ILIM

Life \ Pensions \ **Investments**

Quarterly Report
Q1 2022
Pension Irish Property Fund

Helping people build better futures

FUND CHARACTERISTICS

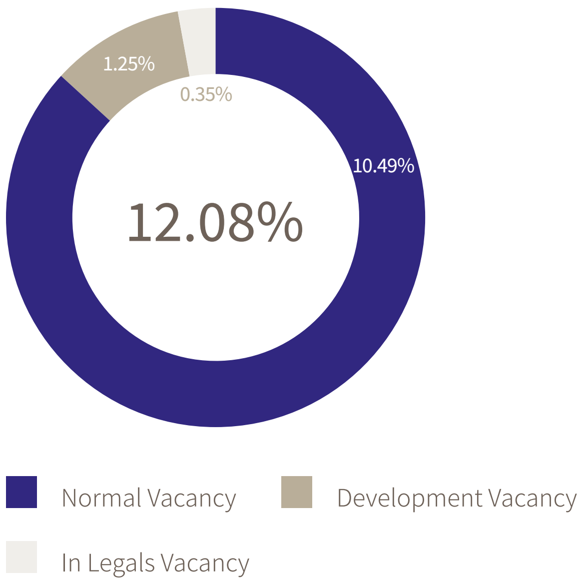
AT A GLANCE ▼

NAV	GAV	NO. OF ASSETS	GRESB 2021
€1.56bn	€1.87bn	72	

FLOOR AREA (SQ FT)	PASSING RENT PA	MARKET RENT PA	WAULT
3.5m	€86.4m	€94.1m	6.5 yrs

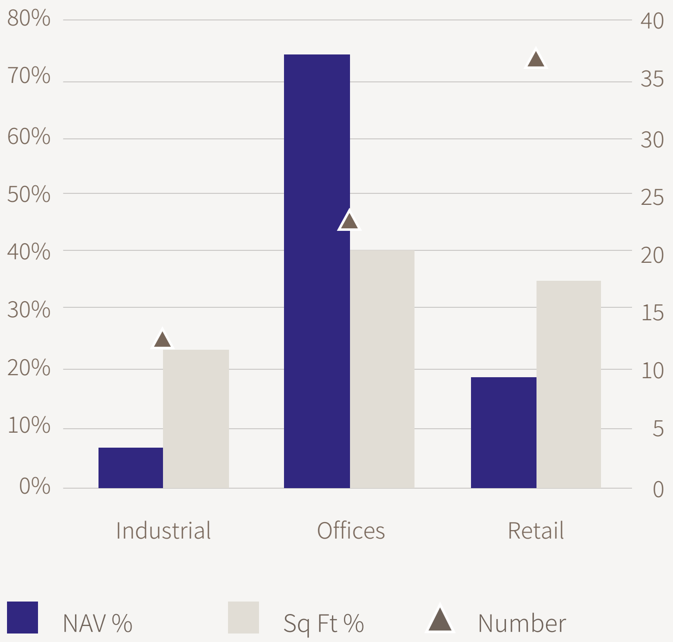
YIELD PROFILE ▼

VACANCY ▼



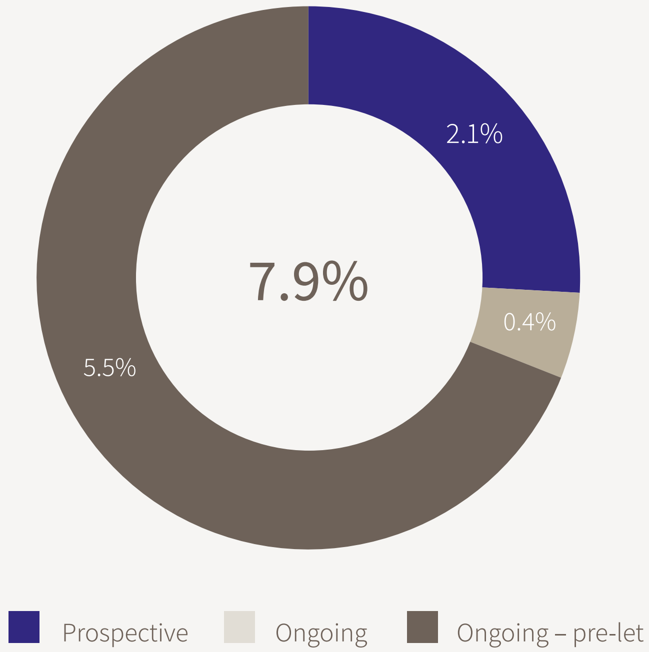
PERFORMANCE

SECTOR

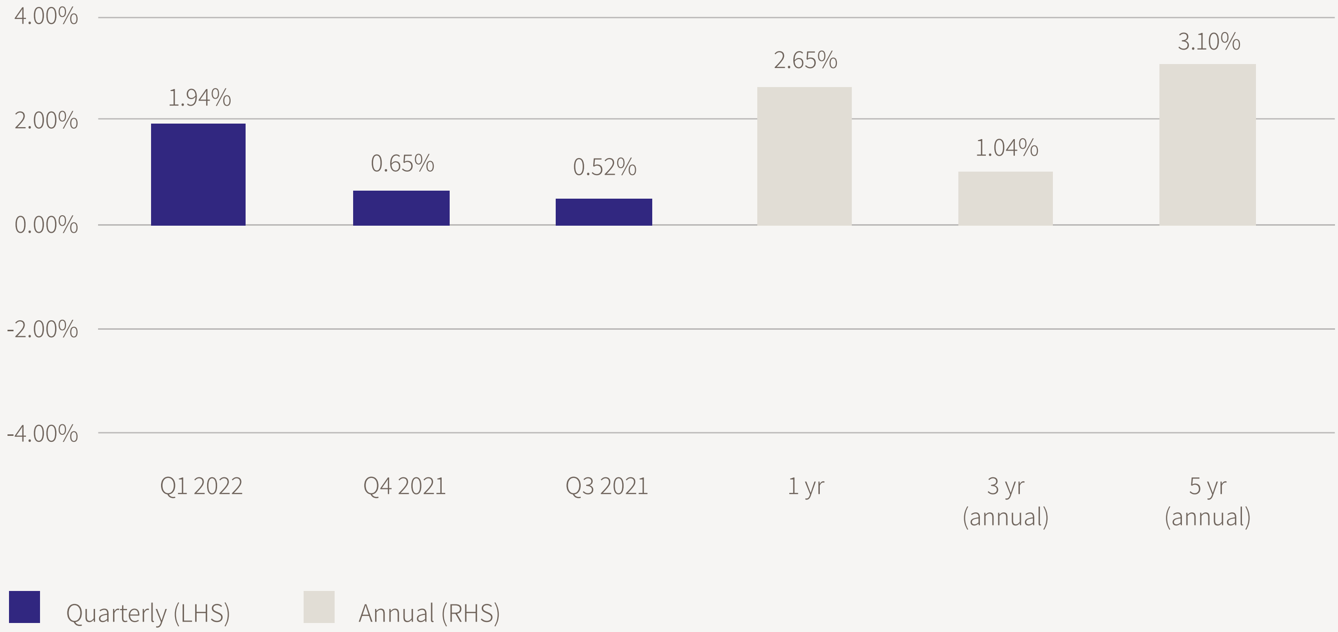


DEVELOPMENT OF ASSETS

as % of NAV



FUND PRICE PERFORMANCE



MARKET COMMENTARY

The first months of 2022 have been marked by the tragic events that unfolded in Ukraine, dominating political activity, and unsettling the world economy. While it remains unknown how long the crisis will persist, some of the economic consequences have already been felt. In the US, headline inflation reached +7.9% in February and Eurozone inflation reached +7.5% during March. Since the Russian invasion of Ukraine, commodity prices have soared by 33.1% through Q1 with Brent oil +38.7%, European gas +84.2%, and wheat +29.9%.

The ESRI's Spring Statement revised down 2022 GDP growth forecasts for Ireland to 6.5%, from 7.0% in winter, and expect modified domestic demand (MDD) to hit 5.0%, down from Q4's estimate of 7.0%. Their view on 2022 inflation rose to 6.7%, from 4.0%, because of the war in Ukraine.

Despite this, and the prospect of interest rate rises during the year, no discernible impact on the property market is apparent, with Q1 data for the wider European market broadly in line with trends persisting up to Q4 2021. These risks have begun to impact financing costs, seen in the movement of swap and interbank lending rates over the past 12 months.

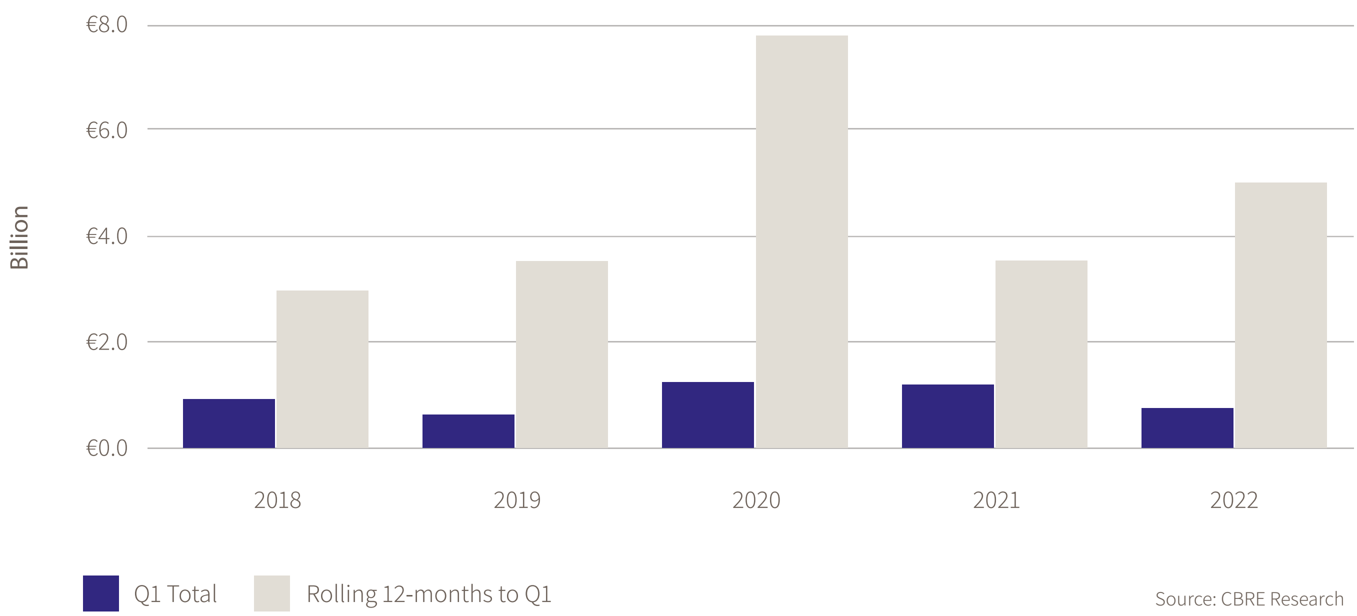
In Ireland, 30 property transactions totalling €760m were contracted during Q1, which is in line with the high level of activity recorded through 2021, when €5.5bn of deals were completed. This compares with the 10-year annual average of €3.8bn. While office and residential property has dominated market demand for the past number of years, the largest transaction in Q1 was Project Ruby: a trio of student accommodation blocks in Dublin and Galway that was acquired by ARES Capital for €145m. Including that deal, the residential sector accounted for 50% of investment during Q1, while industrial / logistics deals represented 23%.

The strength of the logistics sector was underlined by the forward fund of a new Penney's distribution centre in Newbridge, Co. Kildare by German investor Union for €129m. This price, which breaks back to approximately €186 per sq. ft., will produce an income yield of 3.7% when completed.

News broke in late Q1 that Hibernia REIT had agreed terms for a buy-out from Brookfield Asset Management, a large Canadian investment firm, who made a cash offer of €1.089bn (equivalent to €1.63 per share), which compared to a quoted share price of €1.18 and a December 2021 NAV of €1.59. Hibernia's portfolio of 36 properties is heavily weighted to Dublin office assets with significant redevelopment potential. This follows the buy-out of Green REIT by Henderson Park in 2019, which similarly was trading a price below its underlying NAV.

No material market-level valuation moves were apparent during the first three months of 2022. However, best in class office and logistics assets are continuing to generate capital growth through yield compression and rental value increases. Prime offices in Dublin are now attracting equivalent yields sub 4.0% and market evidence is emerging for some logistics assets at similar levels.

IRELAND INVESTMENT VOLUMES Q1 2018 – Q1 2022



Source: CBRE Research

MARKET COMMENTARY (CONTINUED)

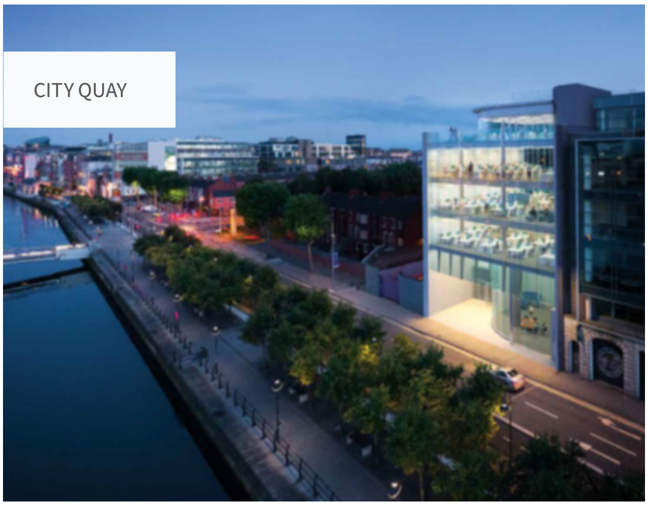
No prime retail schemes have traded since the onset of the pandemic. However, several regional schemes generating attractive income returns in excess of 7.0% sold during 2021, indicating that investors are seeking out retail opportunities. While not a pure retail scheme, Point Square, a mixed-use development in Dublin 1 extending to 249,000 sq. ft, of which approximately 60% is retail accommodation, was acquired by a private Irish investor in Q1 for €85.0m. Project Cobalt, a portfolio of three retail parks in Letterkenny, Tullamore, and Killarney was put on the market for sale in March at a guide price of €67.5m. Bids are expected to be called for that proposition in Q2.

Grafton Street received a boost during Q1 with the signing of a new lease to LEGO in No.41, a property managed by ILIM. The deal is the second new lease to be signed on the Street since the pandemic, the first being Lululemon in No.84. The retail park market has sustained more resilient trade during the pandemic, which is bolstered by the continued strength in the residential property market. Bannon reported six new lettings that occurred in that sub-sector during Q1, comprising pet stores Petmania, Maxi Zoo, and Petstop, as well as furniture brands Jysk, Natuzzi, and EZ Living. That firm has calculated the occupancy rate of all its managed retail schemes in Ireland at 91%, with retail parks the best performing at 95%.

Office take-up in Q1 reached approximately 484,000 sq. ft., which is 60% below the average take-up for the same period pre-covid. Demand remains resilient for high quality, well-located office accommodation and CBRE is currently tracking active requirements for excess 3m sq. ft. in Dublin. This demand is primarily focused on modern, city centre stock, for which rental values have rebounded following a decline in activity during the pandemic. An example of this was Irish Life's letting to Morgan Stanley of a newly constructed top floor in 24-26 City Quay for a rent equating to €62.50 per sq. ft.

CBRE has calculated the vacancy rate at 8.2% in March, down from 8.5% in December and notes that excess 1.16m sq. ft. is reserved at the start of Q2. The TMT (technology, media, and telecom) sector remains the most active occupier type, while financial / professional services continue to expand and the public sector, which accounted for 19% of Q1 take-up, is actively transitioning its office footprint into more modern, energy efficient buildings.

Occupational demand for industrial and logistics space is persisting and resulted in a reported take-up of excess 1m sq. ft. in Q1 and rental levels continue to edge upwards for both prime, purpose-built stock, and dated buildings which are in short supply relative to current demand. Most current activity is centred along the M7 (southwest) and M2 (northwest) corridors, where many new developments are being delivered. Agents continue to report and seek out new requirements, particularly for logistics operators. Typical lease terms in this sector continues to offer investors long-term income that is often linked to inflation, which is helping sustain high investor demand and compressing yields to record-low levels.



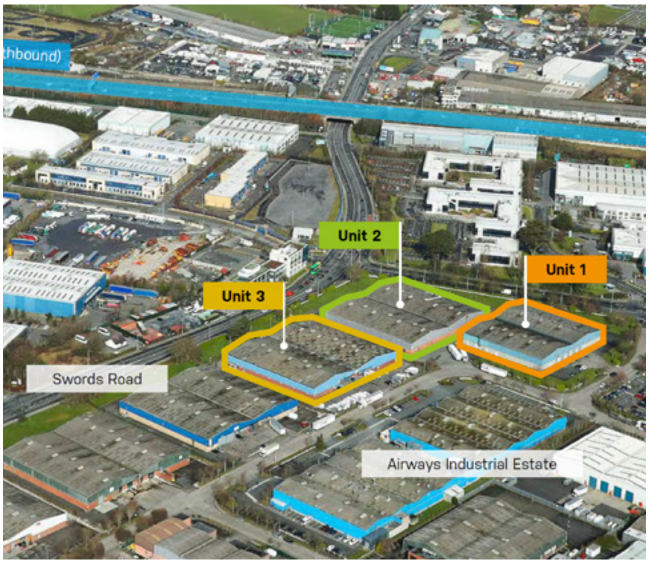
CITY QUAY

41 GRAFTON ST. LEASED BY ILIM TO LEGO DURING Q1 FOR A RENT OF €500,000PA

INDUSTRIAL TRANSACTIONS

Units 1-3 Airways Industrial Estate

The Fund has appointed JLL to offer Units 1, 2, and 3 Airways Industrial Estate to the market at a guide price of €11m. The properties, which were originally developed by Irish Life in the 1970s, are fully leased to the OPW and FedEx at a current combined passing rent of excess €671,000pa. The three buildings extend to a total floor area of approximately 127,000 sq ft GEA and sit on a site of approximately 6 acres.



Unit 1 Vantage Business Park

The Fund has acquired a new logistics facility in Vantage Business Park, Coldwinters, which is under development and due to be completed during Q4 2022. Significant progress was made on site during Q1: the steel frame is now complete and erection of the cladding has commenced.

OFFICE LEASING

24-26 City Quay, Dublin 2

A new lease was entered into with Morgan Stanley Fund Services for the fifth floor of 24-26 City Quay. This space extends to approximately 12,680 sq ft of mostly new accommodation constructed during 2020/2021. The agreed rent represents €61.50 per sq ft, reflecting the high quality of the space, which has a BER rating of A3, as well as being LEED Gold and Fitwell certified.

24-26 CITY QUAY. MORGAN STANLEY SIGNED A NEW LEASE TO TAKE THE TOP FLOOR OF THIS PROPERTY IN Q1

2 Grand Canal Square

Deutsche Bank has taken a new lease for part of the second floor of 2 Grand Canal Square, which extends to approximately 12,700 sq ft. The lease, which is for a term of 10 years, will increase the Fund's rent roll by €735,900pa and absorb the only vacant space in this building. 2 Grand Canal Square is the highest value asset in the Fund and is multi-let to six tenants.

3 George's Dock, IFSC

Bird & Bird LLP has taken an assignment of a lease of the third floor in 3 George's Dock, where it is establishing their Irish-based operation. The 2020 rent review was recently agreed at €287,500pa, which breaks back to €50.34 per sq ft. This represented an increase of 6% on the previous passing rent.

ENVIRONMENT, SOCIAL AND CORPORATE GOVERNANCE

ILIM Property is defining a Net Zero Pathway which 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);

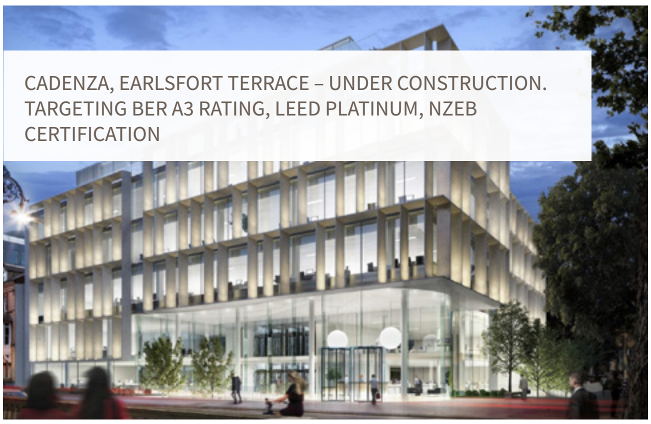
> **Renewable Energy:** procuring 100% of electricity from renewable sources, where economically or operationally feasible;

> **Greenhouse Gas Emissions:** reduce like for like Scope 1 and 2 emissions by 25% by December 2024 (based on a 2019 baseline), and define and measure Scope 3 emissions in line with best practice by December 2024;

> **Water use:** reduce like for like water usage by 10% by December 2023 (based on a 2019 baseline); and

> **Production of Waste:** divert 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 4 Stars in the 2021 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).

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