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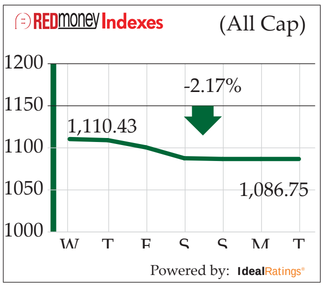

COVER STORY

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Onwards and upwards: Gatehouse builds on its strong foundations

With three years of profitability under its belt and a position as one of the foremost fully-fledged Islamic banks in the European market, Gatehouse Bank is sitting pretty. Focused primarily on the real estate and property markets, the bank is now expanding into new markets including private equity, retail deposits and club funds. IFN managing editor LAUREN MCAUGHTRY speaks exclusively to CEO HENRY THOMPSON, one year after joining Gatehouse, on his ambitions, expectations and outlook for the future.

How have you seen the UK market develop in terms of investor interest and appetite — and what are you hoping for in the coming year?

The UK market is strong, the economy is strong and that translates into better asset values. It also means that things are more expensive — particularly in Prime Central London. One of the things that we are seeing is that for the first time in a long time, Prime Central London is relatively flat — but there are opportunities in Greater London and good opportunities in the regions. Cities that our investors weren't that familiar with — such as Birmingham, Manchester or Liverpool — are the ones now where we are seeing good opportunities because of the growth of these cities. And I think again, what we have seen is that as the economy picks up there is a ripple effect spreading out to the regions. Employment is up and firms are investing again. So we are seeing opportunities in other areas of the UK that investors are very much now responding to.

> *"We regard ourselves as being nimble, innovative and very much in tune with our investors' sentiments"*

Is that restricted to the UK, or are we seeing that ripple effect spread out to the rest of Europe as well?

Yes, I think the news from the rest of Europe is the European Central Bank quantitative easing program (QE), and this is now having an effect on Europe — financing costs are down, the bond markets are down and we see there are opportunities in the stronger economies: certainly Germany, Benelux and even France, in different asset classes. We are looking towards those opportunities. We regarded 2014 as a profitable year for us, but also as a year for investing in resources. We have added a number of senior people to the team, one of whom is David Swan, the head of real estate investment, focusing on Europe and based in London, with experience not only in the UK but transacting on the continent as well, which is very much part of his brief. So we are certainly going to be looking to the continent, and we are looking at some opportunities in certain sectors that we like as we speak.

And what sectors do you like? What are of the most interest to you over the coming year?

It's a question of timing. We regard ourselves as being nimble, innovative and very much in tune with our investors' sentiments. But also, as experienced investors, with a presence in the markets in which we invest, we are in a position to give advice to our clients on where the opportunities are in terms of asset classes, pricing and strategies. So we regard ourselves as nimble. We do many deals on a deal-by-deal basis, which allows us to assess the deal on the merits of the economy and how we see the trends developing over time. So we are looking beyond the traditional core asset classes

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for added value, and one of the sectors we are looking at now in particular is the alternative investment space. This would include senior living, it would include the private rented sector (PRS), student housing, data centers — where there is an opportunity to invest in sectors which are currently considered alternative, but due to fundamentals and demographics have the potential to become mainstream assets that institutional capital will want to invest in. An example of this was when we were investing in UK student housing in 2010 when the sector was considered alternative. It's now very much core. We think PRS will follow the same pattern.

We are also looking to invest through joint ventures with strong operating partners, thereby creating a product that is not available to the investors. Other products could be brought to them by brokers, for example — but these types of joint venture products are unique and there is more value in them. We also look for opportunities in discreet projects in certain spaces. So if we see a student housing complex that we like, if it's partnered with our theme, then we will pursue that as well.

You have entered into a number of partnerships, most recently with Threadneedle which have bought 2% of Gatehouse. What are you hoping from these connections, how do you expect them to impact your future strategy — and are you looking at any other tie-ins with other players in the market?

We are very excited about the Ameriprise Threadneedle investment. It is significant for us, and I believe for them, because it represents the first time (certainly for us) that a major western financial player has taken a stake in us and possibly in any Islamic bank at all. It broadens our shareholder base. What they and we are looking at is beyond the initial investment. First, having the investment itself makes us more than simply a joint venture — they now have an incentive in making us work. And the area that we are focusing on together is product development. We see us and them as offering complementary products. Their focus is a very strong global perspective on investments, but they don't have a strong Shariah track record — which we do.

We also have access to the high-net-worth individual investor base in

the Gulf, which they don't have, as their focus in that region has been on sovereign wealth funds and institutions. So the opportunity is to take a look at areas where they are strong, and have a good track record — for example in fixed income or listed equities — and then reverse engineering them to make them Shariah compliant, and then offering them through both our and their distribution channels.

You mentioned product development, which leads nicely onto the next question. What is your pipeline for this year — what was your deal volume last year, how will that translate through into 2015 and what are you expecting over the next nine months and into 2016?

We are looking at the UK, Europe and the US; we are considering a number of areas and sectors. One of the areas we like in the UK is student housing, where we recently acquired an asset in Edinburgh and we are very actively pursuing some opportunities in that space. We are also pursuing additional PRS sites and are currently evaluating sites with the potential for over 4,000 new homes.

And what kind of size are those opportunities?

They range in size — without getting into specifics, we see this as developing a platform. The first asset we are looking at is on the small side for us, but we see it as part of a broader program — an accumulation play, if you will, which we will then offer to investors; focusing on Russell Group cities within the UK. I think again, it is a matter of timing and opportunities. We recently exited some portfolios of student housing within the UK — and those were certainly a question of timing. We see the market moving away from the nomination arrangements with universities, and into a direct let model with students. So we exited those portfolios at the right time and captured good value. Now we are getting back into the market and pursuing this different strategy, which is where we believe the market is moving.

Another area we believe is important is the PRS sector. At the end of 2014, we concluded a joint venture with Sigma to build approximately 1,000 houses in Manchester and Liverpool which we will subsequently rent. This is a project that is very high profile, and very well-received by the national and government authorities because it addresses a crucial imbalance in the market between supply and demand; and the difficulty that people in the UK were experiencing in obtaining mortgages.

We are seeing that lots of mortgages are not only expensive but the underwriting requirements are now much stricter, and a lot more money is needed and the deposits are much higher. So this is about building good quality market rental housing — not social housing, but rented in the market to families in the areas. We are also considering other markets in that sector, which we see as experiencing high growth and high demand.

So how do you see the supportive climate in the UK from the government and the regulators? Is there anything you would want to see change, or any further encouragement or support you would like to see?

I think the regulatory regime is in part a response to the various banking crises we have seen worldwide. The UK regulators are no exception and they are scrutinizing institutions very carefully. It is somewhat burdensome but at the same time it is also the way of the world and something that we are proud of — the strength of our compliance team and our ability to comply with the most stringent of regulatory requirements. There are some aspects that do make our

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lives difficult, but most of those have been exported from Europe and may not have been thought through that well in relation to Islamic finance, or are perhaps trying to spread the net too widely.

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And what about the support that you see — perhaps not even specifically Shariah compliant — but in terms of growing investment into the real estate sector and the property market?

We have an office in Kuala Lumpur and we have seen senior government officials from the UK go to Malaysia to try to attract foreign investment into the social priorities of the government, which is specifically into regeneration. We are proud to be part of that, and that is precisely what we are doing in our PRS platform — providing foreign money to invest in urban regeneration in the UK. This is a sector that all parties support.

So looking overseas towards your office in Malaysia — how do international activities tie in with your global strategy?

I think that our reason for being is to provide a bridge between the excess capital in the Gulf and Southeast Asia, and investment opportunities in the west, specifically in the UK, Europe and the US. That is going to be our focus for the foreseeable future. The UK economy is strong today — it is the strongest in Europe, perhaps. And the US economy is strengthening as well. Even within the Eurozone, despite the lack of growth in general, we see opportunities growing.

And in addition to deal-by-deal and single asset transactions, we are also looking at joint venture-type deals. We are also looking at introducing funds on a club deal basis. This is in response to investor demand: we have had conversations with institutions in the Gulf and Asia who have approached us and asked if we can put together funds in the UK, for example. We are exploring that this year — how long it takes is a different matter. But we have some live initiatives that are on the drawing board as we speak, and we hope to roll at least one of them out in 2015.

So obviously you are a UK bank, and you are an Islamic bank. Domestic Islamic banks in the UK have, perhaps it is fair to say, struggled to gain size and traction over the past decade. You are profitable now, and several of your peers are also pulling ahead and gathering momentum — some by shifting their focus away from the retail sector. How do you feel about the competitive landscape in the UK right now—how has it changed, and what is the outlook?

That's an interesting one. I think the first thing is to differentiate between the banks. Each of the domestic UK Islamic institutions has a different investment strategy. Our strategy is different from BLME, it is very different from IBB (or Al Rayan Bank, as it is now known). They have a rather more retail, commercial, asset management strategy, while ours is more focused on alternative investment and real estate. There is some overlap but we are all really quite different in what we do.

Perhaps the question I am trying to get to is that, in terms of the banking climate, growth is good for everyone as the industry grows, as investors become more aware, as the sector becomes more sophisticated and more mainstream. Are you now seeing the domestic market gain that traction that perhaps it struggled to achieve in the past? Is there perhaps a stronger growth trajectory for the Islamic industry in the UK now than hitherto?

Yes, we have launched in the earlier part of this year an online retail deposit program. It was a soft launch, we didn't do any publicity around it. Those funds are to build up the liability side of our balance sheet, and to invest in our real estate financing line that is providing financing for third-party property investments in the UK and on the continent. Historically we know that other banks, such as Al Rayan for example, have been very successful in raising online retail deposits — they were able to raise substantial amounts of money despite the fact that they were doing it Islamically. So that specific area is one that we were encouraged by their success to explore. We looked at it, studied it, and entered it. All those products are targeting residents of the UK, and I think that is certainly an opportunity for us to raise funds competitively. We see it as a growth area that other Islamic banks have been able to tap into.

We have covered a lot of ground, so perhaps to wind up, could you tell us what you are most excited about going forward, as CEO of Gatehouse Bank?

I'm excited about the strength of our platform, the strong shareholder support of institutions, sovereign wealth funds and now with Ameriprise Threadneedle (a major western financial institution) behind us. The expansion plans we have geographically and the organization in which we have invested in terms of building up the team, are now going to increase our deal origination and deal placement capabilities: including rolling out some private equity investments. That is another asset class that we are looking into and will be pursuing this year.

So we have a strong platform, a strong reputation, a good track record of exits, three years of profitability, a good relationship with our investors who trust us to perform for them, and excellent prospects for diversification. So we are looking forward to expanding the kind of investment opportunities we can offer, as well as our geographical reach.