below.

<b>Principal amount</b>	Initial amount: EUR 700 million (EUR 350m bullet, EUR 350m revolving). Accordion facility in loan docs: EUR 150 million (not committed, on top of).
<b>Term</b>	Bullet: 17 January 2026; revolving: initially 5 years with three extension options of 1 year
<b>Utilisation date</b>	Initially 26 September 2016 (bullet: EUR 290m)
<b>Lenders</b>	Bullet: Deutsche Hypothekenbank (Security Agent, Valuation Agent) / ING Diba (EUR 250m/EUR 100m) Revolving: ABN AMRO Bank (EUR 350m + EUR 150m accordion) (Facility Agent)
<b>Interest period</b>	3 months
<b>Interest</b>	Initial bullet EUR 290m: 1.218%-1.318% (depending on LTMV ratio); revolving 3-month Euribor + 80 base points
<b>Repayment</b>	Bullet: in full, upon repayment date (17 January 2026); penalty free repayment after 5 years
<b>LTV ratio</b>	Maximised at 40%
<b>LTMV ratio</b>	Maximised at 50%
<b>Ratio of net rental income to gross interest</b>	At least 2.5

## NOTES TO THE STATEMENT OF FINANCIAL POSITION

2017

Counter party	Principal 31 Dec 2017	Re-payments < 1 year	Re-payments > 1 year	End date	Interest maturity	Effective interest rate	Fixed/ floating	Fair value
Syndicated bullet loan	350,000	0	350,000	17 January 2026	Quarter	1.295%	fixed	350,000
Syndicated revolving credit facility	90,000	0	90,000	26 September 2022	Quarter	0.474%	floating	90,000
<b>TOTAL LOANS AS AT 31 DECEMBER 2017</b>	<b>440,000</b>		<b>440,000</b>					<b>440,000</b>

2016

Counter party	Principal 31 Dec 2016	Re-payments < 1 year	Re-payments > 1 year	End date	Interest maturity	Effective interest rate	Fixed/ floating	Fair value
Syndicated bullet loan	290,000	0	290,000	17 January 2026	Quarter	1.066%	fixed	290,000
Syndicated revolving credit facility	0	0	0	26 September 2021	Quarter	1.066%	floating	0
<b>TOTAL LOANS AS AT 31 DECEMBER 2016</b>	<b>290,000</b>		<b>290,000</b>					<b>290,000</b>

A mortgage on part of the ARC Fund's property portfolio serves as security for the loan. The total value of the residential portfolio mortgaged as at 31 December 2017 was EUR 1,344.134 million (2016: EUR 1,053.005 million). As at 31 December 2017 the LTV ratio was 19.9% (2016: 16.9%), the LTMV ratio was 32.7% (2016: 27.5%).

	31 Dec 2017	31 Dec 2016
Investment property* mortgaged in relation to syndicated loan	1,344,134	1,053,005
Investment property* not mortgaged in relation to syndicated loan	587,794	402,804
	<b>1,931,928</b>	<b>1,455,809</b>

\* Investment property including assets held for sale.

Apart from the mortgage, all receivables pertaining to the property portfolio as well as all bank accounts are pledged.

The EUR 700 million loan facility agreement contains the following covenants:

Covenants	Trigger	As at 31 Dec 2017
The loan-to-value ratio (including MtM value derivatives)	< 40%	19.9%
The loan-to-value mortgaged properties ratio	< 50%	32.7%
Ratio of net rental income to gross interest	> 2.5	10.8

As at 31 December 2017, there are no breaches of any of these covenants.

## NOTES TO THE STATEMENT OF FINANCIAL POSITION

<b>18 Provision for onerous contracts</b>	<b>2017</b>	<b>2016</b>
<b>At 1 January</b>	<b>307</b>	<b>161</b>
Release	(307)	(161)
Dotation	206	307
	<b>(101)</b>	<b>146</b>
<b>AT END OF PERIOD</b>	<b>206</b>	<b>307</b>

The provision for 2017 relates to the projects Utrecht Nijenoord, Den Bosch Perron 073 and The Hague De Sophie. The provision for 2016 relates to the projects Den Bosch Perron 073 and Breda Haga Lucia.

<b>19 Derivatives</b>	<b>2017</b>	<b>2016</b>
<b>At 1 January</b>	<b>0</b>	<b>6,301</b>
Fair value adjustments	0	(3,353)
Termination interest rate swaps	0	(2,948)
	<b>0</b>	<b>(6,301)</b>
<b>AT END OF PERIOD</b>	<b>0</b>	<b>0</b>

As from the end of September 2016, all derivative contracts have been terminated.

<b>20 Trade and other payables</b>	<b>31 Dec 2017</b>	<b>31 Dec 2016</b>
AEGON Levensverzekering N.V.*	4,679	4,610
PGGM Core Fund Participations B.V.	4,405	4,610
Investor "A"	102	106
Investor "B"	0	593
Investor "C"	271	235
Investor "D"	730	573
Investor "E"	225	235
Investor "F"	158	118
Investor "G"	446	467
Investor "H"	604	632
Investor "I"	352	369
Investor "J"	311	316
Investor "K"	151	158
Investor "L"	1,463	1,228
Investor "M"	137	0
Investor "N"	91	0
Investor "O"	228	0
Investor "P"	228	0
Investor "Q"	169	0
	<b>14,750</b>	<b>14,250</b>
Amvest REIM B.V.	0	214
Tenants deposits	5,117	4,390
Accounts payable**	5,562	2,208
VAT	10	10
Other payables and prepayments	9,095	14,999
	<b>34,534</b>	<b>36,071</b>

\* In the second quarter of 2017 the former Investor AEGON Core Fund Participations B.V. merged with AEGON Levensverzekering N.V., being the new Investor.

\*\* Accounts payable and other payables mainly relates to assets under construction.

The amount of EUR 14,750 thousand consists of the distributions (dividend of the fourth quarter of 2017) to the Investors (2016: EUR 14,250 thousand).



# ADDITIONAL NOTES

(amounts in EUR x thousand)

## Transactions with related parties

The following Table provides the details of transactions that have been entered into with related parties for the relevant financial years. All transactions with related parties were made on terms equivalent to those that prevail in arms' length transactions.

	Amount of transaction	Amounts due from related parties at year-end	Amounts due to related parties at year-end
<b>Fund management fee</b>			
2017	(7,310)	408	0
2016	(6,259)	0	(214)
<b>Other receivables and interest</b>			
2017	381	402	0
2016	21	170	0
<b>Acquisitions of completed investment property</b>			
2017	118,110	0	0
2016	36,428	0	0
<b>Prepayments on assets under construction</b>			
2017	46,249	0	(4,127)
2016	40,786	15,497	(1,522)

## Fund Management fee

The ARC Fund management fee has been paid to the Fund Manager, Amvest REIM B.V.

All transactions with related parties were made on terms equivalent to those that prevail in arms' length transactions.

## Transactions with direct stakeholders

The Investors of the ARC Fund and/or their shareholders or regulators did not have any personal interest in investments by the ARC Fund in 2017. As far as the ARC Fund is aware, no property transactions took place during the year under review with persons and/or organisations that can be regarded as direct stakeholders of the ARC Fund, other than as mentioned in the paragraph "Transactions with related parties".

## Off-balance sheet commitments

As at 31 December 2017, the ARC Fund has obligations with respect to new investment property. The total amount with respect to these obligations for 2017 onwards adds up to EUR 331 million.

## Off-balance sheet rights

In 2017, the ARC Fund has received signed subscription forms from two existing Investors and one new Investor. The off balance sheet rights amount to EUR 384 million.

## Auditor's fee

With reference to Sections 2:382a (1) and (2) of the Netherlands Civil Code, the following fees for the financial year as well as the previous year have been charged by KPMG Accountants N.V. to the ARC Fund.

	KPMG Accountants N.V. 2017	Other KPMG member firms and affiliates 2017	Total KPMG 2017
Statutory audit of annual accounts	(92)	0	(92)
Other assurance services	0	0	0
Tax advisory services	0	0	0
Other non-audit services	0	0	0
	(92)	0	(92)

	KPMG Accountants N.V. 2016	Other KPMG member firms and affiliates 2016	Total KPMG 2016
Statutory audit of annual accounts	(92)	0	(92)
Other assurance services	0	0	0
Tax advisory services	0	0	0
Other non-audit services	0	0	0
	(92)	0	(92)

## ADDITIONAL NOTES



### Subsequent events

There were no significant subsequent events at the reporting date that require reporting.

*Amsterdam, the Netherlands, 26 April 2018*

Wim Wensing, *Fund Director*

Maarten van der Lienden, *Director Finance and Risk*

Dennis Wedding, *Portfolio Manager*

# OTHER INFORMATION



Gouden Griffelplantsoen - Berkel en Rodenrijs

# INDEPENDENT AUDITOR'S REPORT

To: the Fund Manager of Amvest Residential Core Fund

## REPORT ON THE ACCOMPANYING FUND'S FINANCIAL STATEMENTS

### Our opinion

We have audited the financial statements 2017 of Amvest Residential Core Fund, based in Amsterdam.

In our opinion the accompanying fund's financial statements give a true and fair view of the financial position of Amvest Residential Core Fund as at 31 December 2017 and of its result and its cash flows for 2017 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

The fund's financial statements comprise:

- 1 the statement of financial position 31 December 2017;
- 2 the following statements for 2017: the statement of profit or loss and comprehensive income, the statement of changes in equity, and the cash flow statement; and
- 3 the notes comprising a summary of the significant accounting policies and other explanatory information.

### Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the fund's financial statements' section of our report.

We are independent of Amvest Residential Core Fund in accordance with the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Report on the other information included in the annual report

In addition to the fund's financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- Report of the fund manager;
- other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Based on the following procedures performed, we conclude that the other information:

- is consistent with the fund's financial statements and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the fund's financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the fund's financial statements. The fund manager is responsible for the preparation of the other information, including the Report of the fund manager, in accordance with Part 9 of Book 2 of the Dutch Civil Code, and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

### Description of the responsibilities for the fund's financial statements

#### Responsibilities of the fund manager for the fund's financial statements

The fund manager is responsible for the preparation and fair presentation of the fund's financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the fund manager is responsible for such internal control as the fund manager determines is necessary to enable the preparation of the fund's financial statements that are free from material misstatement, whether due to errors or fraud.

As part of the preparation of the fund's financial statements, the fund manager is responsible for assessing the fund's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the fund manager should prepare the fund's financial statements using the going concern basis of accounting unless the fund manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so. The fund manager should disclose events and circumstances that may cast significant doubt on the fund's ability to continue as a going concern in the fund's financial statements.

#### Our responsibilities for the audit of the fund's financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud during our audit.



## INDEPENDENT AUDITOR'S REPORT

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the fund's financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- identifying and assessing the risks of material misstatement of the fund's financial statements, whether due to errors or fraud, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from errors, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the fund's internal control;
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the fund manager;
- concluding on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the fund's financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date

of our auditor's report. However, future events or conditions may cause the fund ceasing to continue as a going concern;

- evaluating the overall presentation, structure and content of the fund's financial statements, including the disclosures; and
- evaluating whether the fund's financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

*Amstelveen, 26 April 2018*

KPMG Accountants N.V.

J.N. Vos RA



## OTHER INFORMATION

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### PROVISIONS IN THE ARTICLES OF ASSOCIATION GOVERNING THE APPROPRIATION OF PROFIT

Article 28 of the Terms and Conditions of Management and Custody of the ARC Fund stipulate that Net Proceeds are distributed among the Investors in proportion to their participation in the ARC Fund's capital. In accordance with the Netherlands Civil Code, article 13.4 of the Terms and Conditions of Management and Custody of the ARC Fund stipulates that the liability of the Investors does not exceed their commitment to the ARC Fund's capital.

### SPECIAL RIGHTS UNDER THE ARTICLES OF ASSOCIATION WITH REGARD TO CONTROL

Not applicable.

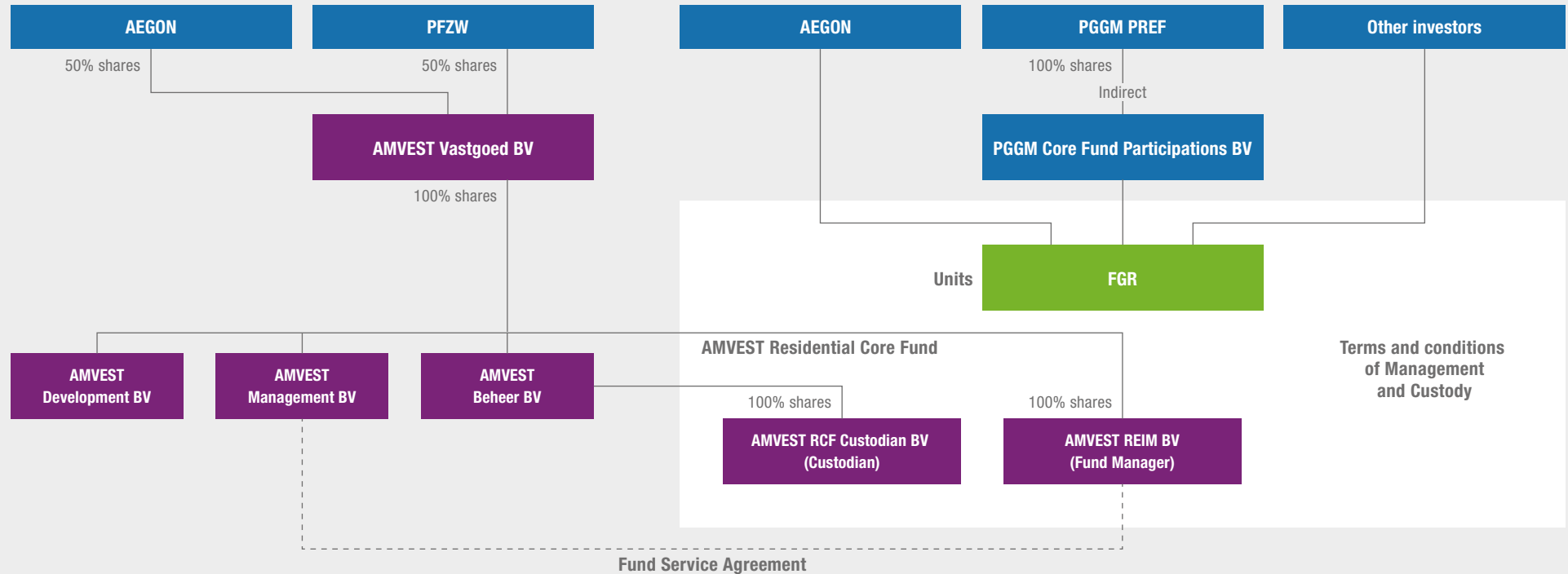
# ANNEXES



New Babylon - The Hague

# LEGAL STRUCTURE

As at 31 December 2017



# COMPOSITION OF THE PROPERTY PORTFOLIO

(amounts in EUR x million)

## Property assets

	Book value
Investment property	1,922
Assets held for sale	10
	1,932
Assets under construction	278
<b>Total</b>	<b>2,210</b>

## Composition of the portfolio

	Number of homes	Book value
Residential portfolio (individually rented)	7,804	1,889
Commercial /other	43	
<b>Total</b>	<b>7,804</b>	<b>1,932</b>

## Composition of the residential portfolio by type

	Number of homes	Book value
Single-family	2,725	651
Multi-family	4,831	1,186
Mixed	248	52
<b>Total</b>	<b>7,804</b>	<b>1,889</b>

## Composition of the residential portfolio by region\*

EUR x thousand	Number of homes	Book value
Central Circle: Big Four	4,910	1,220
Central Circle: Remainder	2,283	539
Regional Economic Centres	478	100
Remaining Regions	133	30
<b>Total</b>	<b>7,804</b>	<b>1,889</b>

## Composition of the residential portfolio by rent class

	Number of homes	Book value
Homes with a monthly rent below the rent control limit (1 January 2017: EUR 710.68)	572	98
Homes with a monthly rent above the rent control limit	7,232	1,791
<b>Total</b>	<b>7,804</b>	<b>1,889</b>

## Yield according to the IPD Residential Index

	ARC Fund total	IPD total	ARC Fund SI**	IPD SI**
Income return 2017	4.2%	3.8%	4.2%	4.1%
Capital growth 2017	14.4%	12.6%	11.4%	11.1%
<b>Total return 2017*</b>	<b>19.1%</b>	<b>16.9%</b>	<b>16.0%</b>	<b>15.6%</b>
Income return 3-year average	4.5%	4.2%	4.5%	4.4%
Capital growth 3-year average	9.9%	9.8%	8.6%	8.8%
<b>Total return 3-year average*</b>	<b>14.8%</b>	<b>14.3%</b>	<b>13.5%</b>	<b>13.5%</b>
Income return 5-year average	4.6%	4.3%	4.6%	4.5%
Capital growth 5-year average	5.0%	5.0%	4.3%	4.5%
<b>Total return 5-year average*</b>	<b>9.8%</b>	<b>9.5%</b>	<b>9.1%</b>	<b>9.1%</b>

\* Central Circle: Big Four - Four largest centres in the Netherlands (Amsterdam, Utrecht, The Hague and Rotterdam) and their suburbs.

Central Circle: Remainder - Remaining urban regions in the Randstad, Noord-Brabant and Gelderland (including Haarlem, Leiden, Delft, Arnhem, Nijmegen, Den Bosch and Eindhoven).

Regional Economic Centres - Urban regions of Zwolle, Groningen, Leeuwarden, Alkmaar, Maastricht, Deventer and Enschede.

Remaining Regions - Remaining regions.

\*\* Income return, Capital growth and Total return are calculated separately. Due to the calculation method. (time weighted) the sum of the Income return and Capital growth does not always equal the Total return.

\*\*\* Standing Investments.

## COMPOSITION OF THE PROPERTY PORTFOLIO

### Composition of the pipeline portfolio by residential type

	Number of homes	Book value
Single-family	248	56
Multi-family	2,085	535
<b>Total</b>	<b>2,333</b>	<b>591</b>

### Composition of the pipeline portfolio by region\*

EUR x thousand	Number of homes	Book value
Central Circle: Big Four	1,588	420
Central Circle: Remainder	745	180
Regional Economic Centres	0	0
Remaining Regions	0	0
<b>Total</b>	<b>2,333</b>	<b>600</b>

### Composition of the pipeline portfolio by rent class

	Number of homes	Book value
Homes with a monthly rent below the rent control limit (1 January 2017: EUR 710.68)	0	0
Homes with a monthly rent above the rent control limit	2,333	591
<b>Total</b>	<b>2,333</b>	<b>591</b>

#### \* Region

*Central Circle: Big Four - Four largest centres in the Netherlands (Amsterdam, Utrecht, The Hague and Rotterdam) and their suburbs.*

*Central Circle: Remainder - Remaining urban regions in the Randstad, Noord-Brabant and Gelderland (including Haarlem, Leiden, Delft, Arnhem, Nijmegen, Den Bosch and Eindhoven).*

*Regional Economic Centres - Urban regions of Zwolle, Groningen, Leeuwarden, Alkmaar, Maastricht, Deventer and Enschede.*

*Remaining Regions - Remaining regions.*



# OVERVIEW OF THE PROPERTY PORTFOLIO

Town	Address (Name)	Number of homes	Housing type/ Commercial	Construction year	Title to the land*	Region**	Operation or disposition	Theoretical rent as at 31 December 2017 (x EUR 1,000)
Almere	De Diagonaal	72	multi-family	2007	freehold	Central Circle: Big Four	operation	767
Almere	Duinbosstraat (Duin)	24	single-family	2016	freehold	Central Circle: Big Four	operation	305
Almere	Duinvoetstraat (Duin)	24	single-family	2015	freehold	Central Circle: Big Four	operation	302
Almere	Ouverture	40	multi-family	1993	freehold	Central Circle: Big Four	operation	419
Almere	Ouverture 1-20	13	multi-family	1993	freehold	Central Circle: Big Four	disposition	137
Almere	Thérèse Schwartzestraat	27	single-family	2001	freehold	Central Circle: Big Four	disposition	339
Almere	Zeeduinweg (Duin Het Anker)	26	multi-family	2017	freehold	Central Circle: Big Four	operation	277
Alphen aan den Rijn	Andromedastraat	81	multi-family	2006	freehold	Central Circle: Remainder	operation	987
Alphen aan den Rijn	Watermunt	45	single-family	2016	freehold	Central Circle: Remainder	operation	524
Amersfoort	Baak van Breskens	35	single-family	2014	freehold	Central Circle: Remainder	operation	435
Amersfoort	Sint Jorisplein	93	multi-family	1998	freehold	Central Circle: Remainder	operation	986
Amstelveen	Nieuw Loopveld	8	multi-family	2004	freehold	Central Circle: Big Four	operation	157
Amsterdam	Zeeburgerkade (Cruquius)	58	multi-family	2017	leasehold	Central Circle: Big Four	operation	942
Amsterdam	Emmy Andriessestraat (Terrazze)	76	multi-family	2010	leasehold	Central Circle: Big Four	operation	1,416
Amsterdam	Fred Roeskestraat (De Fred)	110	multi-family	2017	leasehold	Central Circle: Big Four	operation	1,819
Amsterdam	Gaasterlandstraat (RIV)	23	multi-family	2017	leasehold	Central Circle: Big Four	operation	367
Amsterdam	Hollandiagracht (Terrazze)		commercial	2010	leasehold	Central Circle: Big Four	operation	158
Amsterdam	Jan Vrijmanstraat (Mura)	26	multi-family	2010	leasehold	Central Circle: Big Four	operation	448
Amsterdam	Krijn Taconiskade (Havenmeester)	69	multi-family	2007	leasehold	Central Circle: Big Four	operation	1,057
Amsterdam	Krijn Taconiskade (Havenmeester)		commercial	2007	leasehold	Central Circle: Big Four	operation	279
Amsterdam	Krijn Taconiskade (Havenmeester)	48	multi-family	2007	leasehold	Central Circle: Big Four	operation	311
Amsterdam	Spaklerweg (De Spakler)		commercial	2017	leasehold	Central Circle: Big Four	operation	69
Amsterdam	Spaklerweg (De Spakler)	160	multi-family	2017	leasehold	Central Circle: Big Four	operation	2,012
Amsterdam	Westerdoksdiijk (Mauritius)	40	multi-family	2008	leasehold	Central Circle: Big Four	operation	843
Amsterdam	Westerdoksdiijk (Mauritius)		commercial	2009	leasehold	Central Circle: Big Four	operation	70
Amsterdam	Westerdoksdiijk (Westerkaap)	8	multi-family	2007	leasehold	Central Circle: Big Four	disposition	199
Arnhem	Engelwortelstraat (Kruidenhof)	42	single-family	2005	freehold	Central Circle: Remainder	operation	388
Arnhem	Haringvliet (Deltakwartier)	15	single-family	2017	freehold	Central Circle: Remainder	operation	151
Arnhem	Kea Boumanstraat	8	single-family	2006	freehold	Central Circle: Remainder	disposition	95
Arnhem	Laan van de Vrede	41	single-family	2014	freehold	Central Circle: Remainder	operation	428
Arnhem	Stadswardenlaan	15	single-family	2008	freehold	Central Circle: Remainder	disposition	160



## OVERVIEW OF THE PROPERTY PORTFOLIO

Town	Address (Name)	Number of homes	Housing type/ Commercial	Construction year	Title to the land*	Region**	Operation or disposition	Theoretical rent as at 31 December 2017 (x EUR 1,000)
Badhoevedorp	Franklinstraat	26	multi-family	2007	freehold	Central Circle: Big Four	operation	425
Barendrecht	Brielsemeer	61	single-family	2000	freehold	Central Circle: Big Four	disposition	655
Barendrecht	Cederhout	70	multi-family	2007	freehold	Central Circle: Big Four	operation	758
Barendrecht	Drogerij	58	single-family	2001	freehold	Central Circle: Big Four	disposition	565
Barendrecht	Koperslagerij	27	single-family	1998	freehold	Central Circle: Big Four	disposition	268
Barendrecht	Waddenring	20	single-family	2001	freehold	Central Circle: Big Four	disposition	247
Berkel en Rodenrijs	Felix Timmermanshof (Gouden Uil)	53	multi-family	2011	freehold	Central Circle: Remainder	operation	486
Berkel en Rodenrijs	Gouden Griffelplantsoen	119	single-family	2006	freehold	Central Circle: Remainder	operation	1,267
Berkel en Rodenrijs	Gouden Uillaan	61	single-family	2008	freehold	Central Circle: Remainder	operation	805
Blaricum	Rokebrandlaan (Blaricummeerment)	34	single-family	2015	freehold	Central Circle: Remainder	operation	440
Breda	Luciastraat (Haga Lucia)	70	multi-family	2017	freehold	Central Circle: Remainder	operation	760
Breda	Luciastraat (Haga Lucia Zorg)		other	2017	freehold	Central Circle: Remainder	operation	342
Breda	Stationslaan	82	multi-family	2016	freehold	Central Circle: Remainder	operation	902
Breda	Stationsweg (Heren van Breda)	93	multi-family	2007	freehold	Central Circle: Remainder	operation	989
Culemborg	Antoon van Wijngaardenweg (Parijsch Zuid)	22	single-family	2017	freehold	Remaining Regions	operation	240
Culemborg	Satijnvlinderlaan (Parijsch Zuid)	20	single-family	2016	freehold	Remaining Regions	operation	221
Den Bosch	Boschveldweg (Perron 073)	38	multi-family	2017	freehold	Central Circle: Remainder	operation	441
Den Bosch	Daliënwaard	44	single-family	2006	freehold	Central Circle: Remainder	operation	575
Deventer	Verlengde Kazernestraat	33	single-family	2013	freehold	Regional Economic Centres	operation	341
Ede	Enkalaan	46	single-family	2014	freehold	Central Circle: Remainder	operation	462
Ede	Wadestein	107	multi-family	2009	freehold	Central Circle: Remainder	operation	1,062
Eindhoven	Anodehof (Strijp R)	9	single-family	2013	freehold	Central Circle: Remainder	operation	114
Eindhoven	Anton Philipslaan (Hartje Barcelona)	36	multi-family	2013	freehold	Central Circle: Remainder	operation	396
Eindhoven	Anton Philipslaan (Hartje Helsinki / Berlijn)	27	multi-family	2013	freehold	Central Circle: Remainder	operation	284
Eindhoven	Anton Philipslaan (Hartje Kaapstad / Rome)	26	multi-family	2013	freehold	Central Circle: Remainder	operation	312
Eindhoven	Anton Philipslaan (Hartje Londen)	33	multi-family	2013	freehold	Central Circle: Remainder	operation	416
Eindhoven	Anton Philipslaan (Hartje Milaan)	18	multi-family	2013	freehold	Central Circle: Remainder	operation	193
Eindhoven	Anton Philipslaan (Hartje Wenen)	16	multi-family	2013	freehold	Central Circle: Remainder	operation	185
Eindhoven	Anton Philipslaan (Hartje Tokyo / Hamburg)	27	multi-family	2013	freehold	Central Circle: Remainder	operation	278
Eindhoven	De Jonghlaan (Hartje Sydney / Monaco)	13	multi-family	2013	freehold	Central Circle: Remainder	operation	165
Eindhoven	Diodehof (Strijp R)	30	single-family	2013	freehold	Central Circle: Remainder	operation	380
Eindhoven	Fosforstraat (Strijp R)	24	multi-family	2017	freehold	Central Circle: Remainder	operation	299
Eindhoven	Frits Philipslaan (Hartje Rio)	116	multi-family	2013	freehold	Central Circle: Remainder	operation	1,186

## OVERVIEW OF THE PROPERTY PORTFOLIO

Town	Address (Name)	Number of homes	Housing type/ Commercial	Construction year	Title to the land*	Region**	Operation or disposition	Theoretical rent as at 31 December 2017 (x EUR 1,000)
Eindhoven	Gerard Philipslaan (Hartje Antwerpen)		commercial	2013	freehold	Central Circle: Remainder	operation	42
Eindhoven	Gerard Philipslaan (Hartje Antwerpen)	30	multi-family	2013	freehold	Central Circle: Remainder	operation	278
Eindhoven	Gerard Philipslaan (Hartje Gent Corporate Housing)		commercial	2013	freehold	Central Circle: Remainder	operation	295
Eindhoven	Gerard Philipslaan (Hartje Gent)		commercial	2013	freehold	Central Circle: Remainder	operation	56
Eindhoven	Gerard Philipslaan (Hartje New York)	110	multi-family	2013	freehold	Central Circle: Remainder	operation	1,284
Eindhoven	Paalspoor	50	single-family	2015	freehold	Central Circle: Remainder	operation	597
Eindhoven	Waterfront	33	single-family	2017	freehold	Central Circle: Remainder	operation	376
Eindhoven	Waterlinie	30	single-family	2017	freehold	Central Circle: Remainder	operation	335
Elst	Lingegraaf	12	single-family	2013	freehold	Central Circle: Remainder	operation	129
Geldermalsen	Lingedonk	55	single-family	2017	freehold	Remaining Regions	operation	645
Gouda	Graaf Florisweg (Ambachtsschool)	68	multi-family	2017	freehold	Central Circle: Remainder	operation	725
Groningen	Hanzeplein	65	multi-family	1998	freehold	Regional Economic Centres	operation	781
Groningen	Boterdiep (Ciboga)	145	multi-family	2002	freehold	Regional Economic Centres	operation	1,542
Groningen	Melisseweg	49	single-family	2017	freehold	Regional Economic Centres	operation	556
Haarlem	Bellevuelaan (De Hoge Hout)	91	multi-family	2010	freehold	Central Circle: Remainder	operation	1,795
Haarlem	Bellevuelaan (De Hoge Hout) - penthouses	2	multi-family	2010	freehold	Central Circle: Remainder	disposition	75
Haarlem	Botterboulevard (Aquaverde)	54	multi-family	2016	freehold	Central Circle: Remainder	operation	852
Hellevoetsluis	Zoutweide	52	multi-family	2005	freehold	Central Circle: Big Four	operation	517
Hoofddorp	Antje Breijerstraat (Chicago)		commercial	2004	freehold	Central Circle: Big Four	operation	37
Hoofddorp	Antje Breijerstraat (Chicago)	97	multi-family	2003	freehold	Central Circle: Big Four	operation	1,334
Hoofddorp	Antje Breijerstraat (Stockholm)	19	multi-family	2003	freehold	Central Circle: Big Four	disposition	153
Hoofddorp	Burg. van Stamphein (Milaan)	4	single-family	2004	freehold	Central Circle: Big Four	disposition	74
Hoofddorp	Cor van de Meerstraat	60	multi-family	2001	freehold	Central Circle: Big Four	operation	581
Hoofddorp	Juf van Kempenstraat	60	multi-family	2001	freehold	Central Circle: Big Four	operation	492
Hoofddorp	Raadhuisplein (Lugano)	75	multi-family	2013	freehold	Central Circle: Big Four	operation	1,051
Hoofddorp	Tuinweg (Geneve)	55	multi-family	2004	freehold	Central Circle: Big Four	operation	525
IJsselstein	Praagsingel	44	multi-family	2000	freehold	Central Circle: Big Four	operation	504
IJsselstein	Bangkoksingel	62	single-family	2000	freehold	Central Circle: Big Four	operation	648
Leiden	Haagwegkwartier	30	single-family	2015	freehold	Central Circle: Remainder	operation	421
Lelystad	VOC-weg (Bataviahaven)	36	multi-family	2009	freehold	Remaining Regions	operation	424
Lelystad	VOC-weg (Bataviahaven)		other	2009	freehold	Remaining Regions	operation	280
Nijmegen	Kleine Boel	33	single-family	2016	freehold	Central Circle: Remainder	operation	376
Nootdorp	Fellowshiplaan	26	single-family	2007	freehold	Central Circle: Big Four	operation	228

## OVERVIEW OF THE PROPERTY PORTFOLIO

Town	Address (Name)	Number of homes	Housing type/ Commercial	Construction year	Title to the land*	Region**	Operation or disposition	Theoretical rent as at 31 December 2017 (x EUR 1,000)
Nootdorp	Gilze Rijenhof	26	single-family	2008	freehold	Central Circle: Big Four	operation	370
Nootdorp	Laan van Nootdorp	36	multi-family	2004	freehold	Central Circle: Big Four	operation	333
Nootdorp	Operatie Mannahof	44	single-family	2004	freehold	Central Circle: Big Four	operation	463
Nootdorp	Soesterberghof	10	single-family	2008	freehold	Central Circle: Big Four	operation	144
Nootdorp	Startbaan	20	multi-family	2008	freehold	Central Circle: Big Four	operation	264
Nootdorp	Woensdrechtthof	63	multi-family	2008	freehold	Central Circle: Big Four	operation	560
Nootdorp	Woensdrechtthof	14	single-family	2008	freehold	Central Circle: Big Four	operation	194
Nuenen	Steenakker	30	single-family	2014	freehold	Central Circle: Remainder	operation	369
Oosterhout	Gebint	31	single-family	2014	freehold	Central Circle: Remainder	operation	359
Pijnacker	Thurelede	28	multi-family	2005	freehold	Central Circle: Big Four	operation	277
Pijnacker	Wollebrand	12	multi-family	2005	freehold	Central Circle: Big Four	operation	131
Rotterdam	Adriaan Kooningsstraat (Mondriaan)	160	multi-family	2002	leasehold	Central Circle: Big Four	operation	1,400
Rotterdam	Adriaan Kooningsstraat (Mondriaan)		commercial	2002	leasehold	Central Circle: Big Four	operation	30
Rotterdam	Boezemkade	102	multi-family	2006	leasehold	Central Circle: Big Four	operation	1,227
Rotterdam	Joost Bancckertsplaats***	242	multi-family	2015	freehold	Central Circle: Big Four	operation	2,085
Rotterdam	Joost Bancckertsplaats***		commercial	2015	freehold	Central Circle: Big Four	operation	241
Rotterdam	Van der Duijn van Maasdamweg (Parkmeester)		commercial	2017	freehold	Central Circle: Big Four	operation	126
Rotterdam	Van der Duijn van Maasdamweg (Parkmeester)	70	multi-family	2017	freehold	Central Circle: Big Four	operation	798
Rotterdam	Wilhelminakade (De Rotterdam)	142	multi-family	2013	freehold	Central Circle: Big Four	operation	2,392
Schiedam	Prof. Kamerlingh Onneslaan	81	multi-family	2007	freehold	Central Circle: Big Four	operation	909
The Hague	Aalscholversingel	7	single-family	2000	freehold	Central Circle: Big Four	disposition	69
The Hague	Anna van Buerenplein (New Babylon City Tower)	106	multi-family	2012	leasehold	Central Circle: Big Four	operation	2,290
The Hague	Backeswater	112	single-family	2001	freehold	Central Circle: Big Four	disposition	1,201
The Hague	Berkebroeklaan	41	single-family	2003	freehold	Central Circle: Big Four	operation	574
The Hague	Bezuidenhoutseweg (New Babylon Park Tower)	70	multi-family	2010	leasehold	Central Circle: Big Four	operation	1,545
The Hague	Blauwe Reigersingel	76	single-family	2000	freehold	Central Circle: Big Four	operation	787
The Hague	Buizerdlaan	26	multi-family	2000	freehold	Central Circle: Big Four	disposition	335
The Hague	Cornelis de Wittlaan (Staten I)	128	multi-family	2000	freehold	Central Circle: Big Four	operation	1,878
The Hague	Cornelis de Wittlaan (Staten II)	80	multi-family	2000	freehold	Central Circle: Big Four	disposition	1,149
The Hague	De Bruijnvaart	32	single-family	2004	freehold	Central Circle: Big Four	disposition	371
The Hague	De Mok	3	single-family	1997	freehold	Central Circle: Big Four	disposition	69
The Hague	De Rijkstraat	62	multi-family	1999	freehold	Central Circle: Big Four	operation	641
The Hague	De Vroomedijk	36	single-family	2002	freehold	Central Circle: Big Four	operation	361

## OVERVIEW OF THE PROPERTY PORTFOLIO

								Theoretical rent as at 31 December 2017 (x EUR 1,000)
Town	Address (Name)	Number of homes	Housing type/ Commercial	Construction year	Title to the land*	Region**	Operation or disposition	
The Hague	Douglaslaan	18	single-family	1998	freehold	Central Circle: Big Four	disposition	243
The Hague	Ganzenplantsoen	29	single-family	2000	freehold	Central Circle: Big Four	operation	300
The Hague	Goudplevierlaan	29	single-family	2000	freehold	Central Circle: Big Four	disposition	342
The Hague	Goudvinklaan	38	single-family	2003	freehold	Central Circle: Big Four	operation	456
The Hague	Katschiplaan	38	multi-family	2010	freehold	Central Circle: Big Four	operation	434
The Hague	Kerkuillaan	32	single-family	2000	freehold	Central Circle: Big Four	operation	346
The Hague	Koolhovenlaan	53	single-family	2000	freehold	Central Circle: Big Four	operation	553
The Hague	Laan van Wateringseveld	24	multi-family	2005	freehold	Central Circle: Big Four	disposition	265
The Hague	Noordwest Buitensingel	67	multi-family	2001	leasehold	Central Circle: Big Four	operation	593
The Hague	Nootdorpse Landingslaan	23	multi-family	2000	freehold	Central Circle: Big Four	operation	222
The Hague	Pluimzege	88	single-family	2004	freehold	Central Circle: Big Four	operation	896
The Hague	Rietzangerstraat	44	single-family	2002	freehold	Central Circle: Big Four	operation	442
The Hague	Rijswijkse Landingslaan	43	multi-family	2001	freehold	Central Circle: Big Four	operation	514
The Hague	Rijswijkse Landingslaan		commercial	2001	freehold	Central Circle: Big Four	operation	46
The Hague	Van Campenvaart	21	single-family	2001	freehold	Central Circle: Big Four	disposition	268
The Hague	Van Campenvaart	18	single-family	2002	freehold	Central Circle: Big Four	operation	182
The Hague	Van Essendijk	45	single-family	2002	freehold	Central Circle: Big Four	disposition	518
The Hague	Weidevogellaan	30	multi-family	2003	freehold	Central Circle: Big Four	operation	333
The Hague	Windjammersingel	49	multi-family	2009	freehold	Central Circle: Big Four	operation	717
The Hague	Wrightlaan	42	single-family	1998	freehold	Central Circle: Big Four	disposition	534
Tilburg	Spoorlaan (De Stadsheer)	82	multi-family	2007	freehold	Central Circle: Remainder	operation	869
Tilburg	Pieter Vreedeplein	29	multi-family	2008	freehold	Central Circle: Remainder	operation	386
Uden	Schelling	39	single-family	2014	freehold	Central Circle: Remainder	operation	401
Uithoorn	Ransuil	32	single-family	2014	freehold	Central Circle: Remainder	operation	386
Utrecht	Oranjerivierdreef (Gagelhof)	65	multi-family	2004	leasehold	Central Circle: Big Four	operation	665
Utrecht	Ketjapweg	41	single-family	2016	leasehold	Central Circle: Big Four	operation	514
Utrecht	Godfried Bomansstraat	45	single-family	2015	leasehold	Central Circle: Big Four	operation	536
Vleuten	Beukenburg	51	single-family	2007	freehold	Central Circle: Big Four	operation	677
Vleuten	Beukenburg		other	2007	freehold	Central Circle: Big Four	operation	211
Vleuten	Beurszwam	44	single-family	2010	freehold	Central Circle: Big Four	operation	598
Vleuten	Droomtuinlaan (Bouquet)	32	multi-family	2013	freehold	Central Circle: Big Four	operation	387
Vleuten	Dwergbieslaan	33	single-family	2005	freehold	Central Circle: Big Four	operation	397
Vleuten	Herfsttuinlaan	32	single-family	2001	freehold	Central Circle: Big Four	operation	472

## OVERVIEW OF THE PROPERTY PORTFOLIO

Town	Address (Name)	Number of homes	Housing type/Commercial	Construction year	Title to the land*	Region**	Operation or disposition	Theoretical rent as at 31 December 2017 (x EUR 1,000)
Vleuten	Leersumseveld		other	2010	freehold	Central Circle: Big Four	operation	212
Vleuten	Leersumseveld	41	single-family	2010	freehold	Central Circle: Big Four	operation	558
Vleuten	Lentetuinlaan		commercial	2012	freehold	Central Circle: Big Four	operation	416
Vleuten	Moerasvaren		other	2010	freehold	Central Circle: Big Four	operation	239
Vleuten	Moerasvaren	41	single-family	2010	freehold	Central Circle: Big Four	operation	521
Vleuten	Moerasvaren (De Scheg)	14	multi-family	2010	freehold	Central Circle: Big Four	operation	218
Vleuten	Veldbloemlaan	78	single-family	2006	freehold	Central Circle: Big Four	operation	1,017
Vleuten	Voor de Burchten (De Burchtheer)	63	multi-family	2010	freehold	Central Circle: Big Four	operation	735
Zaandam	Handzaag	37	multi-family	2002	freehold	Central Circle: Big Four	operation	343
Zoetermeer	Nederlandlaan (Spazio)	65	multi-family	2006	freehold	Central Circle: Remainder	operation	738
Zwolle	Frankenhuizenallee	17	single-family	2006	freehold	Regional Economic Centres	operation	211
Zwolle	Fruitweidestraat	3	single-family	2006	freehold	Regional Economic Centres	disposition	37
Zwolle	Havezathenallee	30	single-family	2014	freehold	Regional Economic Centres	operation	318
Zwolle	Sprengpad	42	single-family	2004	freehold	Regional Economic Centres	operation	470
Zwolle	Zwaardvegerstraat	94	multi-family	1996	freehold	Regional Economic Centres	operation	926
<b>TOTAL</b>		<b>7,804</b>						<b>96,913</b>

### \* Title to the land

*Freehold: the title to the land is held by Amvest RCF Custodian B.V.*

*Leasehold: the land was acquired on a long lease. The ground rent has been paid as a lump sum for all leasehold land with the exception of The Hague NW Buitensingel.*

### \*\* Region

*Central Circle: Big Four - Four largest centres in the Netherlands (Amsterdam, Utrecht, The Hague and Rotterdam) and their suburbs.*

*Central Circle: Remainder - Remaining urban regions in the Randstad, Noord-Brabant and Gelderland (including Haarlem, Leiden, Delft, Arnhem, Nijmegen, Den Bosch and Eindhoven).*

*Regional Economic Centres - Urban regions of Zwolle, Groningen, Leeuwarden, Alkmaar, Maastricht, Deventer and Enschede.*

*Remaining Regions - Remaining regions.*

### \*\*\* Rotterdam - Joost Banckertsplaats

*This property was fully renovated in 2014/2015 (initial construction year was 1956).*

# OVERVIEW OF THE PIPELINE PORTFOLIO

Town	Name	Number of homes	Housing type/ Commercial	Year of completion	Title to the land*	Region**
<b>Amvest Development (RoFR)</b>						
Almere	Noorderduin	44	single-family	2018	freehold	Central Circle: Big Four
Almere	Duin (Sydney)	107	multi-family	2020	freehold	Central Circle: Big Four
Amsterdam	Cruquius	100	multi-family / commercial	2018	leasehold	Central Circle: Big Four
Amsterdam	Kop Grasweg (City Icon)	113	multi-family	2020	leasehold	Central Circle: Big Four
Arnhem	Deltakwartier	136	single-family	2018	freehold	Central Circle: Remainder
The Hague	Scheveningseweg	155	multi-family	2019	freehold	Central Circle: Big Four
Eindhoven	Strijp R	20	multi-family	2019	freehold	Central Circle: Remainder
Leiden	Haagwegkwartier (Churchill park)	77 / 22	multi-family / single family	2018	freehold	Central Circle: Remainder
<b>Third parties / Combi</b>						
Amsterdam	IJburg (Het IJland)	271	multi-family	2018	leasehold	Central Circle: Big Four
Breda	Stationslocatie (Breda Vooruit)	42	multi-family	2019	freehold	Central Circle: Remainder
Delft	Spoorzone	130	multi-family	2019	freehold	Central Circle: Remainder
The Hague	Koningin Sophiestraat (De Sophie)	67	multi-family	2018	freehold	Central Circle: Big Four
Diemen	Hollandpark	201	multi-family	2018	freehold	Central Circle: Big Four
Ede	Park Reehorst	46	single-family	2018	freehold	Central Circle: Remainder
Haarlem	Pim Mulier	59	multi-family	2019	freehold	Central Circle: Remainder
Leiden	Wasenaarseweg	213	multi-family	2019	freehold	Central Circle: Remainder
Scheveningen	De Zuid	33	multi-family	2018	freehold	Central Circle: Big Four
Utrecht	Van Sijpesteijnkade (De Syp)	267	multi-family / commercial / other	2018	freehold	Central Circle: Big Four
Utrecht	Nijenoord	192	multi-family	2019	freehold	Central Circle: Big Four
Voorburg	t Loo	38	multi-family	2018	freehold	Central Circle: Big Four
<b>TOTAL</b>		<b>2,233</b>				

## \* Title to the land

*Freehold: the title to the land is held by Amvest RCF Custodian B.V.  
Leasehold: the land was acquired on a long lease.*

## \*\* Region

*Central Circle: Big Four - Four largest Centrals in the Netherlands (Amsterdam, Utrecht, The Hague and Rotterdam) and their suburbs  
Central Circle: Remainder - Remaining urban regions in the Randstad, Brabant and Gelderland (including Haarlem, Leiden, Delft, Arnhem, Nijmegen, Den Bosch and Eindhoven).  
Regional Economic Centrals - Urban regions of Zwolle, Groningen, Leeuwarden, Alkmaar, Maastricht, Deventer and Enschede.  
Remaining Regions - Remaining regions.*



# INREV NAV CALCULATION

The INREV NAV is the basis for unit price calculations for new investors. The Total Expense Ratio (TER) and the Real Estate Expense Ratio (REER) also use the NAV according the INREV Guidelines. The reconciliation from the IFRS NAV (= Equity attributable to Investors of the ARC Fund) to the INREV NAV is shown below.

## Reconciliation from reported IFRS NAV to INREV NAV

EUR x thousand	31 Dec 2017	31 Dec 2016
NAV (Intrinsic value) of the ARC Fund (= IFRS NAV = Equity)	1,795,983	1,449,369
a) Effect of reclassifying shareholder loans and hybrid capital instruments (including convertible bonds) that represent shareholders long term interests in a vehicle		
b) Effect of dividends recorded as a liability which have not been distributed	14,750	14,250
<b>DILUTED NAV</b>	<b>1,810,733</b>	<b>1,463,619</b>
c) Revaluation to fair value of investments properties		
d) Revaluation to fair value of self constructed or developed investment property		
e) Revaluation to fair value of property held for sale		
f) Revaluation to fair value of property that is leased to tenants under a finance lease		
g) Revaluation to fair value of real estate held as inventory		
h) Revaluation to fair value of other investments in real assets		
i) Revaluation to fair value of indirect investments not consolidated		
j) Revaluation to fair value of financial assets and financial liabilities		
k) Revaluation to fair value of construction contracts for third parties		
l) Set-up costs		
m) Acquisition expenses*	4,888	2,109
n) Contractual fees		
o) Revaluation to fair value of savings of purchaser's costs such as transfer taxes		
p) Revaluation to fair value of deferred taxes and tax effect of INREV NAV adjustments		
q) Effect of subsidiaries having a negative equity (non-recourse)		
r) Goodwill		
s) Non-controlling interest effects of INREV adjustments		
<b>DILUTED INREV NAV</b>	<b>1,815,621</b>	<b>1,465,728</b>
Effect of dividends recorded as a liability which have not been distributed	-14,750	-14,250
<b>NAV AS PER 1/1 (BASIS FOR SUBSCRIPTION PRICE)</b>	<b>1,800,871</b>	<b>1,451,478</b>

\* A five-year amortisation term is used.

## EXTERNAL APPRAISERS AND PROPERTY MANAGERS

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### Appraisers

(investment property, assets held for sale, assets under construction)

CBRE Valuation Advisory

Colliers International

Cushman & Wakefield

Dynamis Taxaties

MVGM Vastgoedtaxaties

### Property managers

ACM

MVGM Vastgoedmanagement

Van der Linden

Van 't Hof Rijnland

VB&T

Verwey

## RESUMES OF THE MANAGEMENT TEAM



**Wim Wensing**

*(Fund Director)*

- Erasmus University Rotterdam, Business Economics
- University of Amsterdam, Master of Science in Real Estate
- Real Estate Manager, Housing Association (1995-1997)
- Account Manager, Meeüs Property Management (1997-2000)
- (Senior) Asset Manager, ING Real Estate Investment Management (2000-2004)
- Managing Director, ING Real Estate Investment Management (2004-2011)
- Director Investment Management, Amvest (since September 2011)
- Fund Director; Board member Fund Manager (Amvest REIM B.V.) (since September 2011)

### **Ancillary positions**

- Board member Stivad (2011-2017)
- Board member Stichting ROZ Vastgoedindex (2017-)
- Member Royal Institution of Chartered Surveyors



**Maarten van der Lienden**

*(Director Finance and Risk)*

- Hogeschool Arnhem en Nijmegen, Business Information Technology
- Radboud University Nijmegen, Business Administration, Master of Science in Business Administration, Management and Operations
- Residential Real Estate Analyst, Amvest (1999 – 2001)
- Coordinator Planning & Control (2001-2007)
- Head of Planning & Control (2007-2011)
- Financial Manager Investment Management (since January 2012)
- Director Finance and Risk; Board member Fund Manager (Amvest REIM B.V.) (since March 2013)



**Dennis Wedding**

*(Portfolio Manager)*

- University of Technology Eindhoven, Architecture, Building and Planning
- Amsterdam School of Real Estate, Master of Science in Real Estate
- Policy adviser IVBN (Dutch Association of Institutional Real Estate Investors) (2003-2005)
- Asset Manager Residential Real Estate, Interpolis Real Estate (2005-2007)
- Portfolio Manager Amvest Residential Dynamic Fund and various separate account (2007 - February 2016)
- Portfolio Manager Amvest Residential Core Fund (since February 2016)

### **Ancillary position**

- Member Royal Institution of Chartered Surveyors

# DEFINITIONS

## AEGON

AEGON Levensverzekering NV., a public company under the laws of the Netherlands with its registered office in The Hague and its principal offices at AEGONplein 50, 2591 TV The Hague, the Netherlands.

## AIFMD

The Alternative Investment Fund Managers Directive. (Directive 2011/61/EU of the European Parliament).

## AFM

The Dutch Authority for the Financial Markets (AFM). The AFM has been responsible for supervising the operation of the financial markets since 1 March 2002.

## Amvest

Amvest Vastgoed B.V. or any of its subsidiaries (Amvest Development B.V., Amvest Management B.V., Amvest RCF Custodian B.V., Amvest RCF Management B.V., all private limited liability companies (*besloten vennootschap met beperkte aansprakelijkheid*) under the laws of the Netherlands) with its principal offices at De entree 43, 1101 BH Amsterdam, the Netherlands.

## Amvest Development B.V.

The development company of Amvest (also see Amvest).

## Amvest Development Fund B.V.

A newly incorporated company that was set up by the launching Investors AEGON and PfZW (as per 16 February 2018) following a restructuring of Amvest. This restructuring was prompted by management to make a more clear separation between development and management activities.

## Amvest Management B.V.

The Fund Services Provider (also see Fund Services Agreement).

## Amvest RCF Custodian B.V.

The Custodian of the ARC Fund. The key responsibility of the Custodian is to hold and dispose of legal title to all assets of the FGR at the Investors' risk and expense. The Custodian will do so on the instructions of the Fund Manager, but will not engage actively in the management of the ARC Fund.

## Amvest REIM B.V.

The AIFMD licensed Fund Manager of the ARC Fund.

## Amvest Residential Core Fund (ARC Fund)

The investment fund consisting of (as of 1 January 2016) one fund for joint account (FGR), Amvest RCF Custodian B.V. and Amvest REIM B.V. The FGR holds the economic ownership of the portfolio. Amvest RCF Custodian B.V. is the legal owner of the portfolio and Amvest REIM B.V. is the Fund Manager.

## Asset management

The management of all properties and real estate items at property level in accordance with the ARC Fund's strategy.

## Auditor

KPMG Accountants N.V. or such other registered auditor or other expert as referred to in Section 2:393, sub-section 1 of the Netherlands Civil Code as appointed from time to time by the Fund Manager, subject to the approval of the Advisory Board.

## BAR/NAR-method (yield method)

The appraisal method based on:

1. cash flow estimated based on market rent;
2. deductible items for market-level owners' charges;
3. value appraisal, through capitalisation of expected cash flows (this is possible based on the gross initial yield or net initial yield of comparable transactions);

4. correcting entries for, among other things, initial vacancy and for the present value of the difference between actual rent and market rent, overdue maintenance, potential future renovations, buyout of ground lease, etc.

## Bullet loan

Loan where a payment of the entire principal of the loan and sometimes the principal and interest is due at the end of the loan term.

## Capital gains/losses

Profit (or loss) that results from investments in a capital asset, such as stocks, bonds or real estate, which exceeds (or are less than) the purchase price.

## CBS

*Het Centraal Bureau voor de Statistiek*; the Dutch statistics agency (Statistics Netherlands) that provides statistical information for the government, the industry and science.

## Cornerstone Investor

Means each of AEGON Levensverzekering NV. and Stichting Depositary PGGM Private Real Estate Fund, in its capacity as title holder of PGGM Private Real Estate Fund, and /or, as required by the context, the feeder entity or entities through which hold their Units.

## COROP

COROP stands for *Coördinatie Commissie Regionaal OnderzoeksProgramma*; the name of the committee that divided the Netherlands into 40 COROP regions. COROP regions are a subdivision of a province and are used for example by the CBS for its statistical analysis.

## DEFINITIONS

### CPB

*Het Centraal PlanBureau*; the Dutch bureau for economic policy analysis (CPB Netherlands Bureau for Economic Policy Analysis) that does scientific research aimed at contributing to the economic decision-making process of politicians and policymakers.

### Custodian

Also see Amvest RCF Custodian B.V.

### Customer Due Diligence

Customer Due Diligence (CDD) is an important part of 'knowing your customer'. CDD is executed for new but also existing customers/relations. Important questions with regard to a (potential) customer:

1. financial position;
2. overview of business activities;
3. integrity issues (if any);
4. ultimate beneficial ownership (in some cases).

### DCF calculation

DCF calculation is an acronym for Discounted Cash Flow calculation, whereby all future cash flows are estimated at a given rate of return and discounted to give their present value.

### Depository

Also see Intertrust Depository Services.

### Direct yield/result

Yield/result from rental income of the letting portfolio.

### Divestment, Disposition

Any sale of property by the ARC Fund including, but not limited to, individual homes and complete properties (block sales).

### Dividend yield

The dividend yield is the ARC Fund's total annual dividend payments divided by the INREV NAV as at the first day of the year (1 January).

### Euro (EUR)

The euro, the single currency of the participating Member States of the European Union.

### FGR

Fund for joint account (*fonds voor gemene rekening*) under the laws of the Netherlands.

### FMSA

The Dutch Financial Markets Supervision Act (*Wet op het financieel toezicht, Wft*).

### Fund Manager

Also see Amvest REIM B.V.

### Fund Services Agreement

Agreement between Amvest Management B.V. and Amvest REIM B.V. (the Fund Manager) under the terms of which Amvest Management B.V. provides back office services to the ARC Fund.

### GRESB

The Global Real Estate Sustainability Benchmark (GRESB) is an industry-led organisation committed to rigorous and independent evaluation of real estate portfolios. GRESB works in tandem with institutional investors and their fund managers to identify and implement sustainability and best practices, in order to enhance and protect shareholder value.

### Gross Asset Value

The average fund assets.

### Gross Initial Yield

The gross initial yield (GIY) is the passing rent divided by the gross property value.

### IFRS

International Financial Reporting Standards.

### Income return

Net result excluding the capital gains/losses on investments.

### Indirect yield/result

Yield/result from movements in the value of the portfolio.

### INREV

European Association for Investors in Non-listed Real Estate Vehicles. The INREV's stated goal is to improve the accessibility of non-listed real estate funds by promoting greater transparency, accessibility, professionalism, and standards of best practice. As a pan-European body, it represents a platform for the sharing and dissemination of knowledge on the non-listed real estate fund market.

### INREV Guidelines

The INREV Guidelines adopted by the European Association for Investors in Non-listed Real Estate Vehicles (INREV) as published in December 2008 and revised in 2014.

### INREV NAV

Net Asset Value as determined in accordance with the INREV Guidelines.

### Interest cover ratio (ICR)

The interest cover ratio is used to determine the ability to meet interest payments on outstanding debts.

## DEFINITIONS

### Intertrust Depositary Services B.V.

The depositary of the ARC Fund which acts (following the AIFM Directive) as independent depositary as defined in section 1:1 of the FMSA for the benefit of the Investors.

Main responsibilities:

1. safeguard or otherwise verify ownership of assets;
2. monitor cash flows;
3. perform overall oversight (risk assessment, investor transactions, commitments and distributions, valuation, legal and fund compliance, outsourcing).

### Investment

Any investment made by the ARC Fund, including, but not limited to, direct or indirect investments in properties and real estate items, bonds, notes, debentures, loans and other debt instruments, shares, convertible securities and other securities, interests in public or private companies and other assets.

### Investor

A person who, as a participant, is subject to the Terms and Conditions and participates in the ARC Fund in accordance with its Subscription Form and the Terms and Conditions of the PPM (Private Placement Memorandum).

### IPD all residential assets

The IPD index figure for the yield of all residential properties, including purchase and sale transactions and development/redevelopment activities.

### IPD index

The IPD property index (formerly known as IPD/ROZ property index) measures the returns on real estate properties and property portfolios. The index has been available since 1995. It was developed by the British Investment Property Bank (IPB) and the Real Estate Council of the Netherlands (ROZ).

### IPD standing investments (SI) residential

The IPD index figure for residential standing investments. A standing investment is a property that has been part of the letting portfolio throughout the year (from 1 January until 31 December) without any transactions or developments/redevelopments related to that property.

### IRR

Internal Rate of Return, which is used in capital budgeting to measure and compare the profitability of investments. The ARC Fund calculates with a 10-year period.

### IRS (Interest Rate Swap)

An IRS is a financial derivative instrument in which two parties agree to exchange interest rate cash flows, based on a specified notional amount from a fixed rate to a floating rate (or vice versa) or from one floating rate to another. Interest rate swaps are commonly used for hedging.

### ISAE 3402

Number 3402 of the International Standard on Assurance Engagements of the International Auditing and Assurance Standards Board of the International Federation of Accountants. This is an attestation procedure for assessing service organisations' compliance with process controls and IT. Before ISAE 3402 was introduced, SAS70 was in place.

### IVBN

The Dutch association of institutional real estate investors.

### Leveraged/unleveraged

Leverage (sometimes referred to as "gearing") is a general term for any technique to multiply gains and losses. Common ways to attain leverage are borrowing money, buying fixed assets, and using derivatives.

### LTMV

Loan-to-mortgage-value; the consolidated total external leverage at the ARC Fund level as a percentage of the mortgaged part of the property investments.

### LTV

Loan-to-value; the consolidated total external leverage at the ARC Fund level as a percentage of the total property investments.

### Management Fee

The fixed part of the fee payable by the ARC Fund to the Fund Manager as remuneration for its management of the ARC Fund.

### NAV

The Net Asset Value used to describe the value of an entity's assets less the value of its liabilities.

### Net Proceeds

Total rental income, realisation proceeds, and other direct and indirect investment proceeds, and all other income and proceeds of the ARC Fund, net of taxes, fees, costs, and other charges to be borne by the ARC Fund, and after payment of or making reasonable reservation for any obligations and liabilities of the ARC Fund.

### NEPROM

The Dutch association of real estate developers.

### NHG (Nationale Hypotheek Garantie)

Mortgage guarantee under which the "Stichting Waarborgfonds Eigen Woningen" (homeownership guarantee fund) acts as surety for the loan.

### Participation

A participation right, not having a nominal value, in the ARC Fund consisting of one (1) unit in the FGR.

### PfZW

An acronym for *Stichting Pensioenfonds Zorg en Welzijn*; the pension fund for healthcare and social welfare sectors.



## DEFINITIONS

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### Portfolio management

The management and monitoring of real estate assets and property investments of the portfolio.

### Portfolio Plan

The ARC Fund's annual strategic investment plan.

### Portfolio value

Total gross value of the ARC Fund's investment portfolio.

### Realised capital gains on investments

Also see "realised indirect return".

### Realised indirect yield/return

Yield/return from book profits following divestments.

### REER

Real Estate Expense Ratio as determined in accordance with the INREV Guidelines.

### Revolving credit facility

A type of credit facility that does not have a fixed number of payments, in contrast to instalment credit. Until the maturity of the facility, money can be withdrawn or paid at any time.

### Rent control limit

The price ceiling for regulated rental homes determined annually by the Ministry of the Interior and Kingdom Relations.

### RoFR (Right of First Refusal) Agreement

The ARC Fund has a right of first refusal (RoFR) agreement with Amvest Development Fund B.V. This means that all rental homes developed by Amvest Development Fund B.V. (and previously Amvest Development B.V.) must first be offered to the ARC Fund, which has the right to acquire them on arm's length conditions.

### Set-up costs

Any costs incurred in connection with the formation of the ARC Fund, including promotion, establishment, legal, and closing costs of the ARC Fund, professional and consulting fees, research costs, and printing costs.

### TER

Total Expense Ratio as determined in accordance with the INREV Guidelines.

### Terms and Conditions

The terms and conditions of the ARC Fund.

### Unrealised capital gains on investments

Also see unrealised indirect return.

### Unrealised indirect yield/return

Yield/return from unrealised movements in the value of the portfolio.

### VAT

Value Added Tax.

### Wft

Also see FMSA.

### WOZ

WOZ stands for *wet Waardering Onroerende Zaken* (Valuation of Immovable Property Act). A WOZ value is available for all real estate in the Netherlands. The WOZ value is the basis for property taxes.



## COLOFON

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### Photography

Guillaume Groen Fotografie

Luuk Kramer

Top-shot

Jeroen van der Wielen

Amvest image bank

### Design

Cascade visuele communicatie bv, Amsterdam

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# AMVEST