DAVY Real Estate

Davy Irish Property Fund

Q1 2020 Report

3 Months to 31 March 2020

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

Overview

- Overall Fund performance is 2.45% for the full year and 0.87% for the quarter.
- Gross Asset Value (GAV) at 31 March 2020 is €257m, as compared to €256m at the end of Q4 2019.
- Q1 dividend per unit is €207.10 and €874.95 for the rolling 12 months to 31 March 2020.
- The Fund continues to deliver strong income. The annualised quarterly dividend is at 5.6%.
- The Fund vacancy rate across all assets is currently at 3.07% by value.

Key Fund Metrics

0.87%
Total Return – Q1

€257m[1,2]
Gross Asset Value

-0.53%
Capital Return – Q1

€185m[1]
Net Asset Value

+1.40%
Income Return – Q1

€14,705
NAV per Unit

Fund Performance – Unit Class D

	Capital return	Income return	Total return
QTR	-0.53%	1.40%	**0.87%**
YTD	-0.53%	1.40%	**0.87%**
1 yr	-3.30%	5.75%	**2.45%**
3 yr p.a.	-0.51%	5.13%	**4.62%**
5 yr p.a.	5.55%	6.09%	**11.64%**

[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 March 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

The Fund's bid unit price at 31 March 2020 was €14,704.54. This reflects a decrease of 0.53% in the unit price of the Fund for the quarter. The distribution yield for the quarter was 1.40% giving a total return of 0.87. The external valuers, Savills have included 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 being instructed by RICS and is being included in all property fund valuations being carried out since the Covid-19 restrictions began.

The Fund finally completed the sale of the Treasury Building during this quarter. While the broad strategy of the Fund is to be a long term holders of assets, the offer by Google to purchase the entire building was considered on the basis that it was above carrying value so accretive to Net Asset Value and it was an opportunity to divest an asset for which the Fund had only a minority interest (21%).

As Fund manager, Davy Real Estate adopts a very hands-on, active asset management style and as such our preference would be that the Fund have ownership control and full discretion around management decision for it assets. The sale of Treasury will enable the Fund to divest its 21% holding and we will look to recycle capital into another office asset for which we can more exercise fuller discretion.

Even prior to the Covid-19 crisis, the Fund saw a continuation of the retail sector being under valuation pressure as investor sentiment from the US and UK appear to be influenced the Irish market. The impact of this negative sentiment was most evident in the valuation of Nutgrove Shopping centre with the yield moving out to 7.1%. In the Dublin market the Northside Shopping centre sale was completed at the end of 2019 at a price of approximately €50m. This represented a yield of approximately 7.5% and should provide evident in the local market to support the sector.

Unfortunately during March we had a tenant surrender in Patrick Street in Cork. This unit was previously 3 smaller units that the Fund amalgamated on the main shopping street in Cork. Terms were agreed with Best Seller in the unit in May 2018 on strong terms however they surrender this unit in March. We are currently marketing the unit and are confident that a replacement tenant can be secured to replace this income.

MSCI

European Property
Investment Awards
WINNER 2018

	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	6 Years

20 On Hatch

Size	44,000 sq ft
Ownership	100%
Tenants	MetLife, Medtronic
WAULT	6.24 Years

Percy Place

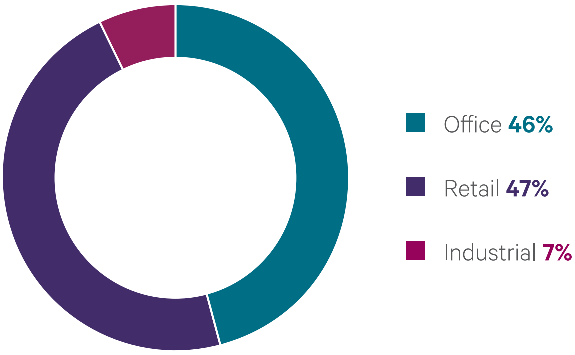
Size	36,000 sq ft
Ownership	75.91%
Tenants	Multi Tenanted
WAULT	7.66 Years

Distributions

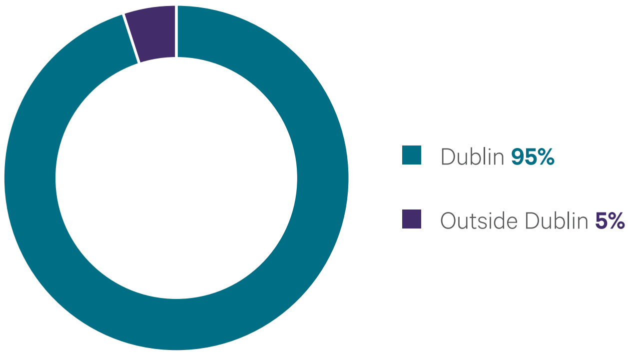
The distribution of net Q1 income was declared at the end of the quarter and will be distributed during April. This distribution equates to €207.10 per unit and brings the income distributed for the rolling 12-month period to €874.95 per unit or 5.75%.

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



Geographical Split



Office	Retail	Industrial
7 properties	**16** properties	**4** properties
197,564 sq ft	**184,243** sq ft	**183,148** sq ft
23 tenants	**85** tenants	**11** tenants

All data correct as at 31 March 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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Covid-19 and Real Estate

We prepare this market update in the knowledge that we are at the early stages of the Covid-19 health crisis that is gripping Ireland and the world at this moment. The landscape is changing on a daily basis and as such, market commentary around activity in the commercial property space over the previous quarter will provide little guidance on the view looking forward.

The Covid-19 is a health crisis, the likes of which this generation has not experienced. The short and long-term impacts will be felt across every part of society and the economic and damage of this crisis to the Irish economy is expected to be significant.

In the short term, the governments focus is on dedicating resources to supporting the health care system and looking to limited to spread of the virus throughout the community.

In the longer term the governments of Ireland and the world will turn their attention to supporting and stimulating the economies that have been materially impacted by this shock. We have seen substantial aid packages aimed at stabilising financial markets, supporting the banking systems and assisting the millions of people that have been left unemployed.

These economic stimulus and support packages will be key in kick starting the economy and to reignite consumer spending and consumer confidence and their success will largely dictate the longer terms impacts on the commercial real estate sectors.

Fund Management

In response to the Covid-19 crisis Davy Real Estate has been very much focused on the day to day management of assets and tenants across the portfolio. The impact of the crisis is being felt differently across office, retail and industrial sectors with the retail sector experiencing the most acute immediate impact.

For single retail units on Grafton Street and Henry Street the Investment Managers have been working with tenants to operationalise government guidelines around which retailers can stay open during the period and how this can be done as safely as possible.

To assist the tenants of Nutgrove we have been working to ensure we can provide safe and compliant access to the centre's malls to allow those retail who can stay open to continue to trade. Nutgrove has a relatively high number of retailers that have been classified as essential services and so keeping access to the the car park and shopping malls has enabled 14 (as at 6th April) of these retailers to remain open during the crisis. Despite being down year on year, due to the level of essential retailers, the footfall in the centre has been far stronger than all other schemes across the Davy Real Estate shopping centre portfolio.

The office and industrial tenants have required less hands-on management as most have initiated their own business continuity programmes. We have been working with those tenants to keep access open to enable these plans to be executed.

We collected 94% of the rent in Q1 2020 but are aware that the income collection during forthcoming quarter will be more difficult. We have already begun the quarterly rent billing cycle and have collected 44% of billed rent as of 9 April. We will be monitoring the rent collection data on a daily basis and will be actively engaging with tenants during to quarter to collect as much of this billed rent as possible.

Irish Commercial Property Market

While certainly not immune to the impact of the current crisis, we believe that the Irish commercial property market is in a better position to deal with a shock of this nature, than it was during the 2008 financial crash. In the lead up to 2008, the development and investment market was dominated by domestic equity paired with large volumes of international debt. Speculative development was at all time highs, and the occupier market had very little Foreign Direct Investment lead take up.

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During the last 10 years we have seen the development of a more robust sector. We have seen Irish and international institutional equity investing into the market with long term investment horizons. We have seen disciplined bank lending, delivering prudent new development with high levels of pre let arrangement in place. On the occupier side, the range of market participates is stronger and more diversified on the back of a significant take up of space by international firms in the technology and pharmaceutical industries.

The changes that the industry has gone through over this period will better position it to absorb and adapt to this challenge currently being faced.

Conclusion

The ultimate depth and duration of the coronavirus' economic impact are highly uncertain, but we believe the shock should be temporary and will eventually dissipate to see broad economic activity normalizing. The commercial real estate sector will follow and so it is a time for investors to keep a long-term perspective.

When we're stressed, we shorten our time horizons. So precisely when we should be casting our eyes out on the horizon, we sort of look down."

- Michael Mauboussin

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