Life \ Pensions \ **Investments**

Quarterly Report
Q3 2022
Pension Irish Property Fund

Helping people build
better futures

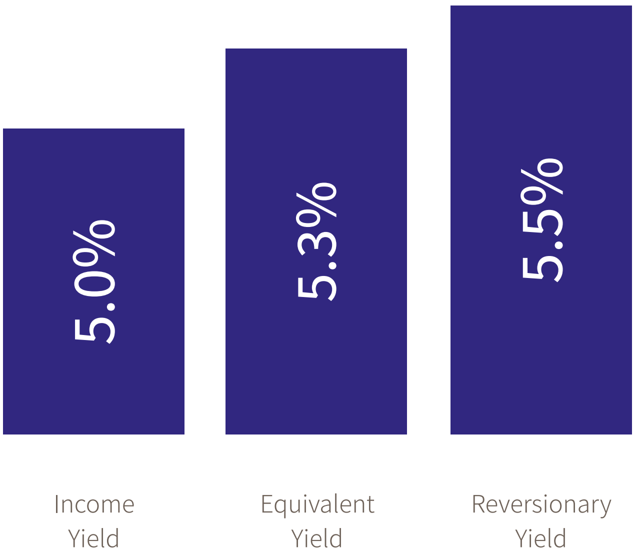
FUND CHARACTERISTICS

AT A GLANCE ▼

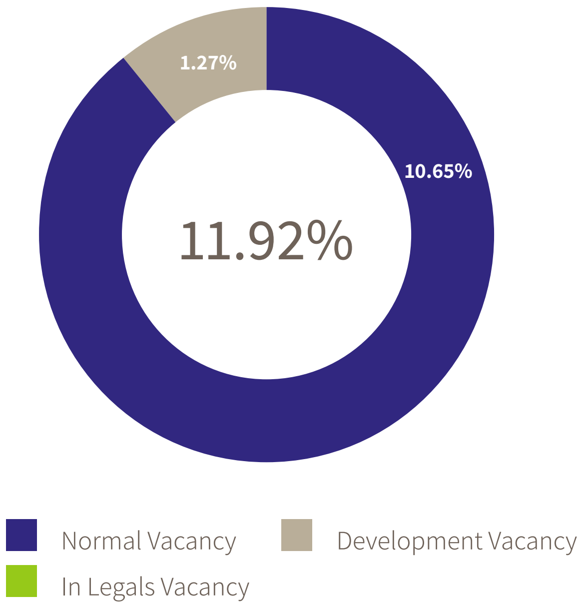
NAV	GAV	NO. OF ASSETS	GRESB ★★★★☆ 2022
€1.54bn	€1.86bn	69	

FLOOR AREA (SQ FT)	PASSING RENT PA	MARKET RENT PA	WAULT
3.45m	€84.4m	€93.4m	6.07 yrs

YIELD PROFILE ▼

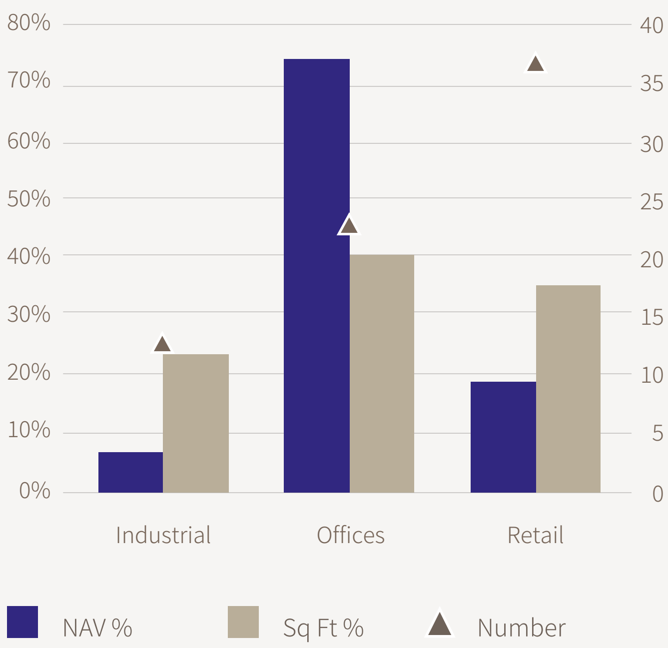


VACANCY ▼



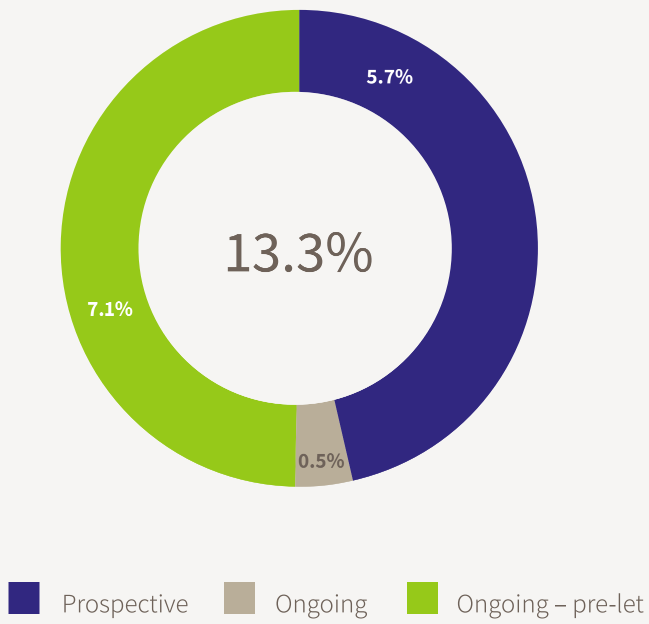
PERFORMANCE

SECTOR

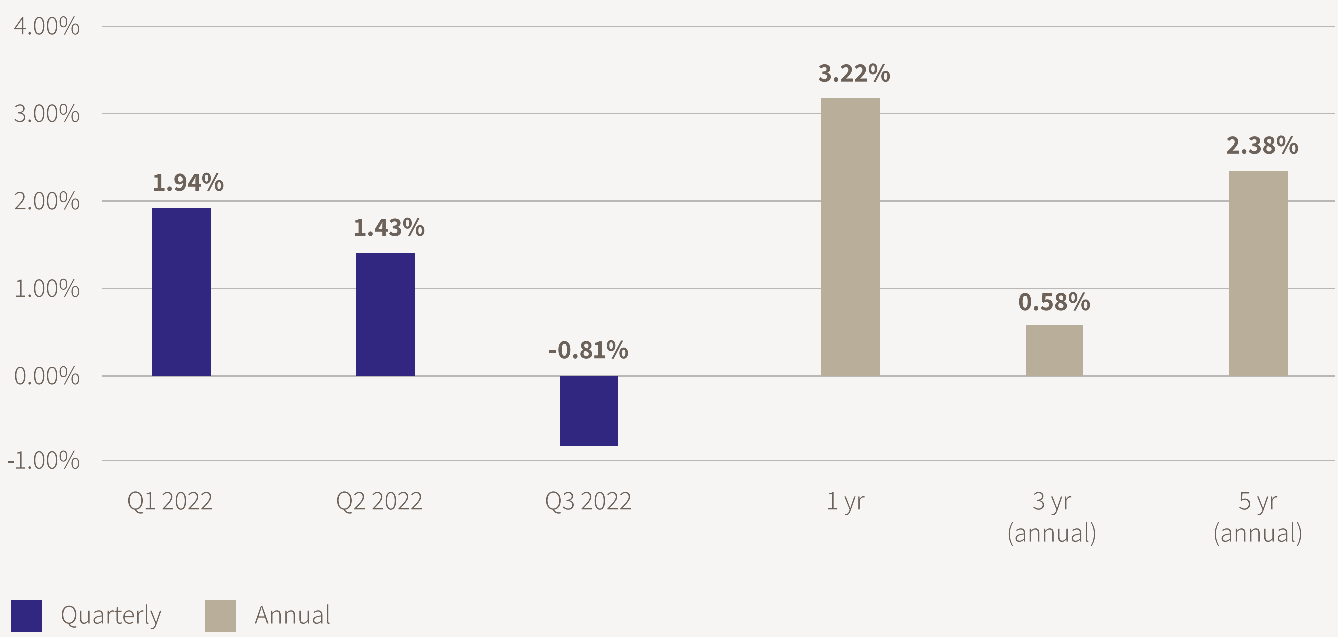


DEVELOPMENT OF ASSETS

as % of NAV



FUND PRICE PERFORMANCE



MARKET COMMENTARY

Property performance in the third quarter began to reflect the broader market decline seen across other asset classes throughout 2022, as higher interest rates, risk premia and the denominator impact were reflected in valuations through higher yields. The large portfolio held by the Fund reflected this adjustment; however, the annualised performance to the third quarter remained positive at +3.2%. This compares to a longer-term annualised return of +9.6% (10 years).

The strong underlying attributes of the occupational markets are also reflected in the Fund's profile and will influence its performance over the short term. Rent-free periods equivalent to an annualised €9.1m are due to expire over the next 12 months, which will increase the cash yield of the portfolio to the contracted income yield of 5.0%. This is secured across a diverse tenant base delivering over 400 income streams. The fund-level weighted average unexpired lease term (WAULT) currently stands at 6.1 years, and the vacancy level in the office portfolio (10.7%) provides an opportunity to further improve the Fund's income return. As noted in the market update, this level of vacancy tracks the current market rate.

Market shocks and structural trends have impacted all asset classes and the broader property investment market so far in 2022. Their impact on property, which is most notably affected by interest rate rises, is reflected in a reduction in activity over the summer months. This reduction in transactional evidence, upon which valuers usually rely to mark values to market, means that valuation declines seen in the third quarter (Q3) are a factor of sentiment and anticipated yield shifts emanating from increased borrowing costs and the risk-free rate. Bond yields rose significantly during the first half of the year, reducing the Irish property/bond yield spread to 2.9%, closer to its long-term average of 2.3%. It is worth noting that Irish bond rates have closely followed German rates, which highlights international investors' confidence in the Irish economy.

The outlook for yields across the sectors is trending weaker. However, we believe that their future direction and extent of an adjustment will be influenced by the levels at which they now stand, relative to their movement over the past number of years, and the extent to which occupational demand maintains over the short to medium term. Yields have moved significantly at a sectoral level in recent times, with industrial and retail swapping primacy and a more pronounced delta emerging in respect of office type.

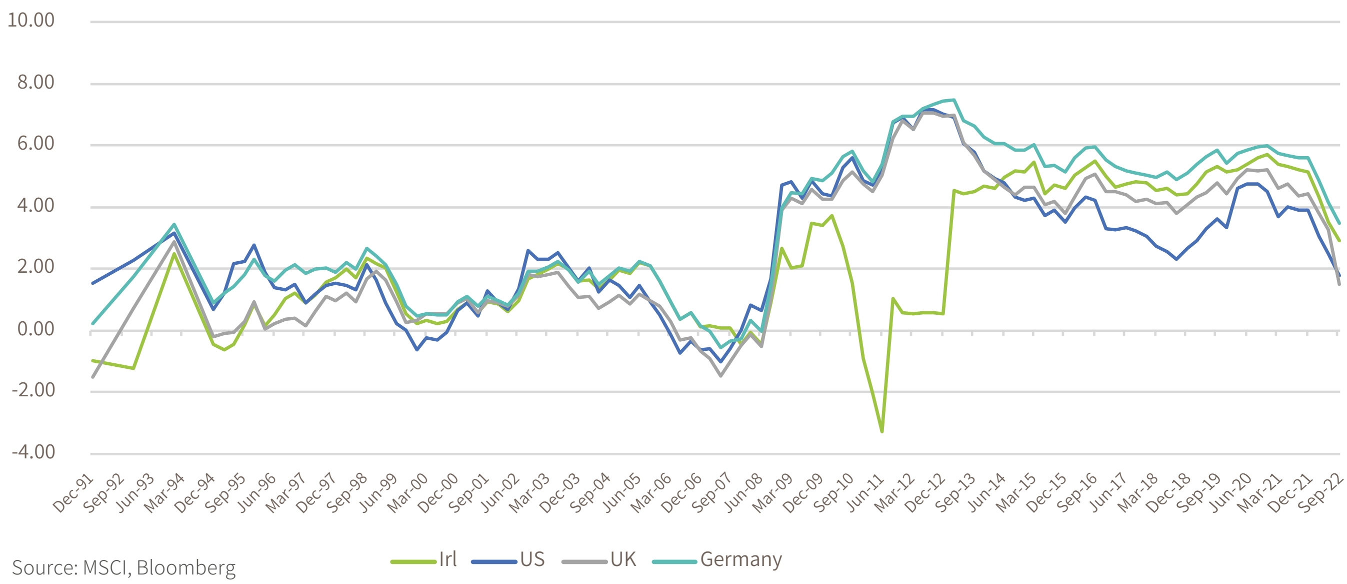
Irish yields did not reduce as much as core European cities and, as a result, appear to have been less impacted by current market dynamics. The prime office yield in Dublin remains relatively attractive compared to other key cities across Europe.

Q3 had €1.75bn of investment, which brings the total to €4.97bn year-to-date (YTD). This includes the buy-out of Hibernia REIT by Brookfield for €1.09bn and Yew Grove REIT by Slate Office REIT for €127.8m.

The largest deal during Q3 was for the Salesforce Building in Spencer Dock, Dublin 1, which was acquired by Blackstone from the Ronan Group for approximately €500m. As well as the Salesforce HQ office, this also includes a hotel, which is leased to the Dalata Group.

In addition to this sale, €209m of office assets transacted in the three months. As well as acquiring the Salesforce Building, Blackstone sold the Watermarque building in Dublin 4 for €92.2m to Corum (a French asset manager). The 100,000 square feet (sq ft) office has a strong tenant line-up, including Google and Pfizer.

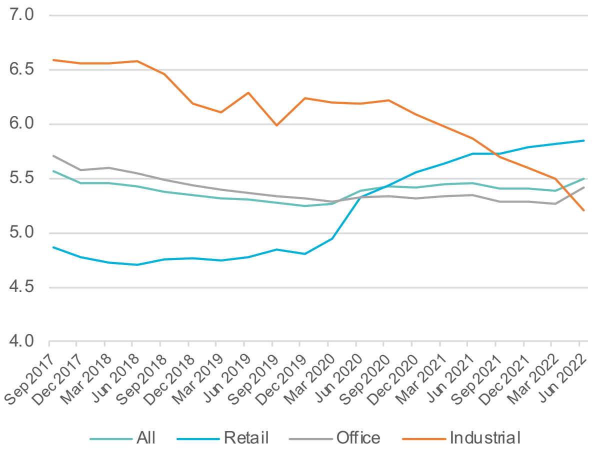
Long term Irish property: bond yield spreads



Source: MSCI, Bloomberg

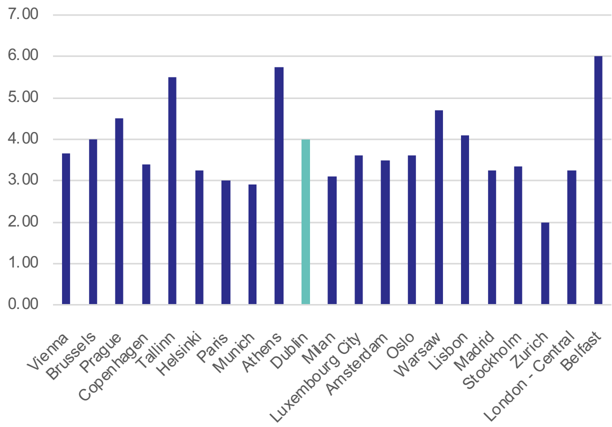
MARKET COMMENTARY (CONTINUED)

Sectoral Equivalent Yields



Source: MSCI

Key City Prime Office Yields Q3 2022



Source: CBRE Research

Also notable was the French firm Patrizia's acquisition of The Eight Building in Dublin 8 for €50m. This is a 75,000 sq ft building with LEED Gold certification. The most notable anticipated deal scheduled to complete in Q4 is the sale of Fibonacci Square, for a price in the region of €475m.

In the Industrial market, CBRE estimates that close to €90m was invested in Q3, taking the total, YTD 2022, to over €490m, which is close to 10% of the total investment activity. Yields, which have compressed very significantly in recent years (the prime yield for industrial eclipsed 4%), appear to be under some pressure due to interest rate increases, which, as noted above, are having an out-sized impact on the lowest yields.

Investment activity in the Retail sector has remained muted, with only €50m of deals completing, including the retail elements of two mixed-use schemes. There is a dearth of activity for prime stock; however, some regional schemes have traded for very attractive income yields to typically local, private investors. It is anticipated that the pick-up in occupational demand for prime locations such as Grafton Street will improve investment sentiment in the sector.

A summary of the sectoral occupational markets is set out below.

Office Sector

Office take-up reached over 720,000 sq ft during Q3, the majority of which was in Dublin 2/4. This represents the most active quarter of 2022 so far. However, CBRE has reported a relatively small decline in active demand to 2.264m sq ft, which is focused on well-located, modern stock. A further 775,000 sq ft is currently reserved and is expected to be contracted before year-end. Prime rents for this type of product remained stable during the quarter, in excess of €60 per sq ft.

The largest letting of the period was Tik Tok's new lease of the Tropical Fruit Warehouse, a new build in the South Docklands of 85,000 sq ft at an undisclosed rent, believed to be in excess of €60 per sq ft.

A notable decline in demand is evident for secondary buildings requiring capital expenditure to bring them up to the high, energy-efficient standards.

According to Savills, there is currently 1.1m sq ft of office space under construction and due to be completed by year end, of which 60% is leased. A further 2.4m sq ft of space is due to be completed in 2023, with 40% of that being pre-let. Approximately 1.6m sq ft of this 'pipeline' is currently reserved and expected to be contracted shortly.

The vacancy rate for office buildings is currently 10% in the city centre and close to 13% in the suburbs.

There has been a significant rise in the amount of 'grey space' on the market to let since the start of the pandemic in 2020. This is space that is available by sub-let, the growth of which is mainly due to the reduced requirements of tenants who have switched to more flexible working arrangements in that time. Savills tracks approximately 1.2m sq ft of this type of space currently on the market; however, it is typically only available on short-term contracts.

Industrial Sector

Several very large industrial units were leased or pre-let pending construction during Q3, which helped record a total take-up figure of 2m sq ft, the largest quantum ever contracted during a single quarter. The logistics/storage and cloud computing industries were the main drivers of this demand, which is set to continue as active requirements on agents' books exceeded 5.4m sq ft during Q3.

Prime rents have continued to increase during 2022 and now range from €10.50 to €11.50 per sq ft. This is being supported by the nature of the properties being taken up at present, of which a high proportion are new-builds, as well as the low vacancy rate, which is ~1%.

Retail Sector

The occupational market for prime retail space has improved significantly during the first three quarters of 2022. In particular, new leasing has dramatically reduced the vacancy in Grafton Street and has helped to provide a somewhat consistent tone of market rents across the street, which suggests an approximate 10% reduction in headline rents

MARKET COMMENTARY (CONTINUED)

from pre-pandemic levels. Importantly, the occupier mix has improved with several notable brands establishing a presence, including LEGO, Dr. Martens, Ecco, Russell & Bromley, and Canada Goose. ILIM also secured Mont Blanc as a new tenant of No. 1 South Anne Street in Q3, just off Grafton Street.

Inflationary challenges facing consumers pose a significant threat to retail sales over the short term, which have remained resilient so far in 2022, and above 2019 levels. It remains to be seen what impact this could have on future occupational demand.

City centre footfall is continuing to lag pre-pandemic levels, although this is primarily confined to traditional working days, which is likely a factor of remote working.

Outlook

While the occupational markets continue to perform well, we believe the activity levels and pricing seen in the investment market will be heavily influenced by the performance of other asset classes and the direction of interest rates over the medium term. Portfolio rebalancing, requiring balanced funds to reduce their exposure to real estate in the face of the movements in the equity and bond markets, will influence institutional demand for real estate in the short term.

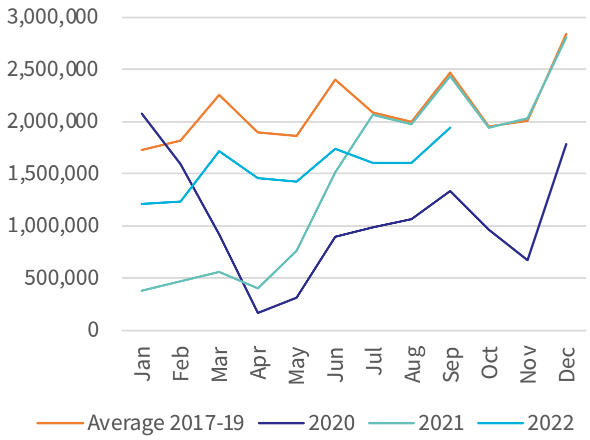
Occupational demand for buildings with high environmental specification located in prime locations is expected to remain strong, while lower grade buildings in peripheral locations are more exposed to negative rental growth.

We expect the gradual normalisation of shipping costs over 2022, as well as government intervention in the energy sector, to help maintain the strong occupational demand in the industrial and logistics market.

Retail leasing activity has continued to strengthen throughout 2022 and several high profile and new brands are anticipated to commence trading in Ireland over the short-term. City centre footfall appears to have settled at a consistent level post pandemic, which has resulted in a net reduction in traffic, but higher activity during weekends. While it has not yet been borne out by sales figures, persistent high inflation and higher energy costs are likely to dampen consumer confidence and retail sales over the short term. This poses a risk to the occupational market, although the retail sector in general has gone through a significant rebalancing since 2020, which could insulate the relative impact going forward.

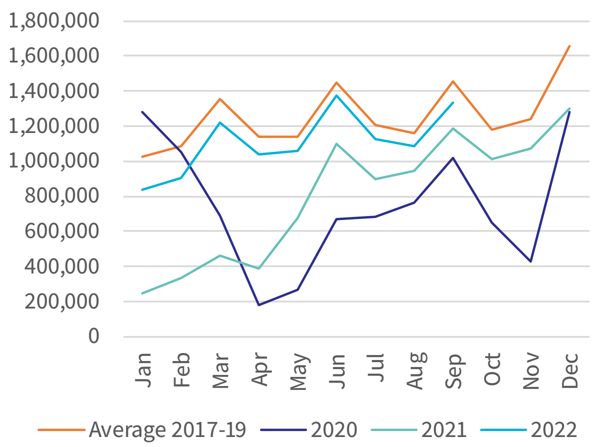
The residential market, which is heavily reliant on the delivery of new stock and low yields, is exposed to construction cost inflation and higher interest rates over the short to medium term. This has been somewhat offset recently by the continued demand-side pressure on the occupational market. However, we believe that a negative re-pricing of this sector will continue over the short term.

Grafton Street Footfall



Source: Dublin Town

Henry / Mary Streets Footfall



Source: Dublin Town

FUND UPDATE

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PROPERTY CASE STUDY

24-26 CITY QUAY

City Quay and Georges Quay form a significant office location given their strategic gateway position connecting the historic city centre with Dublin Docklands. The Fund holds three best-in-class office properties fronting the River Liffey: 1GQ, 13-18 City Quay and 24-26 City Quay. This quarter, we will focus on 24-26 City Quay, which has recently undergone a very complex refurbishment and extension project in a live, tenanted building environment. It has delivered strong rental returns from high-profile tenant covenants and future-proofed the building for years to come.

TRANSFORMATIVE
Extensive upgrade to deliver best-in-class, sustainable offices

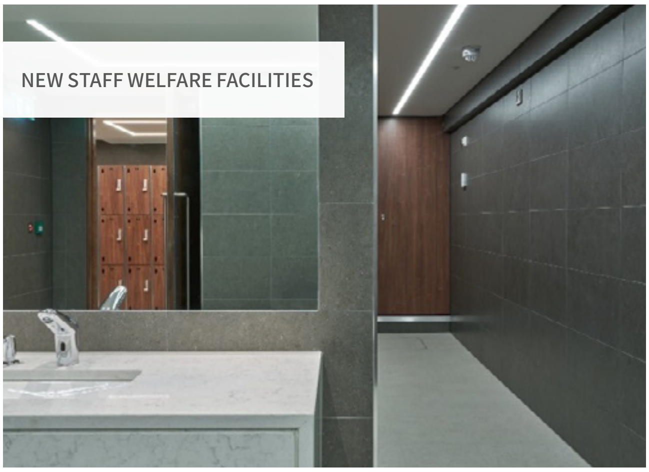
SUSTAINABLE
Healthier working environment
LEED Gold, Fitwel, BER A3

REMODELLED
New reception, new building services, new Grade A office space

90,000 SQUARE FEET (SQ FT)
Extended total floor area

EFFICIENT
Highly efficient floor plates

EXCELLENT FACILITIES
12 new showers, new changing rooms and drying facilities.
96 secure bicycle spaces



24-26 City Quay is the portal to Dublin Docklands. The Fund has transformed this landmark building to provide headquarter offices of exceptional quality in line with its environmental, social and governance development guidelines. The property leads the way in terms of energy efficiency and sustainability with BER A3, LEED Gold, Fitwel and WiredScore accreditations.

In 2020, ILIM completed a full redesign and remodelling of the reception, office accommodation, building services and welfare facilities. In addition, the penthouse floor was extended by approximately 10,000 sq ft.

European Refreshments, Morgan Stanley and Merative Healthcare have since taken up leases in the building, helping to increase the annual rent roll from €2.3m pre-refurbishment to €3.4m today. This will be further enhanced when the last remaining office suite, located on the ground floor, is leased.

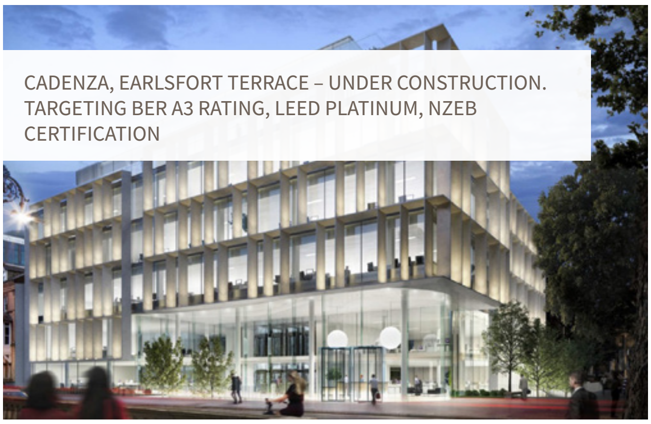
ENVIRONMENT, SOCIAL AND CORPORATE GOVERNANCE

ILIM Property is defining a Net Zero Pathway that will provide a framework for the reduction of greenhouse gas emissions, energy use, energy intensity targets, renewable energy use and the use of circular economy principles in new developments. The Net Zero Pathway is ongoing.

Across the real estate funds, ILIM reviews key environmental impacts on a quarterly basis, including:

- **Energy Consumption:** reducing like-for-like energy use where ILIM is directly responsible by 15% by December 2024 (based on a 2019 baseline);
- **Renewable Energy:** procuring 100% of electricity from renewable sources, where economically or operationally feasible;
- **Greenhouse Gas Emissions:** reducing like-for-like Scope 1 and 2 emissions by 25% by December 2024 (based on a 2019 baseline), and defining and measuring Scope 3 emissions in line with best practice by December 2024;
- **Water Use:** reducing like-for-like water usage by 10% by December 2023 (based on a 2019 baseline); and
- **Production of Waste:** diverting 100% of waste from landfill.

1 GEORGE'S QUAY, DUBLIN 2 – REDEVELOPED IN 2017. BER A3 RATED, LEED PLATINUM



CADENZA, EARLSFORT TERRACE – UNDER CONSTRUCTION. TARGETING BER A3 RATING, LEED PLATINUM, NZEB CERTIFICATION

As a responsible investor, ILIM adopts an active ownership approach across its real estate assets, which aims to maximise the medium to long-term value for its clients. ILIM uses its ownership to constructively engage with property managers, encouraging better standards and management processes covering financially material ESG risks.

At asset level, ILIM has developed an Environmental Management System (EMS) to manage sustainability impacts, risk and opportunities across its real estate portfolios. The EMS also aims to improve resilience and performance in ILIM's portfolios and assets. The EMS was established to deliver commitments set out in the ILIM ESG policy and covers all aspects of the direct real estate investment management life cycle for all real estate operations.

The Pension Fund has continued to improve and deliver on ESG and has been awarded four stars in the 2022 GRESB Real Estate Assessment for both its standing stock and developments, with a score of 85 for standing stock. In defining a net zero pathway for the reduction of greenhouse emissions, a particular focus has been placed on data collection over the past 12 months. Analysing this data provides the Fund with a transparent, science-based decarbonisation pathway to identify and measure greenhouse gas (GHG) reduction targets aligned with the Paris Agreement. This has involved working closely with occupiers to share operational GHG emissions and develop practical solutions to achieve reductions. ILIM is also working to understand the footprint of embodied carbon in its developments and targeting net zero for these projects.

During the third quarter, ILIM Property undertook a materiality assessment covering key areas including environmental, social and economic issues. A broad range of internal and external stakeholders, including investors, were contacted to gain a better understanding of the key issues to their business and what steps ILIM Property should be making to enhance ESG performance. The materiality assessment recognised that ESG targets are becoming critical to investment value as potential EU legislation will mean more stringent measures being imposed on the built environment.

The Fund is classified as an 'Article 8 Fund' under the Sustainable Finance Disclosure Regulation (SFDR).

This document is intended as a general review of investment market conditions. It does not constitute investment advice and has not been prepared based on the financial needs or objectives of any particular person, and does not take account of the specific needs or circumstances of any person.

The author cannot make a personal recommendation for any person and you should seek personal investment advice as to the suitability of any investment decision or strategy to your own needs and circumstances. Any comments on specific stocks are intended as an objective, independent view in relation to that stock generally, and not in relation to its suitability to any specific person.

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