PRAXIS CAPITAL

Praxis *(noun):*
to put theory into practice,
application of skill, to
do and to act.

PALACE CAPITAL PLC

INTRODUCTION

+ This report and analysis has been produced by Praxis Capital Ltd, an FCA licensed and regulated real estate investment management company based in London. It contains no inside information.
+ Praxis CEO Mark Harrison and a co-investment partner have recently acquired a 5% stake in Palace Capital Plc (PCP).
+ All the information contained herein has been extracted from publicly available Company reports and presentations, and from a call with Neil Sinclair and Stephen Sylvester of PCP on 19th March 2021. The presentation has been updated in light of the FY2021 results statement released by PCP on 8th June 2021.
+ Following the 19th March call, Praxis wrote to Mr Sinclair and Sylvester asking a series of pertinent questions about the PCP property portfolio which Mr. Sinclair and Mr. Sylvester have refused to answer. Further invitations to engage with Praxis have been rebuffed by the PCP Board. In the context of this report, we invite shareholders to draw their own conclusions about why PCP management have been unwilling to engage or share information that might address the serious concerns set out within.
+ Despite PCP managements' refusal to cooperate, Praxis has been able to analyse the portfolio performance by reference to publicly available information and data obtained from our own research to establish that the financial picture presented by PCP is, in our view, misleading.
+ This document seeks to achieve three objectives:

    1. Provide an accurate picture of the true performance of PCP and correct the impression given by Management that they are delivering shareholder value.
    2. Identify serious errors of judgment in the conduct and management of PCP.
    3. Make the case for the replacement of the incumbent Board.

PRAXIS REAL ESTATE

WE ARE PROPERTY PEOPLE…

+ Praxis is a privately owned investor and manager of UK real estate.
+ Founded in 2009 by one of the UK's leading property investors of the last three decades to take advantage of opportunities arising from the 2008 GFC.
+ Praxis specialise in adding value to all types of UK commercial property.
+ c.£1BN of real estate deals transacted in the last decade. (1)
+ Current AUM of c.£300M. (1)
+ A full service, entirely vertically integrated property group with over 150 employees. (1)

WITH A PEERLESS TRACK RECORD

Praxis is ranked #1 UK real estate investor by MSCI by reference to their 'All Balanced Property Fund' index over a 1, 3, 5 and 10 year period.

+ 70 investments secured with a gross purchase price in excess of £513M.
+ Equity commitments in excess of £300M.
+ Investments made in all major commercial property sectors.
+ 51 realised investments have delivered an aggregate 19.8% IRR and 1.8x EM. (1)
+ 100% of realisations have returned a profit.

(1) As at 31-Dec-20

PRAXIS REAL ESTATE

MANAGEMENT TEAM

Mark HARRISON
Founder & CEO

Mark is a highly experienced real estate entrepreneur having spent his entire career investing in and managing UK property.

From a zero base, across multiple economic cycles, he built one of the UKs largest privately owned property companies before making the decision to liquidate in 2006/07 ahead of the global financial crisis.

Mark established Praxis in 2009 to capitalise on the unprecedented investment opportunities arising from the GFC and has since guided the company to a position of prominence in the UK real estate market.

Gary ROBERTS
Chief Operating Officer

Gary is a highly accomplished investment professional with an extensive track record in UK and European real estate. He started his career at CBRE Capital Advisers, where he was responsible for advising clients on direct and indirect forms of property investment, finance, and funding. During his tenure with CBRE, he worked with some of the world's preeminent investors and managers, across the risk spectrum, property types and geographies and gained extensive experience underwriting and structuring real estate investments.

Gary joined Praxis in early 2014 and leads the investment-related initiatives including research, strategy, underwriting and execution as well as business development, client relations and investor reporting.

James HEWITT
Head of Asset Management

James started his career with DTZ where he qualified as a chartered surveyor and spent five years in the central London investment team where he advised a broad range of institutional and private clients on investment, leasing, and development. He later transitioned into the private equity sector where he gained extensive experience of originating, underwriting, and managing a diverse portfolio of UK property.

James joined Praxis in 2017 and now leads the asset management function.

Rob MARCUS
Chief Financial Officer

Rob has over 20 years of experience of leading finance teams. He qualified as a chartered accountant with PWC in London before moving client-side and working his way up the ranks at Hansteen Holdings plc and New River REIT plc, both FTSE 250 companies at the time.

Rob joined Praxis in 2019 and supports the board across all aspects of finance, from debt and equity raising, acquisitions and disposals, fund structures, taxation, joint venture agreements, compliance, and financial reporting.

David McCANN
General Legal Counsel

David has been a practicing solicitor since 2001, spending the 20 years prior to joining Praxis as the Managing Partner for a multi-disciplinary practice where he specialized in dispute resolution and contract disputes for private clients and public companies.

During this time, and in addition to his legal work, he held numerous non-executive roles in the real estate, health, and education sectors.

David was appointed NED to Praxis in 2011 before joining the executive Board in 2019. He brings a wealth of practical legal and commercial counsel to assist the business to achieve its commercial objectives.

PALACE CAPITAL PLC

DIMENSIONS OF THE PROBLEM

+ Palace Capital Plc (PCP) shares have traded at a significant discount to NAV for several years.
+ The Company is sub-optimal in size, operationally inefficient and appears to be run as a lifestyle business for the executive management, rather than as a vehicle for driving shareholder returns.
+ <u>Of crucial interest to shareholders, the measure of performance chosen by the Company, in our view, misrepresents actual performance</u>. Management utilises a compound annual average return calculation which applies excessive weight to the initial acquisition of the Sequel Portfolio and masks subsequent significant underperformance on a 1, 3 and 5 year basis. The booked return from this acquisition was achieved by means of a revaluation of the assets, and not as a result of proactive asset management, thus subsequent marked-to-market benchmarking has obscured true performance.
+ The Company is trapped in a cycle of strategy drift and inertia which can be traced back to the Hudson Quarter project and the decision in 2017 to refuse a £10m trading profit in favour of a hugely risky development that the Company had neither the expertise, nor balance sheet headroom to execute. The importance of the outcome of this project cannot be overstated, but unfortunately its success will depend on good luck, rather than good judgement or active management.
+ In a similar vein, PCP's decision to tie up valuable capital in an illiquid and loss-making stake in a rival company (Circle Property Plc), betrays a characteristic lack of commercial savvy and investment discipline.
+ The initial strategy to grow AUM has been quietly shelved because the Company lacks spare cash to recycle into accretive opportunities. Management has squandered what cash it did have on a series of disparate and incongruous late-cycle acquisitions that have diluted returns. The general approach to investment underwriting can be neatly summarised by CEO Neil Sinclair who said (of One Derby Square, Liverpool): *"We had cash, we needed income, there was nothing else to buy".*
+ Management has a de minimis stake in the Company. In spite of their protestations that the share price undervalues the Company, management have failed to materially invest in share purchases.
+ In the absence of a transformative event, PCP will continue to languish and shareholder value will continue to erode.
+ Praxis CEO Mark Harrison and his team invite shareholders to consider Praxis as the catalysts of change and transformation.

PALACE CAPITAL PLC

HISTORICAL PERFORMANCE

+ PCP targets **total returns** utilising a **compound annual average** return calculation to ascertain its investment performance.
+ PCP's Annual Total Returns have been consistently falling over time but a compound annual average return masks this by lending too much weight to events in H2 2014. Thus PCP's chosen measure of performance is, in our view, misleading and a more rigorous analysis reveals:
  - Excluding H2-2014, the compound annual average return is 4.2%.
  - The five and three year compound annual average returns are 0.9% and (1.5%) respectively.
+ All of the performance that PCP alludes to in its reports relate to activities between June-13 and March-14 *[a nine month half-year due to a change in reporting date].*

Period	H2-2014	FY-2015	FY-2016	FY-2017	FY-2018	FY-2019	FY-2020	FY-2021	Cumulative	Cumulative (ex H2-2014)	5-year performance	3-year performance
Opening EPRA NTA per share	218	341	388	414	443	414	407	364	**218**	**341**	**414**	**414**
Closing EPRA NTA per share	341	388	414	443	414	407	364	350	**350**	**350**	**350**	**350**
DPS paid	2.5	8.5	14.0	18.0	19.0	19.0	19.0	7.5	**107.5**	**105.0**	**82.5**	**45.5**
Income Return	1.1%	2.5%	3.6%	4.3%	4.3%	4.6%	4.7%	2.1%	**49.3%**	**30.8%**	**19.9%**	**11.0%**
Capital Return	57.6%	13.8%	6.7%	7.0%	(6.5%)	(1.7%)	(10.6%)	(3.8%)	**60.6%**	**2.6%**	**(15.5%)**	**(15.5%)**
NAV Total Return	**57.6%**	**16.3%**	**10.3%**	**11.4%**	**(2.3%)**	**2.9%**	**(5.9%)**	**(1.8%)**	**109.9%**	**33.4%**	**4.5%**	**(4.5%)**
Ave. annual compound return									**10.4%**	**4.2%**	**0.9%**	**(1.5%)**

Source: Palace Capital Plc, Edison Investment Research

PALACE CAPITAL PLC

H2 2014

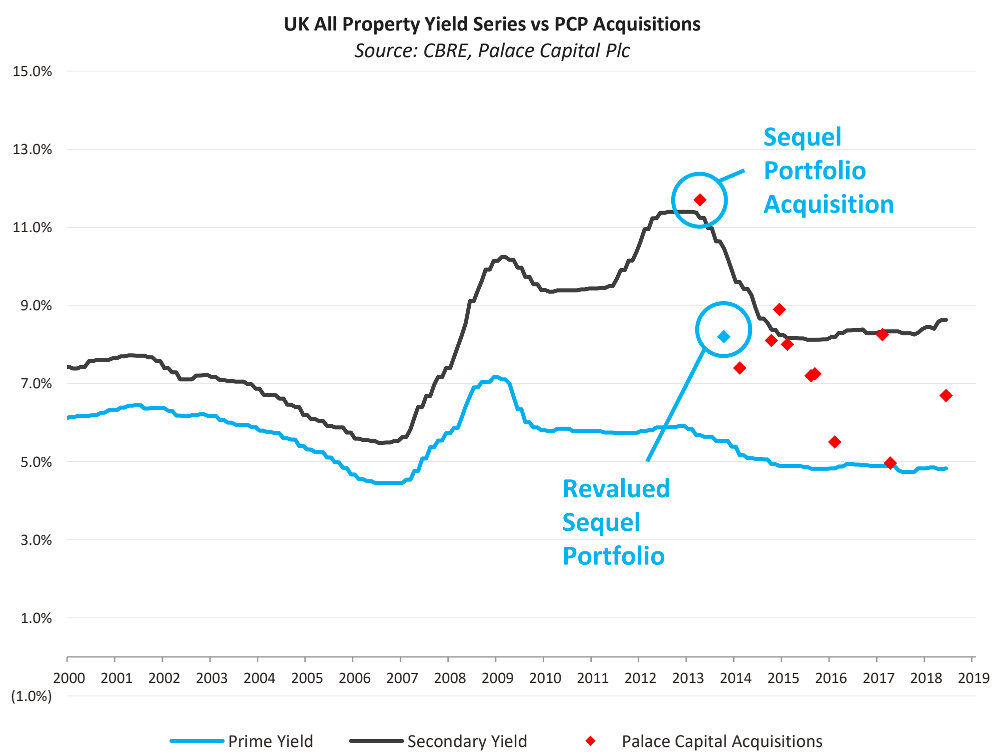
	14 month period ended 31 March 2014	Year ended 31 January 2013
Revenue - Continuing operations	£213,666	£199,785
Revenue - Acquisition	£3,038,152	-
	£3,251,818	**£199,785**
Cost of Sales	(£648,181)	(£5,442)
Gross Profit	**£2,603,637**	**£194,343**
Administrative expenses	**(£648,790)**	**(£225,403)**
Costs of acquisition	**(£516,569)**	**-**
Gains on revaluation of investment property portfolio	**£19,500,531**	**-**
Profit on disposal of investment properties	**£786,616**	**-**
Continuing operations	**£78,967**	**(£31,060)**
Acquisition	**£21,646,458**	**-**
Operating Profit/(loss)	**£21,725,425**	**(£31,060)**

Source: Palace Capital Plc

+ The Company reports 2014 as a "transformational year". During that period it acquired its first significant portfolio (Sequel Portfolio), paying £39.25M on 22nd October 2013.
+ As at 31st March 2014 (i.e. 5 months later), the portfolio had been revalued at £55.99M, a £16.75M increase that arose not from proactive management or a definable value event, but by a change of valuer and upward revaluation of the assets.
+ The H2 2014 total return, and therefore the 10.4% compound annual average return reported by the Company since that date, is derived almost entirely from this revaluation event.
+ The Sequel portfolio accounts for c.15% of the total invested capital of the Company. The subsequent £110M of capital invested has delivered markedly weaker performance because:
  - the Company was unable to crystallise the valuation uplift of Sequel; and
  - gains from it have gradually eroded over time.
  - Management has been unable to replicate a similar revaluation event.
  - Despite reporting valuation uplifts, PCP has in fact only generated c.£4M of capital profits on asset sales since inception (2013).

PALACE CAPITAL PLC

MARKET TIMING



+ Investment returns from property are typically delivered in two ways:
  - Market timing; buying at a low point in the capital markets cycle and selling at a high point.
  - Active asset management; the fundamental driver of true investment performance.
+ As the chart opposite demonstrates, apart from the inaugural Sequel Portfolio, PCP has consistently bought late, and at a high point in the cycle with a weighted average acquisition yield of 7.5%.
+ Notwithstanding that the Company bought at tighter yields than average, Management now claim an even higher valuation yield of 5.6% [1] which, all things being equal, equates to a 34% increase in capital value. There is no rational explanation for this.
+ Income from the portfolio is declining but at the same time the valuation multiplier of that declining income has increased. However, the increase in value from yield compression has been entirely offset by ineffectual asset management. Quite simply, PCP is losing tenants and rental income faster than they are gaining them.
+ **The inescapable conclusion from the annual total return data is that Management has failed to extract any value from the portfolio as a result of active asset management.**

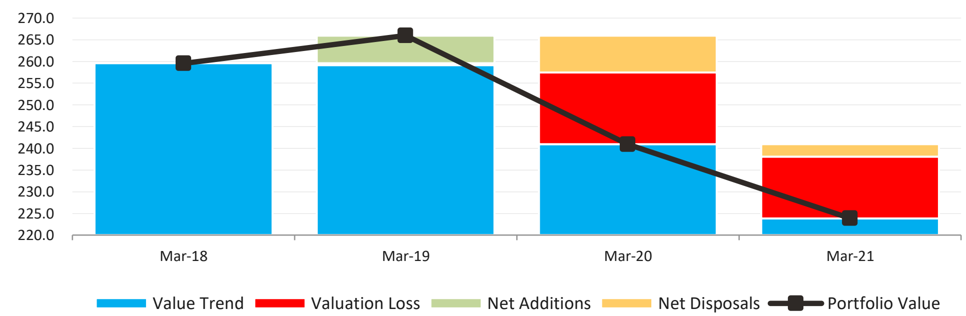
[1] Source: Palace Capital Plc Full Year Investor Presentation, Year Ended 31 March 2021

PALACE CAPITAL PLC

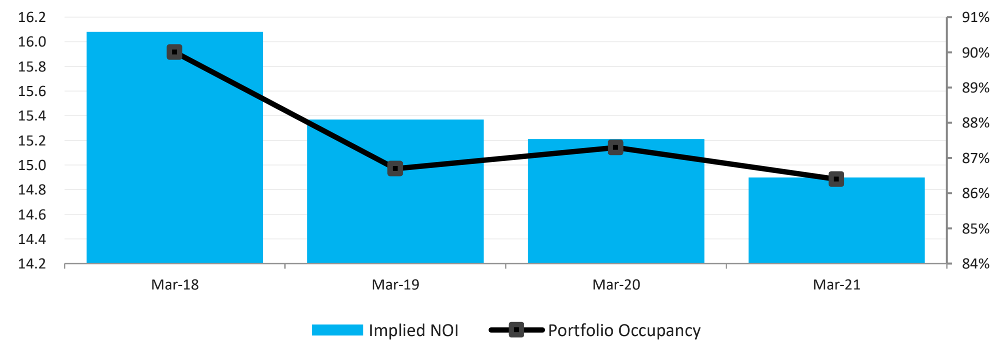
PORTFOLIO VALUATIONS

+ In real terms, the PCP Investment Portfolio has been declining in value since FY2018.
+ Excluding Hudson Quarter, the investment portfolio has lost c.£31m in value over three years.
+ Cap rates as reported by the Company have actually compressed over that period (6.2% FY18, 5.6% FY21) which should have resulted in a 11% (c£30M) value improvement, but didn't.
+ In other words, the decline in value can't be blamed on yield expansion arising from the COVID crisis, and the loss must be a consequence of declining income.
+ Occupancy has fallen from 90% to 86%, reducing rents received and increasing irrecoverable costs.
+ The Company opted to dispose of a number of vacant buildings (London Court, Rathbone House, Polestar, Midsummer Boulevard), which should have resulted in improved occupancy and net operating income in the remaining portfolio. In fact, occupancy and NOI have both fallen, and the reason for this must be because PCP is losing tenants and income on a net basis.
+ The portfolio is reported as being attractive due to its "highly reversionary" nature, but the Company has failed to capture this reversionary potential to date.
+ Income forecasts assume that this reversion will be captured in FY22 and FY23. Given that the reversion has actually increased from 11% (FY18) to 30% (FY21), we do not believe that Management's claim in this regard is credible.

PCP Investment Portfolio
Source: Palace Capital Plc



Portfolio Occupancy & Implied NOI
Source: Palace Capital Plc, Praxis Capital



PALACE CAPITAL PLC

BENCHMARKING

- The Company revalues the portfolio every six months and has used the same valuer since the revaluation of the Sequel portfolio in 2014. All PCP's presentations and press statements report against book value, which serves to obscure underlying performance.
- Sales above valuation are heralded as positive results even when a deal loses money. The comfort blanket of adjustable, and subjective, book values has enabled Management to exempt themselves from using the skill and discipline that is (or should be) a prerequisite driver of performance.
- As an example, below, the Company's April trading update failed to acknowledge that the purchase price of Harbour Court as an apportionment of the RT Warren portfolio was £4.66M, thus the sale at £1.99M actually crystallised a £2.7M loss.

  "*The ongoing disposal strategy, focused on non-core properties, largely where the Company's business plan has been concluded, has continued with the sales at a premium to book value of Harbour Court in Portsmouth and 124-126 Upper Bar Street, Southampton for a total £2.45 million.*" – Neil Sinclair, 14-April-2021

- To the right are examples of actual losses represented as successes.
- This marked-to-market reporting approach also applies to lettings. Estimated Rental Values (ERV) are adjusted on a bi-annual basis, such that lettings above the most recent ERV is counted as a success even if that letting is below the ERV underwritten on acquisition and results in a loss benchmarked against purchase price.
- This methodology allows management to hide its mistakes, while characterizing them as successes.

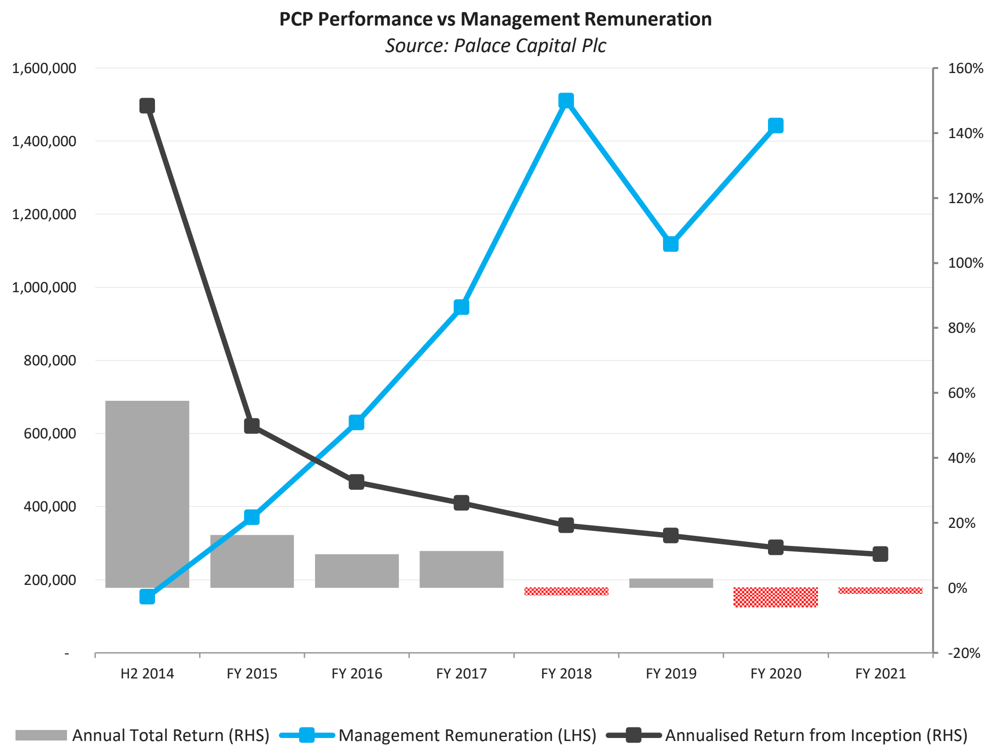
[1] *Source: Cushman & Wakefield report, 18-Aug-2017*

Property	Valuation at Acquisition	Sale Price	Actual Performance	Reported as:
BPC Building (Polestar)	£4.40M	£3.29M	-25%	"10% premium to book value" RNS Number: 4626C
Harbour Court	£4.66M	£1.99M	-57%	"sales at a premium to book value" RNS Number: 3673V
Meadowcourt	£1.32M	£1.25M	-5%	"30% above book value" RNS Number: 8485B
249 Midsummer Boulevard	£7.20M	£5.74M	-20%	"a premium to book value" RNS Number 0927B

Source: Palace Capital Plc

PALACE CAPITAL PLC

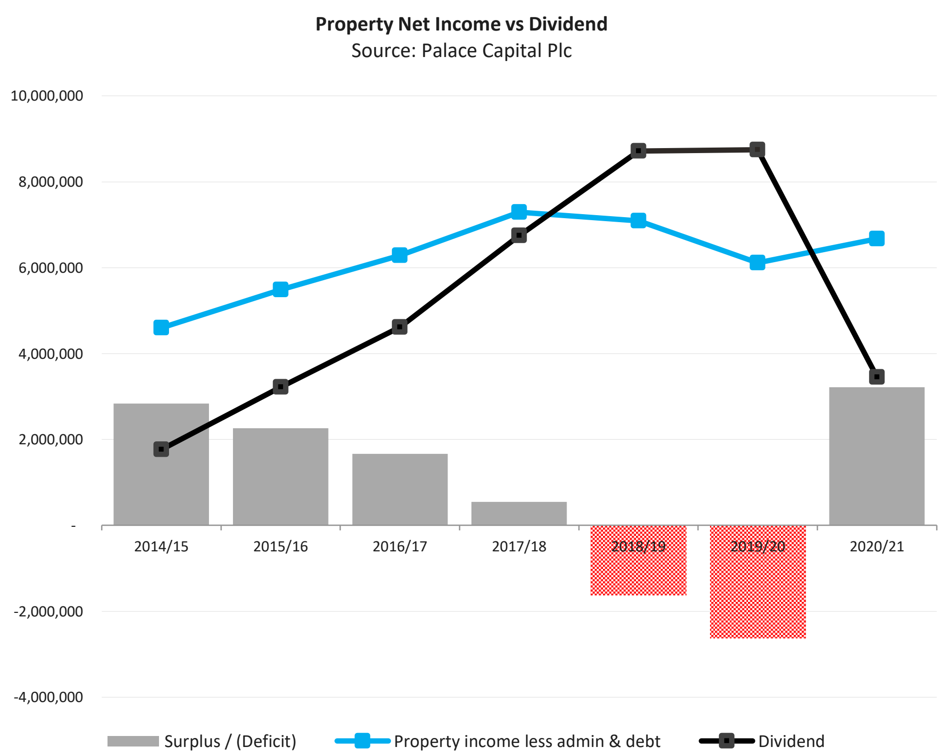
MANAGEMENT REMUNERATION



+ It is one thing for management to be well rewarded for measurable value creation, but quite another when management enriches itself at the <u>expense</u> of the Company.
+ Management remuneration has been increasing year-on-year, entirely negatively correlated to investment performance.
+ FY2018 included an outsized reward on the back of a large capital raise, but the subsequent deployment of that capital raises significant questions. Each of the following examples has resulted in a capital loss that was nevertheless reported as a "success" by the Company.
  - The residential element of the RT Warren portfolio that was valued at £23.3M on acquisition (Oct-17) has been majority sold for £19.34M.
  - Harbour Court was valued at £4.66M on acquisition but was recently sold for £1.99M.
  - London Court was valued at £1.5M upon acquisition, based on a 'new letting'. In Jan-20 it was sold with vacant possession for £1.25M.
+ Despite Management's assertion that the current share price "undervalues the assets", it is telling that the Executive Directors rarely buy stock, and the de minimis holdings that they do have are mostly the result of LTIP awards.

PALACE CAPITAL PLC

COVERED DIVIDEND?



+ PCP reports year on year dividend growth and a fully covered dividend from adjusted earnings.
+ The reality is that the portfolio is under-managed and PCP is losing income as a result of increasing vacancy, failure to capture reversions, and the sale of vacant buildings from which management were unable to extract value. Consequently, in FY19 and FY20 net recurring income was insufficient to cover a c.4.5% yield and the Company was forced to draw on capital receipts to maintain its dividend growth.
+ At the same time, property and administrative costs have increased, and consequently management has been forced to cut the dividend from 19p per share in 2020 to 7.5p per share in 2021.
+ At c.£4.3M, administration costs (including management remuneration) is running at c.29% of recurring income, which would be excessive even if PCP was delivering exemplary performance, which it is not.

	FY 2019	FY 2020	FY 2021
Rents received (and Circle dividends)	£18,003,000	£17,822,000	£16,273,000
Property Costs	(£2,318,000)	(£2,392,000)	(£1,500,000)
Administration Costs	(£4,122,000)	(£4,284,000)	(£4,347,000)
Finance Costs	(£4,672,000)	(£5,174,000)	(£3,751,000)
Dividends	(£8,718,000)	(£8,743,000)	(£3,455,000)
Excess / (Shortfall)	**(£1,827,000)**	**(£2,771,000)**	**£3,220,000**

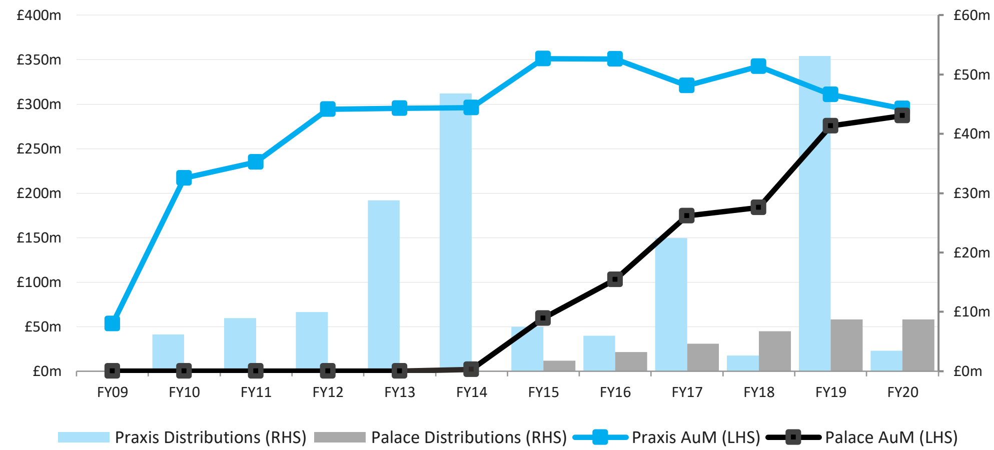
Source: Palace Capital Plc

PALACE CAPITAL PLC

PRAXIS vs PALACE CAPITAL

+ Both businesses were conceived in the immediate aftermath of the GFC and have, for the most part, pursued a similar regional / active asset management strategy.
+ Praxis and PCP initially raised a near-identical amount of capital, and the two portfolios are now similar in terms of size, sectoral composition, geography, and individual asset value.
+ However, as demonstrated in the right hand chart, the respective performance of the two portfolios over time is dramatically different. The reasons Praxis outperforms PCP by such a wide margin are various:
  - Praxis quicker to deploy in response to the cyclical buying opportunity.
  - Praxis' vertically-integrated management platform delivers value-enhancing asset management initiatives more quickly and efficiently.
  - Better market timing and greater discipline in terms of capital deployment later in the cycle. Knowing what to buy, and when, and conversely, when to sell.
  - Increased level of trading and recycling of capital into new opportunities.
  - Rigorous hold/sell discipline; emotionally unattached to the real estate, and willing to sell and return money to shareholders rather than hold for fees.
  - Significantly more efficient in terms of operating expenses correlates to minimal dilution of investor returns.

Peer Comparison: AUM, Distributions
Source: Praxis Real Estate, Palace Capital Plc



	Palace Capital Plc	Praxis
Capital Raised	£134.2M	£131.9M
Cash Returned	**£37.3M**	**£195.8M**
Current NAV	£157.8M	£146.6M
Net Cashflow	**£60.9M**	**£210.5M**
Equity Multiple	1.45x	2.60x
IRR	7.8%	15.2%

PALACE CAPITAL PLC

STRATEGIC DIFFERENCES: PASSIVE vs ACTIVE

Both businesses established in the early years of the post-GFC market opportunity

Palace Capital slower to mobilise and still building their portfolio late cycle

Unable to realise "valuation"; portfolio in stasis

		FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
PALACE CAPITAL	Capital Raised	-	(£0.1M)	(£0.6M)	-	(£23.5M)	(£20.0M)	(£20.0M)	-	(£70.0M)	-	-	-	-
	Dividends Paid	-	-	-	-	-	-	£1.8M	£3.2M	£4.6M	£6.7M	£8.7M	£8.7M	£3.5M
	Current NAV	-	-	-	-	-	-	-	-	-	-	-	-	£157.8M
	Net Cashflow	**-**	**(£0.1M)**	**(£0.6M)**	**-**	**(£23.5M)**	**(£20.0M)**	**(£18.2M)**	**£3.2M**	**(£65.4M)**	**£6.7M**	**£8.7M**	**£8.7M**	**£161.3M**
	Profit / EM / IRR	**£61.6M / 1.45x / 7.8%**												
PRAXIS	Capital Raised	(£26.6M)	(£77.0M)	-	(£28.3M)	-	-	-	-	-	-	-	-	-
	Dividends Paid	-	£6.2M	£8.9M	£10.0M	£28.8M	£46.8M	£7.5M	£6.0M	£22.4M	£2.6M	£53.1M	£3.4M	-
	Current NAV	-	-	-	-	-	-	-	-	-	-	-	-	£146.6M
	Net Cashflow	**(£26.6M)**	**(£70.8M)**	**£8.9M**	**(£18.4M)**	**£28.8M**	**£46.8M**	**£7.5M**	**£6.0M**	**£22.4M**	**£2.6M**	**£53.1M**	**£3.4M**	**£146.6M**
	Profit / EM / IRR	**£210.5M / 2.60x / 15.2%**												

Praxis were quick to deploy in the first phase

Phase II: disposal- part-distributed, part re-invested

Phase III: late cycle, realisation and distribution

CONCLUSION

+ Palace Capital Plc has failed to deliver shareholder value for seven years.
+ The Company has been unable to do a deal of any size in more than four years and is effectively a value trap.
+ The Company has become a lifestyle business for the management, with remuneration entirely uncorrelated to performance and a bloated overhead that is a drag on performance.
+ Dividend and NAV growth has flatlined, and in our view go-forward performance will continue to be mediocre (at best) without a material event.
+ The Company's chosen measure of performance is misleading, and is predicated on subjective valuation increases that belies declining income, increasing vacancy, and shrinking AUM. This is compounded by a lack of bona-fide value-add from elementary asset management activities.
+ Performance is stymied because the portfolio is too small for its capital structure, and the stock market has lost confidence in management to deliver a transformative event.
+ The Company needs to significantly grow its AUM and income, not least to dilute the potential adverse impact(s) of the Hudson Quarter, but is paralysed by a weak share price and a Board that lacks either strategy or credibility.
+ Absent a viable strategy or coherent plan of action, the Company will continue to stagnate, and will (again) miss out on buy-side opportunities arising from the current capital markets dislocation.
+ The Company urgently needs a more dynamic and astute executive management team to inject clarity of purpose and action into the business, and a complete overhaul of the asset and investment management strategy. Moreover, there is an urgent need to confront succession planning given the age of the CEO.
+ Praxis has the strategic vision, the real estate know-how, and the track record to deliver transformative change at PCP, not to mention a CEO whose financial interests are perfectly aligned with fellow shareholders.
+ We are seeking your support to effect management change to replace Neil Sinclair and Richard Starr with Mark Harrison and Gary Roberts as CEO and COO respectively. This will mark the beginning of a brand new chapter for PCP, one that will provide the desperately needed clarity of purpose and action required to invigorate and transform the business.

PRAXIS