

DAVY IRISH PROPERTY FUND

PURE PROPERTY

Q2 2018 REPORT

3 MONTHS TO 30 JUNE 2018

Welcome to the Q2 2018 Quarterly Report to unit holders in the Davy Irish Property Fund (“DIPF” or “the Fund”).

Overview

- Net Asset Value (NAV) at 30 June was €287 million, a 1.13% increase on Q1.
- Fund performance +4.81% year to date and 2.30% for the quarter.
- Acquisition of two additional units in Nutgrove Shopping Centre.
- Q2 dividend per unit – €176.
- DIPF is intending to introduce a limited amount of leverage into the Fund during the second half of 2018. The proposed introduction of debt, with a maximum limit of 30% Loan to Value (LTV), will enhance distributions, and is intended to facilitate the orderly redemption of a significant unit holder.

FUND PERFORMANCE – UNIT CLASS D

	Capital return	Income return	Total return
QTR	1.13%	1.17%	2.30%
YTD	2.42%	2.38%	4.81%
1 yr	2.14%	4.65%	6.79%
3 yr p.a.	7.42%	8.57%	15.99%
5 yr p.a.	19.26%	5.33%	24.59%

KEY FUND METRICS

+2.30%

Total Return – Q2



€287m

Net Asset Value (NAV)



+1.13%

Capital Return – Q2



€15,250

NAV per Unit



+1.17%

Income Return – Q2



6.9 Years

WAULT*



* Weighted average unexpired lease term

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

All performance figures are for the period ending 30 June 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 30 June 2018 was €15,250. This reflects an increase of 1.13% in the unit price of the Fund for the quarter. The distribution yield for the quarter was 1.17% giving a total return of 2.30% for the quarter.

As capital growth continued to moderate during the period we saw a more significant contribution to value growth from active asset management initiatives, including the lettings at One Airton Close and Percy Place.

The YTD total return is 4.81% 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.

KEY METRICS:

€15,250

Fund's bid unit price

1.17%

Income Return yield for quarter

4.65%

Income Return for 1 year, ending 30 June 2018

FUND PERFORMANCE – 2013 TO 2017

	2013	2014	2015	2016	2017
CAPITAL RETURN	5.5%	33.1%	20.7%	8.7%	0.8%
INCOME RETURN	–	–	3.6%	4.7%	4.5%
TOTAL RETURN	5.5%	33.1%	24.3%	13.4%	5.4%

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

Fund Activity

INVESTMENT ACTIVITY

The Fund has agreed to buy an additional two units in Nutgrove Shopping Centre for a combined consideration of €1.4m. The legal processes have begun and we expect to complete these acquisitions early in Q3. This investment further increases the Fund's share of ownership in Nutgrove, a key strategy in relation to what is now the Fund's largest asset.

The Fund sold no assets in Q2 2018.

Q2 2018 ACTIVITY

- **20 On Hatch:** The formal extension to the MetLife leases has almost completed. This will extend the lease term by 10 years for four floors in this property, with a significant rental increase. As the process had not formally completed by quarter end the increase in valuation has not yet been factored in and we would expect this to be included in the Q3 valuation. This extension significantly increases the WAULT of the Fund.
- Bestseller has commenced trading from the refurbished **83-85 Patrick Street** and photographs of the refurbished building are included in this report.
- The Fund finalised the leasing of One Airton Close. The letting is a long term letting to IT Tallaght and adds significant value to this property.
- As part of the Fund's active asset management programme, we target upcoming lease events and engage tenants with a view to extending lease terms and maximizing rent. These discussions in particular are of interest:



▲ 83-85 Patrick Street, Cork

KEY METRIC:

1.48%

Vacancy rate within the Fund

Fund Activity (cont'd)

- **Ground Floor Percy Place:** Leman Solicitors have taken an assignment of the Ganly Walters Lease. As part of the deal a significant rental increase was achieved by way of review.
 - **Units 3 & 4 Broomhill:** Terms agreed with Printpost to surrender its existing lease and begin a new lease over both units for 10 years. This lease is effective from mid-June.
 - Discussions with McDonald's regarding the unit on Winthrop Street in Cork, where the lease is due to expire in March 2020. This is likely to result in an agreement to extend by up to 10 years.
 - Rent reviews ongoing in Warrington Place and 31 Henry Street.
- As a result of these lettings the vacancy level in the Fund continues to reduce and the WAULT has increased from 6.3 to 6.9 years.

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



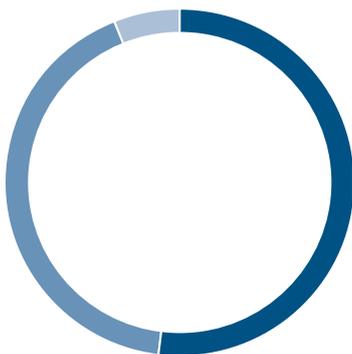
Size 44,000 sq ft
Ownership 100%
Tenants MetLife, Medtronic
WAULT 0.91 Years

FERRY HOUSE



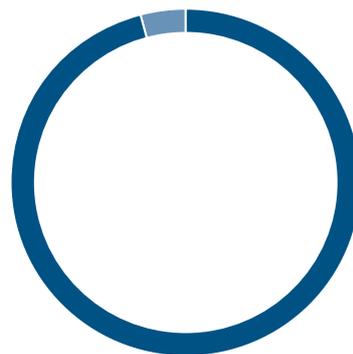
Size 34,000 sq ft
Ownership 100%
Tenants Multi Tenanted
WAULT 4.4 Years

PORTFOLIO BREAKDOWN



■ Office **52%**
 ■ Retail **42%**
 ■ Industrial **6%**

GEOGRAPHICAL SPLIT



■ Dublin **96%**
 ■ Outside Dublin **4%**

All data correct as at 30 June 2018
 Source: J&E Davy unless otherwise stated

Distributions

The distribution of net Q2 Income was declared at the end of the quarter and will be distributed during July. This distribution equates to €176 per unit and brings the income distributed for the rolling 12 month period to €694 per unit or 4.65%

We project that income and therefore distributions will grow significantly over the next five years. This is driven by rents in the office portion of the portfolio increasing to market levels from their current under-rented position but also captures some growth in the retail sector. Our projections show rent growing from €14.6m in 2017 to €17.9m in 2022 and distribution yield rising from 4.53% in 2017 to 5.0% in 2018 and to in excess of 6.0% in 2022 (all based on December 2017 pricing).

These are projections only and are based on assumptions being made in relation to lease events between now and the end of 2022. They also assume no sales or acquisitions in the period.

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.

Warning: Forecasts are not a reliable guide to future performance.

Introduction of Debt to DIPF

There is an intention to introduce a limited amount of leverage into the Fund during the second half of 2018. The proposed introduction of debt, with a maximum limit of 30% LTV, is at competitive rates, will enhance distributions and is intended to facilitate the orderly redemption of a significant unit holder.

Davy took over management of the Fund in 2014 at which time one unit holder held 60% of the units in the Fund. Since that time, this unit holder, along with certain other smaller holders, have been redeeming their shares to meet liquidity requirements within their own portfolios. To date, redemptions have largely been matched with new subscriptions with Davy introducing a substantial number of new investors to the Fund.

We now believe that it is an appropriate time to introduce a limited amount of debt to the Fund given the positive market environment and competitive interest rates. It is intended that debt of 20% to 25% LTV will be raised in the second half of 2018. The Fund's constitutional documents will require amendment to facilitate this. As part of this amendment, a maximum debt limit of 30% LTV would be put in place. New debt will facilitate the continued exit of certain unit holders and, given competitive rates, will improve the level of distribution to remaining unit holders, once debt is drawn down.

Please note that the introduction of debt is not guaranteed and is subject to a number of factors.

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For further information visit www.davy.ie/real-estate/dipf

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