DAVY Real Estate

Davy Irish Property Fund

Q3 2019 Report

3 Months to 30 September 2019

Welcome to the Quarterly Report for the Davy Irish Property Fund ("DIPF" or "the Fund")

Overview

- Overall Fund performance is 4.28% for the full year and 0.94% for the quarter.
- Gross Asset Value (GAV) at 30 September 2019 is €260m, as compared to €265m at the end of Q2 2019.
- Q2 dividend per unit is €233.80 and €815 for the rolling 12 months to 30 September 2019.
- The Fund continues to deliver strong income. The annualised quarterly dividend has increased to just over 6.0%.
- The Fund vacancy rate across all assets is currently at 4.93% by value.

Key Fund Metrics

+0.94%
Total Return – Q3

€260m[1,2]
Gross Asset Value

-0.59%
Capital Return – Q3

€188m[1]
Net Asset Value

+1.53%
Income Return – Q3

€15,171
NAV per Unit

Fund Performance – Unit Class D

	Capital return	Income return	Total return
QTR	-0.59%	1.53%	**0.94%**
YTD	-0.41%	4.18%	**3.77%**
1 yr	-1.03%	5.32%	**4.28%**
3 yr p.a.	1.60%	5.05%	**6.64%**
5 yr p.a.	9.79%	6.03%	**15.82%**

[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 30 September 2019
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: Forecasts are not a reliable indicator of future results.

It's not just business. **It's personal.**

Performance

The Fund's bid unit price at 30 September 2019 was €15,171. This reflects a decrease of 0.59% in the unit price of the Fund for the quarter. The distribution yield for the quarter was 1.53% giving a total return of 0.94% .

During the quarter the capital value of assets in the portfolio was down marginally at 0.30% with retail valuations down 0.78% quarter-on-quarter being offset by an increase in the capital values of the office assets.

While the broad retail sectors continue to be impacted by the evolution of ecommerce and online, we believe our retail strategy provides the unitholders with the exposure to this important property sector, while protecting them from the impact of these macro trends.

Our retail strategy is focused around food anchored convenience shopping centres and prime high street assets.

Grocery remains a small online market in Ireland with only an estimated 3% of total grocery purchases made online. Given this level of online grocery, we are firm in our belief that food anchored shopping centres like Nutgrove Shopping Centre will continue to trade well and strong tenant demand will exist.

Properties on premium high streets like Grafton Street and Henry Street continue to be in demand as brands look to merge online and in-store experiences, while getting access to significant footfall numbers.

All sectors of retail are not impacted by this evolution of ecommerce and online equally and thus, our asset reflects where we see opportunities in the market.

MSCI

European Property Investment Awards
WINNER 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

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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%
Tenants MetLife, Medtronic
WAULT 6.30 Years

Percy Place

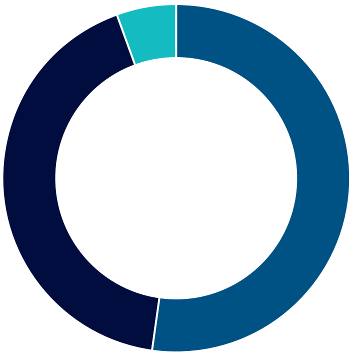
Size 36,000 sq ft
Ownership 75.91%
Tenants Multi Tenanted
WAULT 9.30 Years

Distributions

The distribution of net Q3 Income was declared at the end of the quarter and will be distributed during October. This distribution equates to € 233.80 per unit and brings the income distributed for the rolling 12-month period to €815 per unit or 5.32%.

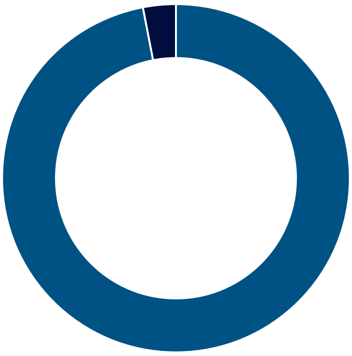
In January 2018, the Fund introduced a scrip share class. This class is for investors who would prefer not to receive cash distributions but receive additional units to the same value instead. There has been strong demand for this non-distributing unit share from both existing investors who have elected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

Portfolio Breakdown



- Office **49%**
- Retail **44%**
- Industrial **7%**

Geographical Split



- Dublin **96%**
- Outside Dublin **4%**

Office	Retail	Industrial
8 properties	**16** properties	**4** properties
207,654 sq ft	**183,570** sq ft	**186,145** sq ft
25 tenants	**86** tenants	**10** tenants

All data correct as at 30 September 2019
Source: J&E Davy unless otherwise stated
All data refers to Unit Class D (Distributing) - Sedol Number 9795233

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

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Take-up activity

The Dublin office sector take-up for the first half of the year reached just over 163,000 sqm. This represents an increase of 4% relative to the same period in 2018 and with approximately 100,000 sq. m currently reserved, we expect strong leasing activity during the latter half of the year to bring annual take-up in line with the record levels experienced in 2018.[1]

Large multinational tech companies continue to demonstrate significant appetite with the telecommunications, media, and technology (TMT) sector making up 57% of take-up in Q1. Salesforce signed a significant pre-let of more than 43,000 sq. m at Spencer Place and Facebook took up almost 16,000 sq. m at Nova Atria South, Sandyford.[2]

The Office of Public Works (OPW) were busy in the letting space during Q119 taking more than 21,500 sq. m across three buildings including the Irish Distillers Building in Smithfield and Bishop's Square in Dublin 2.[2]

Investment

Investment activity quickened with €1.2 billion invested in Irish commercial property in the second quarter of 2019. This represents the strongest quarterly turnover since Q4 2016 and brings total turnover for the first half of the year to more than €1.85 billion.[3]

During 2019 we have seen an increasing interest in the investment market from non-Irish institutional capital in particular from Europe and Asia. Many of the buyers represent long term pension capital and are being attraction to assets categories that can deliver long-term secure income like prime office and the private rental sectors.

The Irish institutional investors are broadening their definition of institutionally acceptable assets and are looking to top include/increase Private Rental Sector, Logistics and Strategic retail assets in their portfolio.[3]

Irish investment capital made up 56% of Q2 turnover compared with 32% in Q1 and the market saw an increase in activity from Europe investor. In total, European investment accounted for 26% of turnover in Q2 compared with 19% of turnover in 2018. European investors in the market include Swiss Life, Patrizia, LRC Group and Union Investment.[3]

The recent activity in the market is further evidence of the changing nature of ownership and capital composition across the commercial property spectrum that we have observed over the last 10 years. Prior to 2008 much of the sector was financed by small proportion of locally sourced equity heavily accompanied by significant levels of locally sourced debt. Speculative development was rampant, and the levels of pre-let commitments were much lower than we are seeing in the market.

Since the crash we have observed an increasing level of institutionalisation, both domestic and international, in the sector. The first wave was the US Private Equity, this was followed by the domestic institution with the likes of Irish Life, IPUT and ourselves expanding positions. Most recently we have seen an increasing interest from overseas capital from pension funds, investment manager and insurance companies making some very significant single investment.

Unlike previous capital this institution capital is very heavily weighted towards equity and with debt only being introduced into development projects with significantly proportions of pre-let.

Institutional capital like that which has come to the market recently will generally have longer to investment horizons. It is our belief that with this type of capital in the market, the current Dublin and Irish commercial sector is demonstrating much stronger core fundamentals and is better place than ever to cope with the inevitable domestic or international volatility.

[1] BNP Paribas Real Estate - Q219 Dublin Office Market, page 3
[2] BNP Paribas Real Estate - Q119 Dublin Office Market, page 3
[3] BNP Paribas Real Estate - Q219 Irish Investment Market At a Glance, page 3

Annualisation

	Dec 2014	Dec 2015	Dec 2016	Dec 2017	Dec 2018
Total Return	36.2%	31.8%	15.0%	7.5%	8.9%

Source: MSCI
Source Date: December 2018
Number above represent annualised total returns gross of fees

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