

DAVY IRISH PROPERTY FUND

PURE PROPERTY

QUARTERLY REPORT

31 MARCH 2018

Welcome to the Q1 2018 quarterly report to unit holders in the Davy Irish Property Fund (“DIPF” or “the Fund”).

The Fund has declared a distribution for Q118 equating to €179 per unit and this distribution will be made on or around 23rd April. The amount distributed for the 12 months to 31 March 2018 equates to 4.6% and the projected figure for the full year 2018 has recently been increased to between 4.8% and 5.0% (based on December 2017 valuation).

The Fund Manager is dedicated to the continuation of a strong distribution policy and the Fund pays out to investors the net income return of the portfolio assets on a quarterly basis. Of every €1 of rental income received into the Fund, the Fund Managed is paying out approximately 86c to the unit holder in the form of an income distribution. This reflects the efficient fund structure and the fee model implemented by the Fund Manager. This income stream provides the unit holder with a very strong ongoing cashflow particularly in a low yield environment.

For the full year 2018, the Fund is projecting an income distribution of between 4.8% and 5.0% (based on 31 December 2017 pricing). In addition to current year increases, we project that income generated by the Fund will grow 20% over the next five years. The rent growth will be largely driven by leasing events across the Fund’s office assets as rents are renewed at prevailing market rates. These renegotiated lease terms should push the income distribution to between 5.8% and 6.0%.

FUND PERFORMANCE

	Capital return	Income return	Total return
QTR	1.28%	1.20%	2.48%
YTD	1.28%	1.20%	2.48%
1 yr	0.98%	4.62%	5.60%
3 yr p.a.	10.34%	5.49%	15.82%
5 yr p.a.	19.34%	4.94%	24.29%

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

*Net total return based on NAV growth and distributions

Sources: Northern Trust and J&E Davy

KEY FUND METRICS

1.28%

NAV Change
Quarter on Quarter



€179

Quarter Dividend Per Unit



€284m

Net Asset Value (NAV)



€15,081

NAV per Unit



23/04/18

Distribution Date



6.3 Years

WAULT*



* Weighted average unexpired lease term

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

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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



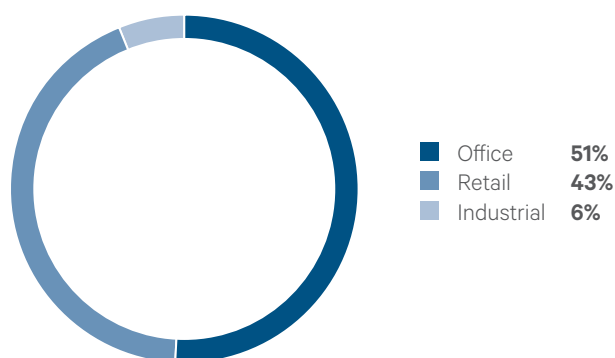
Size 44,000 sq ft
Ownership 100%
Tenant MetLife, Medtronic
WAULT 1.2 Years

FERRY HOUSE

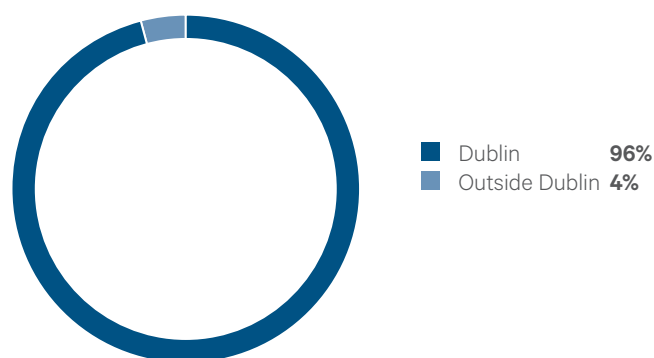


Size 34,000 sq ft
Ownership 100%
Tenants Multi Tenanted
WAULT 4.4 Years

PORTFOLIO BREAKDOWN



GEOGRAPHICAL SPLIT



All data correct as at 31 March 2018
 Source: J&E Davy unless otherwise stated

Performance

The Fund's bid unit price as at 31st March 2018 was €15,081. This reflects an increase of 1.28% in the unit price of the Fund for the quarter. The distribution yield for the quarter was 1.20% giving a total return of 2.48% for the quarter.

The unit prices for the Fund are published and updated monthly on Davy's website at www.davy.ie/real-estate/dipf.

KEY FACTS:

€15,081

Fund's bid unit price

1.20%

Distribution yield for quarter

4.62%

Total income distribution yield for the year

FUND PERFORMANCE 2013 TO 2017

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

These figures are net of fees and represent calendar year performance

Distributions

The distribution of net Q1 income was declared at the end of the quarter and will be distributed during April. This distribution equates to €179 per unit and brings the income distributed for the rolling 12 months to €690 per unit or 4.62%

As outlined above, we project that income and therefore distributions will grow significantly over the next 5 years. This is mainly as a result of 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 4.7% in 2018 and to 5.8% 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 non-distributing share class. This class is for investors who would prefer not to receive their distributions on an ongoing basis.

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

Fund Activity

INVESTMENT ACTIVITY

During the quarter, the Fund Manager completed a full review of existing asset in the Fund and is very comfortable with the overall balance of the Fund and will look to maintain its sectorial asset allocation at current levels into the future. The Fund is more balanced across Retail and Office compared to the Irish Funds Index and the Fund Manager believes that, given where the Retail and Office sectors are in the cycle, this current allocation will drive above market returns for the Fund.

The Fund completed the acquisition of two units in Nutgrove Shopping Centre for a combined consideration of €2.5m. This increases our hold in the Centre to 67% and given asset price increases Nutgrove Shopping Centre is now the Fund's largest asset.

The Fund sold no assets in Q1 2018.

DURING Q1:

- **20 On Hatch:** terms agreed with Met Life to extend leases by 10 years in relation to four floors in this property and with a significant rental increase. The terms of this extension have been agreed and the legal process to document the agreement is well advanced. ▶
- The lease for 83-85 Patrick Street was executed and the tenant is now in occupation and fitting out. The new tenant is Bestseller, a Danish fashion brand which trades under a number of labels. The specific label in Patrick Street will be Vila and we will include photographs of the final fit out in our Q2 report.

The Fund continues to make progress in leasing the remaining vacant space in One Airton. These discussions have taken longer than expected but progress is being made and we expect this letting to complete in Q2 2018.

As part of the Fund's active asset management programme, we target upcoming lease events and engage with a view to extending lease terms and maximizing rent. Three discussions in particular of interest:

- **Unit 6 Broomhill:** terms agreed with adjoining tenant to take this unit in addition to their existing one.
- **Units 3 & 4 Broomhill:** terms agreed with Printpost to surrender their existing lease and take a new lease over both units for 10 years expanding their presence in the park.

- Discussions have begun with McDonald's in relation to their unit on Winthrop Street in Cork, where there is a lease expiry in March 2020. This is likely to result in an agreement to extend by up to 10 years.

The Fund has active rent reviews ongoing in Warrington Place and 31 Henry Street.



KEY FACT:

3.0%

Vacancy rate within the Fund

Market & Economic Outlook

As has become the norm in the Dublin market over the last few years, Q1 is a quiet quarter from an investment perspective. This is due to a busy fourth quarter leading to a low pipeline of new deals for Q1. However, some additional supply is becoming apparent as Q1 ends and we expect more opportunities to be available in Q2.

Demand in the office occupational market continues to be very strong. Discussions we are having with existing and potential tenants in this portfolio, but also across the wider Davy Real Estate portfolio, suggests there is still very strong demand for office space particularly from the technology and pharmaceutical sector. With vacancy levels very low, this suggests that some additional development is needed to meet existing demand.

In the retail sector, we are seeing both tenant demand and consumer sentiment improving slowly. We are currently in discussions with a number of tenants in relation to a unit in Nutgrove that is not yet

available but will be shortly. This additional interest and competition for space in shopping centres and the key high streets will generate rental growth over time.

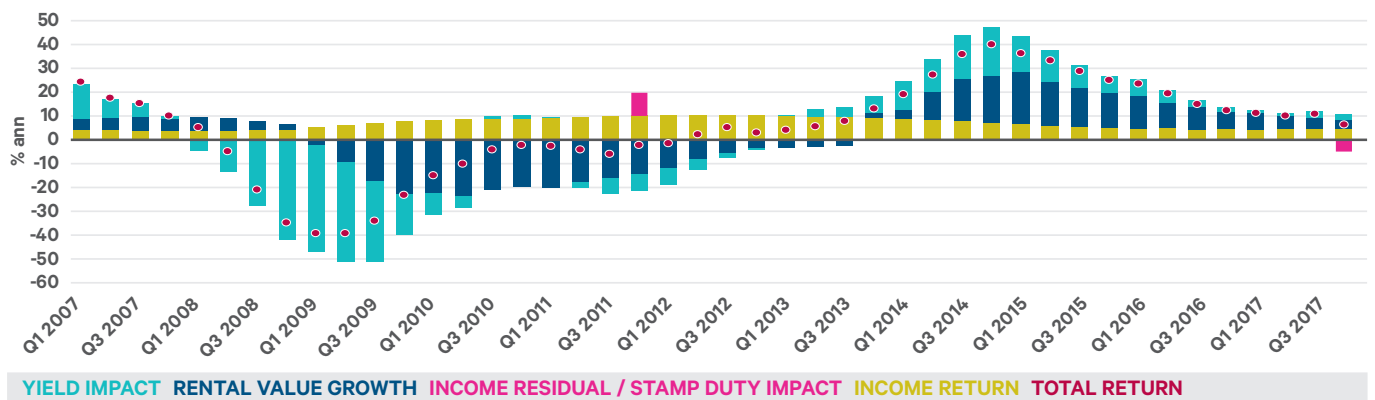
INCOME TO DRIVE COMMERCIAL REAL ESTATE RETURNS

From an investment and returns perspective the Irish Commercial Real Estate sectors looks to be entering a new phase.

Overall returns across the sector over the last 5 years have been exceptionally strong with capital growth driving the majority of these returns. Over the last 3 years, of the 15% pa returns achieved across the universe of Irish Funds over 65% was driven by capital growth (yield impact and rent value growth - see Fig 1)

As the Irish market matures and the capital growth rates will begin to slow, we believe that income return will begin to drive a bigger proportion of overall returns.

FIGURE 1: ROLLING ANNUAL TOTAL RETURNS FROM Q1 2007 TO Q4 2017
Including contributing components and drivers

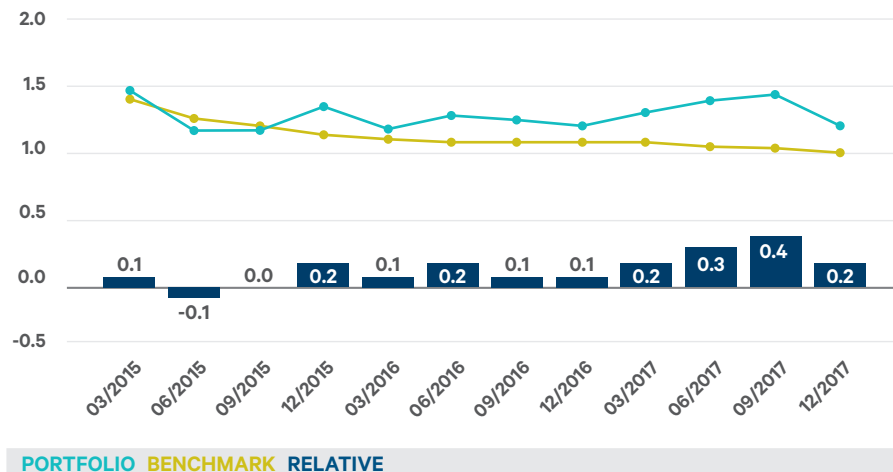


Source: MSCI

As Fund Manager, Davy Real Estate is very much focused on maximizing the income from its portfolio of assets and has put in place a fund and fees structure that delivers efficient returns to the unitholders. The Fund has consistently outperformed the Benchmark over a number of business cycles and by targeting net income yields of between 5% and 6% the Fund should outperform its peers going forward.

Figure 2 shows the income return from the Fund (the portfolio) outperforming the benchmark over time (above returns are gross of all fees and charges).

FIGURE 2: INCOME RETURN %
All benchmarked assets



	Portfolio	Benchmark	Relative
QTR	1.2	1	0.2
YTD	5.5	4.3	1.1
1 yr	5.5	4.3	1.1
3 yrs	5.3	4.6	0.6
5 yrs	6.3	6	0.3

Source: MSCI

The benchmark for this fund is quarterly valued funds in Irish databank.

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

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