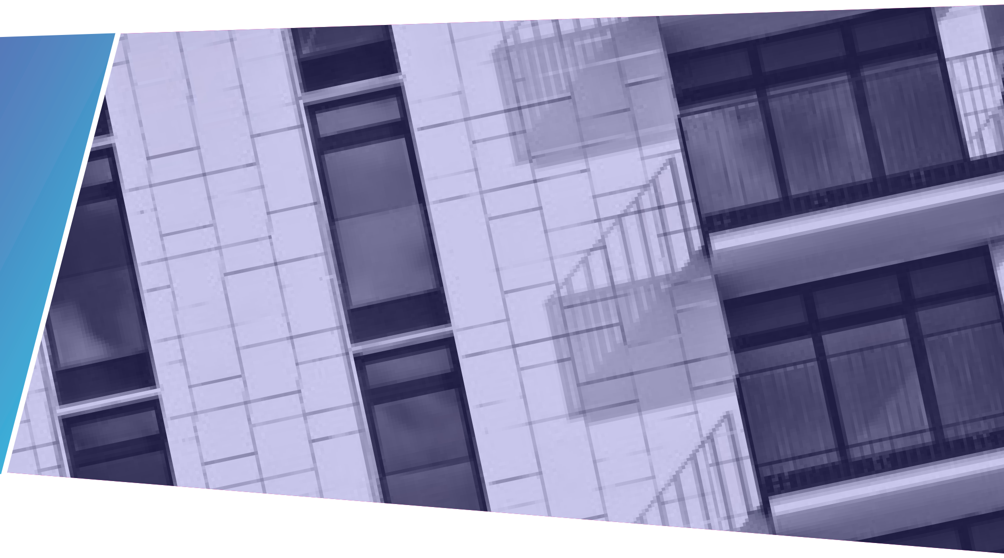


Quarterly Report Q2 2024 Irish Property Fund

MARKET REVIEW

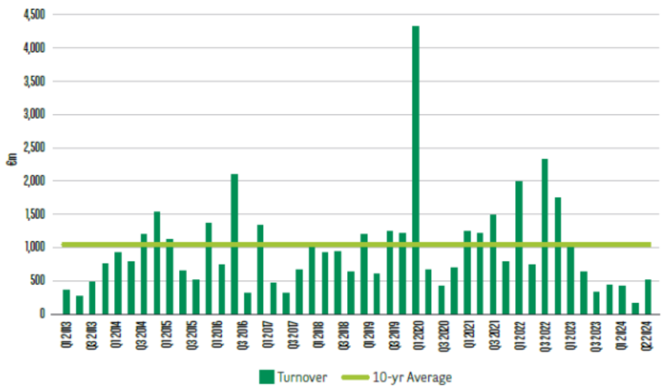
Introduction

Investment turnover over Q2 2024 was at €514m (according to BNP Paribas Real Estate), which represented a notable pick-up in investment activity over recent quarters and which was actually the strongest since Q1 2023. However, compared to long-term trends, a total of 29 deals closed compared to the 10-year average of 54 deals per quarter, and the total value of transaction volume is also at less than 50% of the 10-year average.

Three deals, each with a value of over €50m, increased the average transaction size from €8m in Q1 2024 to almost €18m in Q2. However, the market is still dominated by private high-net-worth investors, with a focus on sub-€20m deal-size transactions. Stripping out the largest three transactions, the deal size is under €13m.

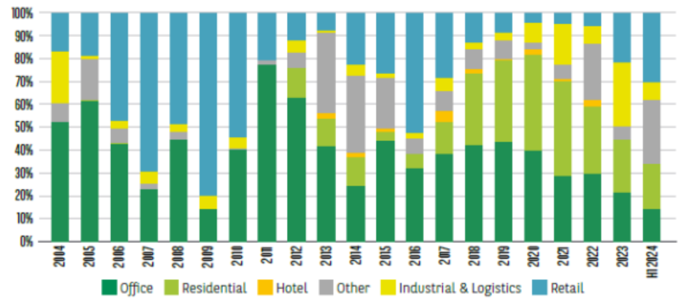
When the sectoral breakdown of Q2 investment is reviewed, several trends emerge. The decreasing level of transactions in the office sector is the most notable. (This has been ongoing since year-end 2019, and the correlation with the Covid-19 pandemic is difficult to ignore; office allocation is indicated in the graph in dark green). According to BNP Paribas Real Estate, a total of nine office buildings traded in H1 2024, three in regional locations, three in the suburbs, and the remaining three were in Dublin city centre, which tends to command the majority of occupational demand and activity. However, it is in this sub-sector (city centre office) that the most notable deal of H1 occurred with the sale of 40 Molesworth Street, acquired by Deka Immobilien (a German fund manager) and sold by State Street Global Advisors for about €37.5m. This is an A-rated building of almost 33,500 square feet, occupied mostly by DLA Piper (an international law firm), on a long-term lease at a market rent. The location is very strong (at the junction of Dawson Street and Molesworth Street in Dublin 2). This is a vote of confidence in the Dublin office market, and the reported yield of 5.16% (per BNPRE) and the fact that the purchaser emerged from a competitive bidding process are likely to provide confidence to the investment market.

Investment turnover



Source: BNPPRE

Sectoral distribution of investment



Source: BNPPRE

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MARKET REVIEW (CONTINUED)

The retail sector continued to attract domestic high-net-worth investors, and its increasing contribution to the investment market is set out in the graph above. Outside of the high street submarket, the retail warehouse sector was also represented by the sales of Mahon Retail Park (sold by IPUT to Corum, a French investor), and the sales of Letterkenny Retail Park and of Deerpark Retail Park in Kerry also closed in Q2 2024.

Six transactions closed in the logistics/industrial sector, although this low number, relative to recent quarters, is likely due to a lack of available investment product, given the strength of the occupational market and investor demand.

Regarding the source of investment capital, approximately 23% of activity was funded by domestic buyers, and just over 20% was from French investors. Cash buyers have an advantage given the recent increased cost of debt financing. Elevated interest rates continue to slow momentum in the investment market.

In terms of an outlook, investment sentiment seems to be moving in a positive direction. The position at the end of H1, with approximately €675m of trading activity may lead to a year-end total investment of €1.5bn, as predicted by BNPRE at the start of 2024.

This stage in the investment cycle (with low levels of investment activity) tends to attract opportunistic investors (investors that take on investment risk, looking for high returns), and reportedly a large number of these European-focused funds are seeking to raise capital to invest in value-add or opportunistic investments. While the denominator effect on real estate allocations has dissipated (i.e. falling values required a lowering of allocation to real estate in multi-asset portfolios), global investors remain cautious of investing capital in the current market and are keeping their powder dry.

40 Molesworth Street

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MARKET REVIEW (CONTINUED)

Office

Office take-up in 2023 amounted to approximately 1.4m square feet and ranked as the quietest year in terms of such activity since 2010. The impact of remote and hybrid working on office demand is reflected in this trend as office occupiers continue to assess their requirements into 2024. Activity in Q1 was similarly low; however, these headline figures distract from much of the underlying activity that is taking place, which tells a very different story about the future of the office market.

Dublin office take-up for Q2 2024 totalled just over 930,000 square feet (according to CBRE and also BNPRE), which is the strongest quarter of take-up since Q4 2021. This is over five times the level of Q1 2024 activity. A total of 51 transactions closed, and it was notable that some larger office lettings transacted, compared to recent activity which had tended to focus on smaller (5,000 to 10,000 square foot) demises.

The largest letting deal was in One Wilton Park (close to the canal between Baggott Street and Leeson Street), in Dublin 2. The letting, for just over 150,000 square feet, was to Stripe (a tech/financial services, or "FinTech" company, which is one of the industries that tends to favour the hybrid working model). The transaction was actually an assignment of a lease from LinkedIn to Stripe. The next-largest letting was in The Shipping Office, located on Sir John Rogerson's Quay in Dublin 2, to BNY Mellon (a US financial services firm), for just over 78,000 square feet, in this recently constructed, Grade A+ building, demonstrating the continued flight to quality.

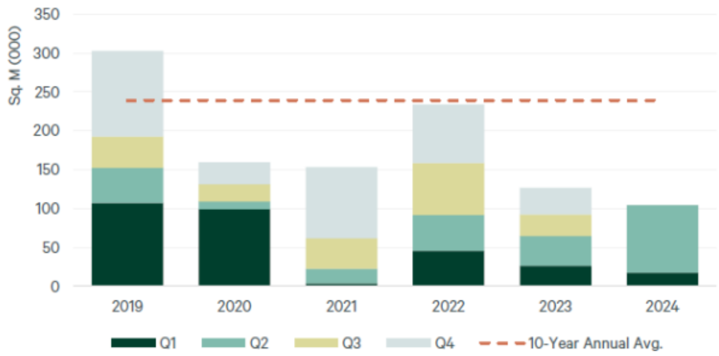
A total of five transactions completed that were in the order of 50,000 square feet each, and these accounted for over half the entire level of letting activity. For perspective, while traditionally the office market was characterised by 5,000 to 20,000 square foot activity, the period of 2015 to 2019 experienced a surge of demand for much larger demises, and this was linked to the increase in the presence of the larger technology firms in the Dublin office market.

It is also notable that general tenant demand has increased as indicated by level of the office stock reserved (generally an indication of agreed deals that are in the process of legal documentation), which is reportedly at over 500,000 square feet. Furthermore, CBRE reports that current "active requirements" (indications of requirements from prospective tenants) is at over 2.6m square feet.

Take up in H1 2024 is now over 1.1m square feet, which is 60% higher than activity for the corresponding period in 2023. This demonstrates the progression of decision-making and formulation of strategy in relation to office requirements, after the transition into more modern working practices.

The vacancy rate in the Dublin office market, at over 18%, has increased, partly due to the completion of some large developments, including "Cooper's Cross", an office development completed by Kennedy Wilson with approximately 380,000 square feet of office space in a six-acre, multi-use modern development. Other notable deliveries of new office space include College Square (a Marlet development in Dublin 2 which has commercial terms agreed with a prospective tenant), and The Sidings, a 210,000 square feet building in the Dublin south docklands. It is important to note that vacancy in the well-located buildings with high environmental specification is considerably lower than in the overall market. The last reported vacancy rate for this subsector was under 3% (reported at the end of Q1 2024). It is also important to put context in the overall vacancy rate, and to consider that a healthy office market vacancy rate (one where reasonable supply is available to new and existing occupiers that look to move or expand) is in the order of 6% to 8%.

Dublin office take-up 2019-2024



Source: CBRE Research

CBRE reports that the Grade A 'grey space' (offices that are leased long-term but that are surplus to the requirements of the occupying tenants and available to sub-let) continues to be slowly absorbed. Activity in this sub-set of office stock accounted for just over 20% of leasing activity in H1 2024, and this level of activity is expected to continue into H2 2024.

The financial services sector accounted for 32% of activity, followed by the public sector at 28% of deal volume. Bloomberg, Stripe, BNY Mellon and Renaissance RE are some of the more notable financial services firms to have transacted in H1 2024. It is also notable that approximately 76% of deals transacted in the Dublin 2 and Dublin 4 areas, which is a continuation of recent letting trends and an indication of the focus of tenant demand.

Rents remain steady for the best quality product, at over €60 per square foot for the most prime product in the strongest locations, although evidence is emerging that tenants are negotiating greater lease inducements, such as rent-free periods.

MARKET REVIEW (CONTINUED)

Retail

The consumer price index is trending down gradually since mid-2022 and this is helping consumer purchasing power, which is positive for the retail sector. The Irish retail market is performing more positively than that of the Eurozone in general, which is attracting several international retailers to the Irish market and convincing existing retailers to view expansion opportunities positively.

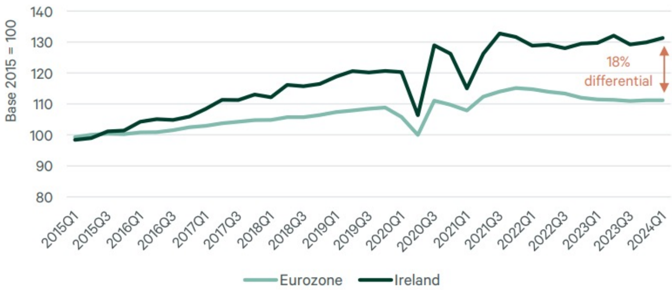
The most notable recent retail deal was the expansion of the Zara (Spanish fashion retailer) presence on South King Street, taking over the large unit formerly occupied by H&M (the Swedish retailer), resulting in a current presence of over 33,000 square feet. This newly refurbished unit is due to open in September 2024. The redevelopment of the former Clery's building continues to gain traction with the opening of the large, over 30,000 square feet Decathlon store. All these developments are notable and are a tonic for the city centre high street sector that experienced difficult periods since the Covid-19 pandemic. Retail rents, with increased tenant demand are accordingly slowly increasing.

Vacancy in the high street subsector has continued to decline, and it now stand at 6.25% on Grafton Street (six units) and 14% on Henry Street (nine units).

Shopping centres, retail parks and supermarkets continue to perform well, with vacancy in the larger units (those covered by the MSCI index) at under 3%, significantly down from 15% in Q1 2022.

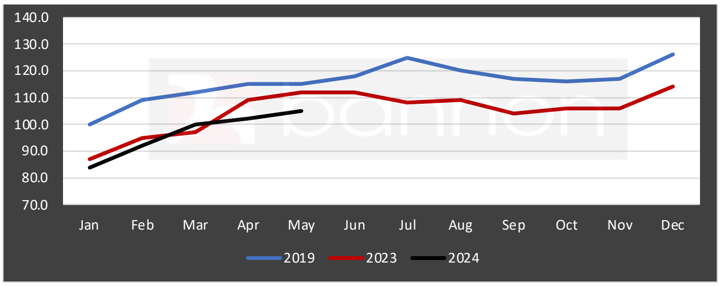
Footfall continues to trend up on the high streets, as demonstrated in the Bannon Commercial graph.

Retail sales volumes (Ireland* vs. Eurozone)



Source: Oxford Economics; *national retail sales index excluding motor trades

High street footfall



Source: Bannon

Industrial

Investment activity in this sector was relatively low in Q2 2024, with €53m invested across seven deals. However, the sector is still in favour among many institutional investors, and it is likely the lack of available product that has kept this investment number low. The fundamentals of the occupational market are still very strong, and this sector is expected to continue to perform strongly in the near-term. Rental growth continues to increase even as new development product is delivered into the market. Prime rents are at €13 per square foot, and vacancy in the top industrial and logistics parks is still at under 3% according to CBRE.

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FUND STATISTICS

Total returns	
Q2 2024	-1.70%
1 Year	-7.89%
3 Years (annualised)	-2.16%
5 Years (annualised)	-1.80%
10 Years (annualised)	+5.89%

Property income yields	
Office	6.8%
Retail	6.6%
Industrial	3.7%
Portfolio	6.5%

Source: Irish Life Investment Managers. Data is accurate as at end of quarter two (30 June 2024).
The pricing basis of the fund changed in January 2020 from acquisition to disposal basis.

THE PORTFOLIO >

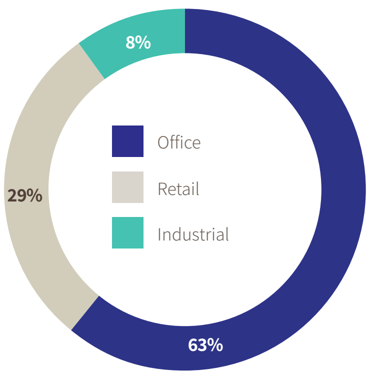
34 BUILDINGS

250 TENANCIES

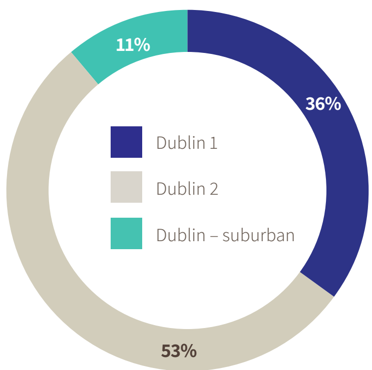
-1.70% TOTAL Q2 RETURNS (GROSS)

Source: Irish Life Investment Managers. Data is accurate as at end of quarter two (30 June 2024).

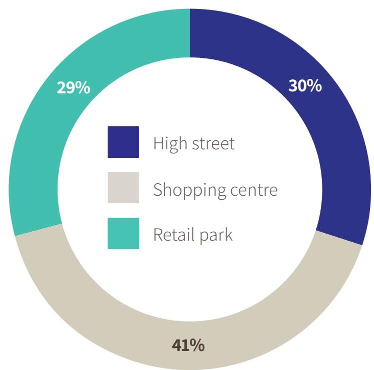
Sector Weightings:



Office Sub-Sector Weightings:



Retail Sub-Sector Weightings:



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FUND ACTIVITY

The fund has no leverage (so it has no mortgage financing).

The difficult investment market environment has placed downward pressure on values in recent quarters. The various factors that are impacting performance have been addressed in the general report above, but it is worth mentioning again that the chief drivers of performance have been negative capital value moves, based on increased interest rates which tend to impact real estate due to the use of debt financing in the ownership structures of most transactions.

A further influence on performance has been the negative sentiment in the office market (due to the adoption of modern hybrid working practices). Many similar funds are weighted at over 50% office holdings (this is at 63% at the end of Q2 2024). Most of the office holdings in the fund are centrally located (89% are in Dublin 1 and Dublin 2), which tends to command the majority of tenant demand, and correspondingly there is very low vacancy in the office stock held in the portfolio. The fund has disposed of several assets over recent years to reduce exposure to suburban office buildings, and this has helped with investment performance over recent years.

These factors are producing negative asset capital moves in the investment market, and are influencing all property values, including those in the fund.

The value falls (and the associated negative capital returns) experienced in the portfolio are not generally driven by property-specific events such as lease terminations and resulting vacancies in buildings that are held within the fund, but predominantly by market-driven yield movement. The fund has high occupancy levels, and so while the income return (the total rental income divided by the total value of the property portfolio value) is strong, it is being diluted by negative capital value returns.

The Fund imposed a six-month deferral (notice period) to all withdrawal and switch requests on 3 March 2023, as communicated to customers at that time. The decision was made in response to investor flows and is not a reflection of our view of the long-term suitability of property as an asset class, nor the quality of the portfolio of properties within the fund.

- Rent collection rates in the Fund are at close to 100% for Q2 2024, which demonstrates the strong income profile of the fund.
- Transaction activity has been busy over Q2 2024, with respect to both lettings and asset trading.
- The fund has agreed two lettings in the office portfolio and one lease variation in the industrial portfolio (extending the lease term so increasing the length of the income stream).
- In the retail portfolio, the fund has agreed one new lease deal and two lease variations (extending the lease terms of both, again to produce extended income streams). All of these deals contribute positively to fund performance and will strengthen the income profile of the fund.
- The fund vacancy rate at the end of Q2 2024 was at approximately 10.3%. Over Q2 2024, the fund traded four assets (two high street retail buildings and two industrial buildings). In all cases, the fund had looked to maximise capital value through asset management in advance of the sales.
- The fund is continually looking to optimise the portfolio and continues to review sales opportunities and recycling of capital into investment opportunities within the existing portfolio.
- The fund has a well-constructed portfolio of assets, with a strong income profile.
- The strategy is to continue to improve the assets within the portfolio, to create value-enhancing opportunities and to further improve the portfolio structure, the income profile and returns of the fund.

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.