

Tower Development Trust Update

January 2025

Tower Development Trust (“TDT”) is a closed-end fund that invests in global listed communications securities and Peppertree Capital Fund X (“Peppertree”). Peppertree is a closed-end fund that generates returns by developing cell towers anchored by one of the big three telecom firms (Verizon, AT& T and Sprint/T-Mobile) and then selling them to strategic buyers (American Tower, Blackstone, CPPIB, etc.). Peppertree Capital Inc. is the dominant developer of new cell towers in the United States, developing two-thirds to three-quarters of all new cell towers nationally each year. **Over 20 years Peppertree Capital Inc. has generated a 16.6% net IRR and a 1.9x net MOIC to investors.**

Tower Development Trust 2024 Review

TDT made a US \$25 million commitment to Peppertree and currently 24.0% of that capital commitment (~US \$6 million) has been called and invested. The pace of capital deployment was delayed by several factors:

- Peppertree Capital exceeded its maximum capital raise of US \$2 billion and was forced to secure consent from all limited partners (including TDT) for permission to exceed the hard cap by US \$50 million
- TDT had a late subscription for an additional US \$5 million and we requested that Peppertree Capital delay the capital call until they received our updated subscription agreement
- A Brazilian group invested with Peppertree Capital for the first time and required a new blocker structure to be created for their unique tax needs

Going forward, we expect Peppertree to call an additional 35.0% of our commitment (~US \$8.8 million) during 2025 and the rest of the commitment in 2026. Despite the delay in capital deployment, **TDT has generated an 11.1% total return as of December 31, 2024***.

As of December 31, 2024, approx. 7.1% of the portfolio is invested in a diversified portfolio of listed global communications securities which have generated a 3.7% total return. The largest position in the portfolio is Deutsche Telekom AG (“DT”), one of the of the world’s leading integrated telecommunications companies. DT operates as T-Mobile in the US, which accounts for 65% of revenues, while the German segment comprises another 20% of revenues. DT has more than 250 million mobile customers, 25 million fixed-network lines, and more than 22 million broadband lines. Other large positions in the portfolio include Helios Towers PLC and American Tower Corp.

The largest position in TDT remains cash at 67.5% of capital, as we converted Canadian cash into US cash in April to ensure TDT would have US \$25 million to honour all capital commitments. Recent market volatility has provided some attractive investment opportunities in the global listed communications industry, and we will deploy additional capital into listed securities in 2025.

As of September 30, 2024 **Peppertree developed 2,811 towers with another 1,884 towers currently under development.** Peppertree also has **477 towers it is currently negotiating to purchase** to drive additional returns to investors. The current portfolio is valued at a 1.3x Gross MOIC, demonstrating the ability of Peppertree to compound capital rapidly.

*Total return percentage is based on the CAD series.

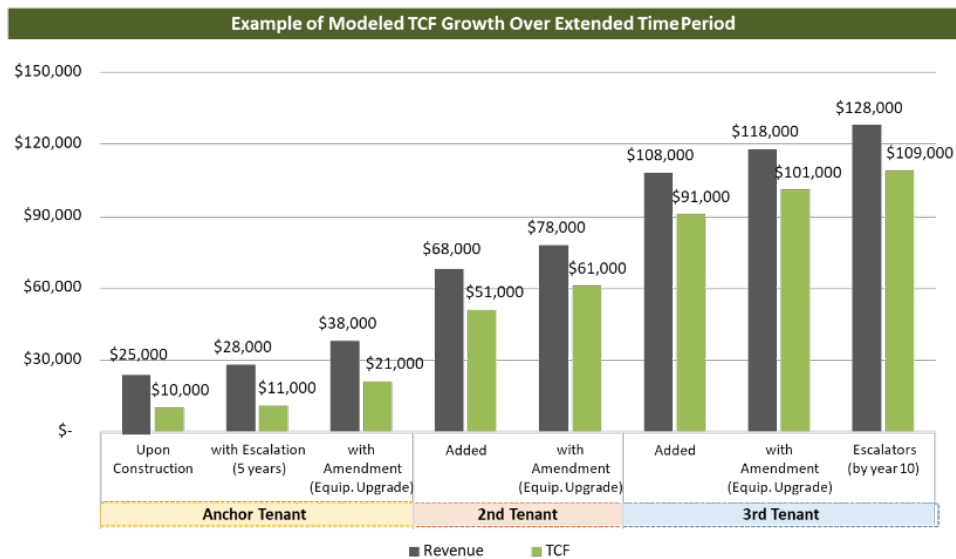
Tower Development Trust Update

January 2025

Peppertree Sources of Return

Peppertree generates returns by developing cell towers, leasing them up and then selling them. The cost of developing a cell tower is approx. US \$300,000 of steel, concrete and legal fees. Once the tower is operational, there are three main sources of Tower Cash Flow (“TCF”) growth:

- The initial 10-year **lease agreements contain annual escalators** that require the tenant (telecom firms) to pay 3.0% more in rent each year.
- The towers are designed to hold four to five tenants each, and **each new tenant generally pays more rent** for an increasingly scarce amount of space on the tower (importantly, there is virtually zero incremental cost to acquire this additional cash flow).
- When the telecom firms **upgrade the equipment on the tower** (i.e. from 4G equipment to 5G equipment), the rent they pay rises substantially (again, with virtually zero incremental cost to acquire this additional cash flow).



Tenant adds and equipment upgrades drive TCF and value creation

Peppertree Capital auctions off portfolios of seasoned cell towers to a collection of bidders including cell tower REITs (i.e. American Tower Corp., Crown Castle Inc., SBA Communications Inc.), private equity firms (i.e. Blackstone, KKR, Carlyle Group, Brookfield) and pension plans (i.e. Ontario Teacher’s Pension Plan, CDPQ). **Historically tower portfolios have been sold for between 30.0x and 40.0x TCF with Peppertree Capital selling towers for 34.0x TCF on average. Rising or falling interest rates have historically had no impact on TCF sales multiples.**

Tower Development Trust Update

January 2025

Peppertree 2025 Outlook

Historically, Peppertree Capital has called 30.0% of capital in a calendar year and in 2025 we expect Peppertree Capital to call 35.0% of our capital commitment (US \$8.8 million). We anticipate that Peppertree will utilize this capital to develop ~3,000 new towers and to acquire ~500 existing towers. Peppertree will continue to add telecom tenants to the towers in the portfolio and receive equipment upgrade fees as tenants upgrade their equipment on the towers.

At a target 1.25x net MOIC, the capital called would generate an ~9.0% total return (35.0% of capital x 1.25x MOIC) to TDT. In addition, we expect Peppertree to increase in value driven by all three value creation levers – annual contractual escalators, adding tenants and negotiating equipment upgrade fees as tenants move to 5G equipment.

Inflation and interest rates have almost no impact on Peppertree's results and none of President-elect Trump's policies appear to negatively impact TCF growth or cell tower sales. Finally, the listed securities portfolio should perform well in an environment of falling rates and moderate growth. **Accordingly, for 2025 we expect TDT to continue to compound at ~10.0%+.**

Sincerely,

The Starlight Capital Team

Tower Development Trust Update

January 2025

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Starlight Capital

1400-3280 Bloor Street West
Toronto, Ontario, Canada M8X 2X3
info@starlightcapital.com
1-833-752-4693
[Starlightcapital.com](https://starlightcapital.com)

