Quarterly Report

Q3

DAVY Real Estate

Davy Irish Property Fund

Q3 2020 Report

3 Months to 30 September 2020

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

Overview

- Overall Fund performance is down 6.6% for the year to date and down 1.92% for the quarter.
- Gross Asset Value (GAV) at 30 September 2020 is €236m, as compared to €242m at the end of Q2 2020.
- Q3 dividend per unit is €189 and €759 for the rolling 12 months to 30 September 2020.
- The Fund net income distribution has strengthened in Q3 with the annualised quarterly distribution being 5.5%.
- Rent collection year to date across the portfolio is 89% of rent billed.

Key Fund Metrics

-1.92%
Total Return – Q3

€236m[1,2]
Gross Asset Value

-3.30%
Capital Return – Q3

€164m[1]
Net Asset Value

+1.38%
Income Return – Q3

€13,266
NAV per Unit

Fund Performance – Unit Class D

	Capital	Income	Total return
QTR on QTR	-3.30%	1.38%	**-1.92%**
YTD	-10.26%	3.60%	**-6.66%**
1 yr p.a.	-12.56%	5.00%	**-7.55%**
3 yrs p.a.	-3.72%	5.14%	**1.42%**
5 yrs p.a.	3.84%	5.71%	**9.55%**
10 yrs p.a.	6.74%	4.49%	**11.23%**

[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 2020
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

European Property Investment Awards
WINNER 2018

The Fund's bid unit price at 30 September 2020 was €13,266. This reflects a decrease of 3.30 % in the unit price of the Fund for the quarter. The distribution yield for the quarter was 1.38% giving a total return of -1.92 %.

The external valuers, Savills have continued to include the Royal Institution of Chartered Surveyors (RICS) valuation material uncertainty clause in the quarter end valuations report. This is reflecting market uncertainty caused by the global Covid-19 pandemic. The inclusion of this clause is being instructed by RICS and is being included in all property fund valuations being carried out since the Covid-19 restrictions began.

During the quarter we saw a lifting of many of the strictest government-imposed lock down measures and the population and economy began to map a pathway to managing in a post pandemic world. All our office and logistics tenants are now navigating this landscape with blended work for office and work from home frameworks while most of our retail tenants are back operating albeit on reduced capacity. All 64 units at Nutgrove Shopping Centre were open and trading however average monthly footfall has reduced from 317,983 visitor per month to 236,549 visitors per month.

During the period rent collection and leases management has been a particular focus of the Fund Manager. The Fund has collected 100% of the billed rent during the period from the office and industrial tenants while the rent collection from retail tenants was at 69% of rent billed. Overall, the Fund collected 85% during the quarter and to year to date rent collection of 89%.

During this Q3 Report quarter we have collected a proportion of the unpaid rent from Q2. The overall collection rate for Q2 billed rents at the end of Q2 was 77%, this has now increased to 83%. We would expect the recovery rate of Q3 billed to improve over the coming months as negotiated positions are agreed regarding outstanding amounts.

The asset valuation across the portfolio have been further impacted by the quarter. High street assets are down 5.9% and Nutgrove valuation was down 4.1%. Both the office and industrial asset valuation were flat quarter on quarter.

In February we finalised the sale of our interest in the Treasury Building to Google and the Fund is looking to recycle this capital to reduce performance drag. We will be targeting the office and logistic sectors with a view to securing core assets with strong yield characteristics enable income distribution to be maintained.

	2015	2016	2017	2018	2019
Capital Return	20.7%	8.7%	0.8%	2.3%	-2.95%
Income Return	3.6%	4.7%	4.5%	4.8%	5.67%
Total Return	**24.3%**	**13.4%**	**5.4%**	**7.1%**	**2.72%**

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	4.4 Years

20 On Hatch

Size	44,000 sq ft
Ownership	100%
Tenants	MetLife, Medtronic
WAULT	5.72 Years

Percy Place

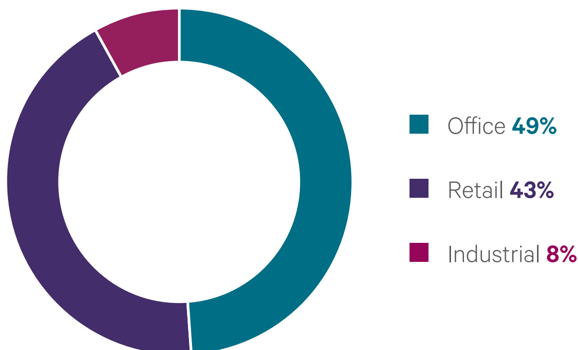
Size	36,000 sq ft
Ownership	75.91%
Tenants	Multi Tenanted
WAULT	8.8 Years

Distributions

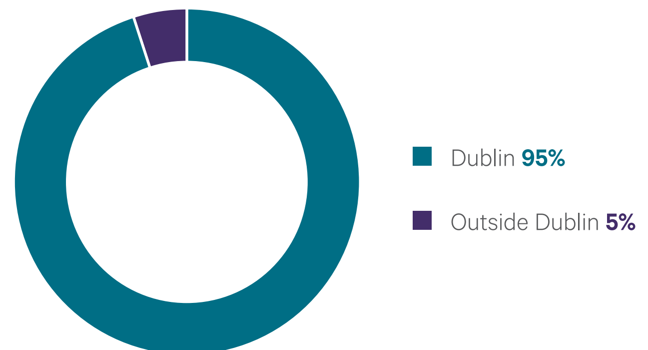
The distribution of net Q3 income was declared at the end of the quarter and will be distributed during October. This distribution equates to €189 per unit and brings the income distributed for the rolling 12-month period to €759 per unit or 5.00%.

The Fund is established as an open-ended fund with limited liquidity. The Manager will endeavour to redeem a redemption request as quickly as possible and it is expected that a redemption request will be fully dealt with within three years. Although it is intended that a certain number of Units will be redeemed on each Redemption Date occurring during this three-year period, there is no guarantee that a minimum number of units will be redeemed on any given Redemption Date during this three-year period. The eventual redemption proceeds may differ from the redemption price at the date of redemption notification.

Portfolio Breakdown



Geographical Split



Office

7 properties

199,221 sq ft

22 tenants

Retail

16 properties

182,560 sq ft

90 tenants

Industrial

4 properties

186,145 sq ft

11 tenants

All data correct as at 30 September 2020
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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Two-speed economy a concern but Australian example can give hope

'We are where we are' is an expression you've probably heard a few times this year. Beloved of politicians, it denotes a stoic acceptance of facts and fate. But as we approach the end of an extraordinary year, where exactly are we?

From a societal point of view, we are still feeling our way through a fog of uncertainty. At this stage, most of us are anxious and fatigued but keeping going, still doing our best. The timetable has been pushed back but normality will return, and the sooner the better.

From an economic perspective, it is clear that a two-speed economy has emerged in pandemic Ireland. This is not, however, the Dublin v Regional split we saw in the last financial crisis, but rather a sectoral schism that has been opened up by different parts of the economy.

On the one hand, we have the booming multinational sector. In spite of the virus-hit global economy, this part of the Irish economy has continued to operate at full steam, with exports going from strength to strength. More on that shortly.

On the other hand, the part of the economy that services, and is generated by, the local Irish market has been severely impacted by Covid-19. The retail, hotel and restaurant sectors have been hardest hit by a combination of softening consumer confidence and rolling capacity restrictions. There is a lot of pain in those sectors right now.

Our two-speed economy is also manifest in the performance of different elements of the commercial property market, where the office and logistics sectors, predominately driven by multinationals, have reported strong rent collection figures across the market. The performance of retail and hospitality, meanwhile, is more closely aligned to the local economy, which is still trying to right the ship.

In turbulent times, then, we can see how the multinational sector is delivering reassuring growth and revenue on a national scale. Given its size and contribution to the overall Irish economy, it's reasonable to ask if the sector can continue to act as a buffer against harsh economic winds?

To answer that question, let's look down under. In 2008, Australia was sitting pretty. The country had just overseen a decade of economic growth, with budget surpluses eliminating net debt, thanks largely to exports of iron ore, coal and other minerals to China. While the rest of the world was engulfed by the financial crisis, Chinese demand for Australian minerals never wavered; in fact, it encouraged an influx of investment and created jobs, pushed up wages, and further bolstered economic growth.

In this way, Australia's international exports sector protected the country from the extreme fallout of the crisis and provided a strong platform for sustained growth. The 'lucky country' now holds the world record for the longest uninterrupted period of economic growth in history: 104 consecutive quarters of growth.

Ireland has built a similarly successful, highly globalised economic model that attracts high-value Foreign Direct Investment and prioritises goods and services for which there is strong, long-term demand. This model can do for us what it did and continues to do for Australia: provide much-needed protection in the short term while positioning the country for growth over the long term.

This 'protection' can be readily quantified. Through to end of August of this year, the Government banked a total of €6.5 billion (up from €5 billion) in corporation tax revenues, well ahead of budget, most of which was accounted for by a small cluster of big companies. This revenue can help achieve two things.

First, it can provide the Government with the financial muscle and manoeuvrability to deliver funding and support where it is most needed. The scale of the packages announced as part of Budget 2021 and designed to help Irish businesses deal with Covid-19 has already been welcomed by Ibec and other business groups.

Secondly, the surging performance of our multinational sector can help to sustain employment levels. While there will inevitably be some envious glances from sectors that need help, it is frankly in all our interests that jobs in tech, finance, pharma, etc, continue to generate income tax and boost spending.

The dominance of Ireland's multinational sector attracts occasional criticism, but this is a problem that many countries would dearly love to have right now. We spent many years building this sector, creating the conditions for Irish-based multinationals to perform at optimum level, and that is exactly what they are doing – just when we need it most.

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