

DAVY IRISH PROPERTY FUND

PURE PROPERTY

Q4 2018 REPORT

3 MONTHS TO 31 DECEMBER 2018

Welcome to the Q4 2018 Quarterly Report for the Davy Irish Property Fund (“DIPF” or “the Fund”)

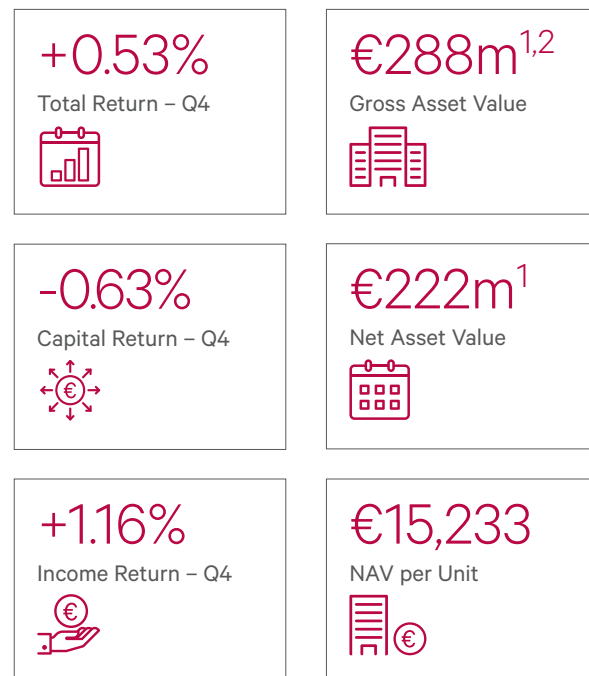
Overview

- We are pleased to announce the Fund has fully redeemed a large legacy unit holder. This is an important milestone in the history of the Fund; it goes a significant way to improving the liquidity of the Fund and provides the Fund the platform for growth towards our goal of €500m Gross Asset Value. We will be looking to add quality assets to the Fund over the coming years, maintaining a core strategy of aiming to deliver consistent capital and income growth for our investors.
- Gross Asset Value (GAV) at 31 December was €288 million, as compared to €289m at the end of Q3.
- Q4 dividend per unit is €178.40 and €717 for the full year.
- Overall Fund performance is +7.12% for the full year and 0.53% for the quarter.
- During the quarter the Fund received a strong offer for the Ferry House and we have completed the sale of this property. This sale forms the start of a capital recycling program which will occur over the in which over the coming years.

FUND PERFORMANCE – UNIT CLASS D

	Capital return	Income return	Total return
QTR	-0.63%	1.16%	0.53%
YTD	2.30%	4.81%	7.12%
1 yr	2.30%	4.81%	7.12%
3 yr p.a.	4.03%	4.96%	8.99%
5 yr p.a.	16.03%	5.75%	21.78%

KEY FUND METRICS



¹ This figure has been rounded by Davy

² Gross Asset Value means the Net Asset Value of the Fund plus borrowings

All data refers to Unit Class D (Distributing) - Sedol Number 9795233

All performance figures are for the period ending 31 December 2018
3 and 5 year figures show the annual average performance for those periods

These figures are net of fees. Capital Return represents Net Asset Value (NAV) excluding dividends. Income Return represents dividends distributed.

Sources: Northern Trust and J&E Davy

Warning: Past performance is not a reliable guide to future performance. The value of your investment may go down as well as up. The income you get from this investment may go down as well as up.

Warning: Indications of future performance are estimates only and are not a reliable guide to future performance.

Performance

The Fund's bid unit price at 31 December 2018 was €15,233. This reflects a decrease of 0.63% in the unit price of the Fund for the quarter. The distribution yield for the quarter was 1.16% giving a total return of 0.53% for the quarter.

During the Quarter we saw continued strength in the office market however the Fund did experience a softening in the valuation of some of its retail assets. In particular we saw a drop in the capital value of Nutgrove Shopping Centre. While the retail capital values are under some pressure we strongly believe that the income stream from these assets will continue to be robust particularly the food anchored shopping centres and so we are comfortable holding this asset class over the long term.

DIPF won the MSCI European Property Investment Award 2018 which was awarded for achieving the highest total return relative to the MSCI benchmark annualised over the 3 years to December 2017.

The full year total return is 7.12% and we are well on track to deliver performance forecasts for the full year. The unit prices for the Fund are published and updated monthly on Davy's website at www.davy.ie/real-estate/dipf.



European Property Investment Awards
WINNER 2018

FUND PERFORMANCE – 2014 TO 2018

	2014	2015	2016	2017	2018
CAPITAL RETURN	33.1%	20.7%	8.7%	0.8%	2.3%
INCOME RETURN	–	3.6%	4.7%	4.5%	4.8%
TOTAL RETURN	33.1%	24.3%	13.4%	5.4%	7.1%

These figures are net of fees and represent calendar year performance for unit class D. Capital Return represents Net Asset Value (NAV) excluding dividends. Income Return represents dividends distributed. Source: Northern Trust & J&E Davy

Top 3 Holdings

NUTGROVE SHOPPING CENTRE



Size 111,000 sq ft
Ownership 67%
Tenants Multi Tenanted. Anchored by Tesco, Dunnes and Penneys
WAULT 6 Years

20 ON HATCH



Size 44,000 sq ft
Ownership 100%
Tenants MetLife, Medtronic
WAULT 7.24 Years

PERCY PLACE



Size 36,000 sq ft
Ownership 75.91%
Tenants Multi Tenanted
WAULT 8.8 Years

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WARNING: Forecasts are not a reliable indicator of future results.

Fund Activity

INVESTMENT ACTIVITY

During November the Fund received a strong offer for Ferry House and this deal was completed just prior to the end of December. The Fund has gone through a period of significant capital recycling over the last three years and with this phase approaching completion our attention as Fund Manager turns to shaping the portfolio for the next period of growth. The sale of this asset at Ferry House begins the process of re-balancing and modernizing the portfolio to meet with the long term objectives of the Fund.

LEASING ACTIVITY

- **20 On Hatch:** The lease extension of floor 2 - 5 to Metlife has been completed during the quarter. The Ground Floor space is in the process of being returned and is currently being marketed.
- Prior to the sale of Ferry House we agreed terms on the 2nd floor space. The terms agreed are 10 year with a break at 7 at a rate well ahead of current Estimated Rental Value (ERV) for the building.

FINANCING ACTIVITY

- As previously flagged Fund drew down €67m of debt during the quarter. The Loan to Value (LTV) for this leverage at draw down was 25% and we have amended the Fund Documentation to limit the LTV to a maximum of 30%. The funds from this drawn down have been used to facilitate the orderly redemption of a significant unit holder.

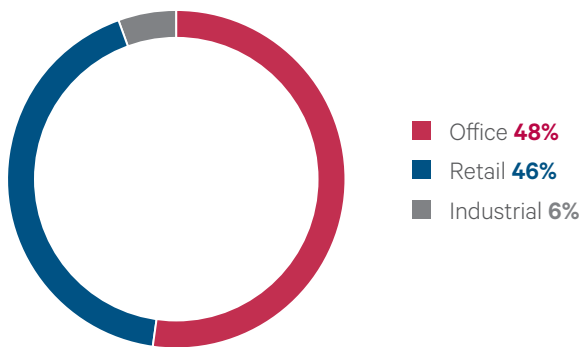


▲ 2 Grafton Street, Dublin

KEY METRIC:

7.3 years
WAULT*

PORTFOLIO BREAKDOWN



OFFICE

8 properties
207,654 sq ft
25 tenants

RETAIL

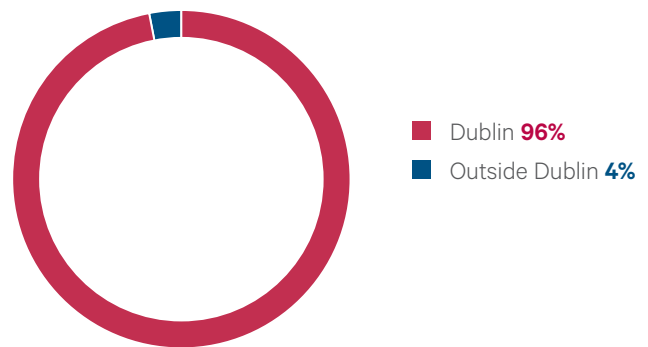
16 properties
183,570 sq ft
86 tenants

INDUSTRIAL

4 properties
186,145 sq ft
10 tenants

All data correct as at 31 December 2018 Source: J&E Davy unless otherwise stated
All data refers to Unit Class D (Distributing) - Sedol Number 9795233

GEOGRAPHICAL SPLIT



Source Net Asset Value NAV - Northern Trust
*WAULT = weighted average unexpired lease term Vacancy Rate by Value of the Fund

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Distributions

The distribution of net Q4 Income was declared at the end of the quarter and will be distributed during January. This distribution equates to €178.40 per unit and brings the income distributed for the rolling 12-month period to €717 per unit or 4.8%.

In January 2018, the Fund introduced a scrip share class. This class is for investors who would prefer not to receive cash distributions but receive additional units to the same value instead. There has been strong demand for this non-distributing unit share from both existing investors who have elected to switch unit class and from new investors into the Fund.

The Importance of Income

2018 has been another good year for the Irish commercial property market. In the nine months to the end of September 2018, the IPD index measured a total return of 7.4%¹. With this as the backdrop there are a number of interesting trends as we move into 2019:

Strength of the office market

Prime Dublin offices are priced at the same level now as they were in 2007. The peak of the market in that cycle happened quickly, was based on a small sample of leasing and transaction events and quickly fell once the financial crisis unfolded.

Rental levels reached €60 per sq ft in 2015 and have stayed relatively stable in the intervening period². The number of leases executed at these levels is far in excess of the sample during the 2007 peak.

Of more interest is the strength in the occupational market. In 2018 year to date there has been 3.4m sq ft of space leased³ and this will be the third year in a row that will exceed the running ten year average. The main sector driving the office market is the technology sector which has leased in excess of 40% of the space leased in both 2017 and year to date in 2018.

¹ Source: MSCI IPD Irish Commercial Property Index.
Last available data at time of publication.

² Source: Savills Research.

³ Source: JLL.

⁴ Source: Knight Frank Dublin Student Housing Report 2017.

Growth of alternative sectors

Traditionally, Irish institutional funds invested in three sectors only – office, retail and industrial. One of the outcomes of the recession and the recovery that followed is that the Irish commercial property market has opened up to foreign capital which has invested heavily into the traditional sectors but has also for the first time brought significant capital to invest in sectors not traditionally seen as institutionally acceptable. Two obvious examples are purpose built student accommodation (7,181 beds delivered or to be delivered in the 2017 to 2019 period⁴) and the multi-family residential sector.

These and other sectors have become more institutionally acceptable. While the weighting to these other sectors in IPD currently is only 3%, we would expect it to grow significantly from this level.

Importance of income and efficiency

The total return year to date, as outlined above, has been 7.4% as measured by the IPD index. This total return over the nine month period is made up of a capital return of 4.1% and an income return of 3.3%. As the market cycle matures the income element of returns is becoming more important and we would expect it to be a significant element of investor returns from commercial property over the coming years.

ANNUALISATION

	Sept 2014	Sept 2015	Sept 2016	Sept 2017	Sept 2018
TOTAL RETURN	32.6%	27.8%	15.3%	11.7%	7.4%

Source: MSCI

Source Date: September 2018

Number above represent annualised total returns gross of fees

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