Out of the Ordinary

Investec
Property Fund Limited

Reviewed preliminary condensed consolidated
Financial results

Investec Property Fund Limited

2018

Key highlights for the year ended 31 March 2018

8.5%

Increase in DPS year-on-year

138.53

FULL YEAR DISTRIBUTION

(cents per share)

6.1%

CORE DPS GROWTH

(excluding IAPF antecedent dividend received)

21.5%

TOTAL RETURN TO SHAREHOLDERS

(March 2017: 19.1%)

5.7%

BASE NET PROPERTY INCOME GROWTH

73.0%

OF SPACE EXPIRING

in the full financial year renewed or re-let at an average positive reversion of **1.9%**

€74.2m

INITIAL INVESTMENT

into a Pan-European logistics platform post year end, with a total commitment of **€150m**

8.6%

all in cost of funding reduced from **8.9%**

BALANCE SHEET METRICS FURTHER ENHANCED

84% hedged and swap expiry profile extended to **3.8 years**

11.7%*

offshore real state investments

DIVERSIFIED INVESTMENT PORTFOLIO

underpinned by quality local (**88.3%**)* and offshore (**11.7%**)* real estate investments

** Post conclusion of the investment into the Pan-European logistics platform*

Key property indicators

In force escalations

7.6%

(March 2017: 7.7%)

Weighted average lease expiry

3.3 years

(March 2017: 3.1 years)

Vacancy

4.8%

(March 2017: 1.4%) which is reflective of the challenging operating environment, but still below industry norms. Excluding planned development vacancy the ratio would be 4.0%

Net cost-to-income ratio

16.8%

(March 2017: 15.2%) as a result of increases in the cost base directly attributable to focused client retention initiatives, impacts of longer void periods, as well as variable costs relating to letting activity

Key financial indicators

Gearing reduced to

32.6%

(March 2017: 33.2%)

Increase in net asset value per share of

2.0%

to R17.29

(March 2017: R16.94)

Weighted average debt expiry

2.7 years

(March 2017: 3.2 years)

Asset value

R19.2bn

(March 2017: R18.8bn)

Consolidated statement of comprehensive income

R'000	Notes	Reviewed Year ended 31 March 2018	Audited Year ended 31 March 2017
Revenue, excluding straight-line rental revenue adjustment		1 810 542	1 657 570
Straight-line rental revenue adjustment		52 698	122 691
Revenue		**1 863 240**	**1 780 261**
Property expenses		(303 356)	(251 808)
Net property income		**1 559 884**	**1 528 453**
Other operating expenses		(72 604)	(56 301)
Operating profit		**1 487 280**	**1 472 152**
Fair value adjustments	2	230 684	446 258
Profit on disposal of investment property		2 655	27 073
Income from investments[2]		107 530	28 581
Finance costs		(590 360)	(520 858)
Finance income		19 771	11 641
Profit before taxation		**1 257 560**	**1 464 847**
Taxation		(9 870)	(6 139)
Total comprehensive income attributable to equity holders		**1 247 690**	**1 458 708**

Distribution reconciliation

Total comprehensive income attributable to equity holders		1 247 690	1 458 708
Less: Fair value adjustments	2	(230 684)	(446 258)
Profit on disposal of investment property		(2 655)	(27 073)
Straight-line rental revenue adjustment		(52 698)	(122 691)
Izandla junior facility interest not received[1]		(800)	–
Add: Investment dividend accrual (net of WHT)[2]		30 124	24 504
Notional cost of funding Ingenuity acquisition[3]		7 576	1 702
Deferred taxation		2 765	5 386
Antecedent dividend[4]		2 867	11 516
Less: Interim dividend paid		(491 018)	(426 515)
Final dividend		**513 167**	**479 279**
Number of shares			
Shares in issue		731 400 437	718 150 167
Weighted average number of shares in issue		722 796 837	700 773 985
Cents			
Total dividend per share[5]		**138.53**	**127.65**
Final dividend per share		**70.16**	**66.74**
Interim dividend per share		**68.37**	**60.91**
Basic and diluted earnings per share		172.62	208.16
Headline earnings per share	1	106.41	123.91

1 *To the extent that Izandla Property Fund Proprietary Limited ('Izandla') has not yet settled the accrued interest on the Izandla junior facility, the distribution is reduced by this amount.*

2 *Investec Property Fund Limited ('The Fund' or 'IPF') considers the expected future Investec Australia Property Fund ('IAPF') dividend and the Investec Argo Property Fund ('U.K. investment') (legal entity name 'Nestor Investment Holdings Limited') dividend, relating to the earnings from the current period, to be part of the distributable earnings for the current period. Accordingly an adjustment is made to match the anticipated income of the distribution to the period to which the distribution relates.*

3 *The Fund's investment into Ingenuity Property Investments Limited ('Ingenuity') was made on a total return basis. From a distribution perspective, the Fund's policy in relation to total return is to add back the funding cost of the investment, net of dividends received.*

4 *Antecedent dividend relating to the issue of 13 250 270 shares in November 2017.*

5 *Excluding the once-off antecedent dividend received from IAPF of R22.3m, the core dividend per share is 135.43 cents, resulting in growth of 6.1% year-on-year.*

Consolidated statement of financial position

R'000	Notes	Reviewed 31 March 2018	Audited 31 March 2017
ASSETS			
Non-current assets		**19 085 578**	**17 997 472**
Investment property	5	17 004 260	16 176 214
Straight-line rental revenue adjustment		476 955	424 663
Equity accounted investment in and loans to associate	4	207 235	–
Other investments	3	1 357 987	1 391 573
Derivative financial instruments	3	39 141	5 022
Current assets		**749 642**	**316 633**
Trade and other receivables		218 866	153 967
Cash and cash equivalents[1]		507 338	159 377
Current portion of derivative financial instruments	3	23 438	3 289
Non-current assets held-for-sale	7	**117 654**	**770 618**
Total assets		**19 952 874**	**19 084 723**
EQUITY AND LIABILITIES			
Shareholders' interest		**12 643 769**	**12 167 927**
Stated capital		10 186 582	9 999 838
Retained earnings		2 457 187	2 168 089
Non-current liabilities		**6 032 267**	**5 714 018**
Long-term borrowings	8	5 917 743	5 630 885
Derivative financial instruments	3	106 373	77 747
Deferred taxation	6	8 151	5 386
Current liabilities		**1 276 838**	**1 202 778**
Trade and other payables		401 397	422 252
Current portion of non-current liabilities	8	839 000	759 432
Current portion of derivative financial instruments	3	36 441	21 094
Total equity and liabilities		**19 952 874**	**19 084 723**
Shares in issue		731 400 437	718 150 167
Net asset value per share (cents)		**1 729**	**1 694**

[1] *The cash balance includes restricted cash relating to tenant deposits of R50.3m, cash received in advance for April rentals of R55.9m, and funds raised to fund a post year-end acquisition (refer to note 11 subsequent events).*

Condensed consolidated statement of cash flows

R'000	Reviewed Year ended 31 March 2018	Audited Year ended 31 March 2017
Cash generated from operations[1]	1 320 763	1 419 235
Finance income received	18 971	11 641
Finance costs paid	(593 255)	(521 970)
Income from investment (net of WHT)	100 425	46 845
Dividends paid to shareholders[2]	(979 167)	(673 614)
Net cash (outflow)/inflow from operating activities	**(132 263)**	**282 137**
Net cash outflow from investing activities[3]	**(68 731)**	**(1 026 477)**
Net cash inflow from financing activities[4]	**548 955**	**850 256**
Net increase in cash and cash equivalents	347 961	105 916
Cash and cash equivalents at the beginning of the year	159 377	53 461
Cash and cash equivalents at the end of the year	**507 338**	**159 377**

1 *The decrease in cash generated from operations compared to prior year is largely driven by an increase in working capital.*
2 *Comprises the final dividend relating to the prior year and the interim dividend relating to the current year.*
3 *Investing activities include investment properties acquired, additions and improvements to investment properties, proceeds from the sale of investment properties, the acquisition of equity in and loans receivable from Izandla and the acquisition of shares in Ingenuity and the U.K. investment.*
4 *Financing activities include equity issued, term loans raised and corporate bonds issued and repaid.*

Condensed consolidated statement of changes in equity

R'000	Reviewed Year ended 31 March 2018	Audited Year ended 31 March 2017
Balance at the beginning of the year	12 167 927	11 097 103
Total comprehensive income attributable to equity holders	1 247 690	1 458 708
Shares issued net of costs[1]	207 319	285 730
Dividends declared and paid	(979 167)	(673 614)
Balance at the end of the year	**12 643 769**	**12 167 927**

1 *13 250 270 shares issued in November 2017 at a price of R15.75 less costs.*

Condensed consolidated segmental information

For the year ended 31 March 2018 R'000	Office	Industrial	Retail	Total
Statement of comprehensive income extract				
Revenue, excluding straight-line rental revenue adjustment	699 193	431 003	680 346	1 810 542
Straight-line rental revenue adjustment	9 056	22 121	21 521	52 698
Revenue	**708 249**	**453 124**	**701 867**	**1 863 240**
Property expenses	(118 990)	(60 414)	(123 952)	(303 356)
Net property income	**589 259**	**392 710**	**577 915**	**1 559 884**
Statement of financial position extracts				
Investment property opening balance at 1 April 2017	6 362 854	3 735 045	6 502 978	16 600 877
Net additions, acquisitions and disposals	18 512	230 476	109 561	358 549
Fair value adjustment and straight-lining	55 346	96 377	391 100	542 823
Transfer to non-current assets held-for-sale	(21 034)	–	–	(21 034)
Fair value of investment property at 31 March 2018	**6 415 678**	**4 061 898**	**7 003 639**	**17 481 215**

For the year ended 31 March 2017 R'000	Office	Industrial	Retail	Total
Statement of comprehensive income extract				
Revenue, excluding straight-line rental revenue adjustment	653 628	398 104	605 838	1 657 570
Straight-line rental revenue adjustment	42 978	36 241	43 472	122 691
Revenue	**696 606**	**434 345**	**649 310**	**1 780 261**
Property expenses	(93 121)	(54 474)	(104 213)	(251 808)
Net property income	**603 485**	**379 871**	**545 097**	**1 528 453**
Statement of financial position extract				
Investment property opening balance at 1 April 2016	6 552 959	3 847 683	6 059 071	16 459 713
Net additions, acquisitions and disposals	(103 103)	(50 659)	384 369	230 607
Fair value adjustment and straight-lining	176 140	137 440	367 595	681 175
Transfer to non-current assets held-for-sale	(263 142)	(199 419)	(308 057)	(770 618)
Fair value of investment property at 31 March 2017	**6 362 854**	**3 735 045**	**6 502 978**	**16 600 877**

Notes to the reviewed preliminary condensed consolidated financial results

R'000	Reviewed Year ended 31 March 2018	Audited Year ended 31 March 2017
1. Headline earnings per share		
1.1 Reconciliation of basic earnings to headline earnings		
Total comprehensive income attributable to equity holders	1 247 690	1 458 708
Less: Fair value adjustments on investment property	(475 868)	(563 273)
Profit on disposal of investment property	(2 655)	(27 073)
Headline earnings attributable to shareholders	769 167	868 362
Headline earnings per share	**106.41**	**123.91**
1.2 Reconciliation of total dividend per share to core dividend per share		
Interim dividend	491 018	426 515
Less: IAPF antecedent dividend	(22 277)	–
Core interim dividend	**468 741**	**426 515**
Shares in issue at interim reporting period	718 150 167	700 228 202
Core interim dividend per share	65.27	60.91
Final dividend per share	70.16	66.74
Total core dividend per share	**135.43**	**127.65**
2. Fair value adjustments		
Fair value adjustments on derivative instruments[1]	(12 610)	(86 619)
Fair value adjustments on investment property	475 868	563 273
Fair value adjustments on investments[2]	(232 574)	(30 396)
	230 684	**446 258**

[1] *Fair value adjustments on interest rate swaps amounts to a loss of R74.8m and on cross-currency swaps and forward exchange contracts ('FEC's') a gain of R62.2m.*

[2] *Comprises a loss of R244.9m on IAPF, a loss of R6.1m on Ingenuity and a gain of R18.4m on the U.K. investment.*

3. Financial instruments

Financial instruments held at fair value by the Fund include the investment in IAPF, the investment in Ingenuity, the U.K. investment and derivatives. The valuations of IAPF and Ingenuity are based on the closing share price times the number of shares held at the reporting date, which is a level 1 valuation. The U.K. investment valuation is based on the fair value, which is a level 3 valuation, translated at the closing GBP spot price.

Derivative financial instruments hedge interest rate and foreign exchange risk. Interest rate hedging instruments are valued by discounting future cash flows using the market rate indicated on the interest rate curve at the dates when the cash flows will take place. Foreign exchange hedging instruments are valued by making reference to market prices for similar instruments and discounting for the effect of the time value of money. Derivatives are considered to be level 2 valuations. Refer to note 3.3 for detail on the fair value hierarchy.

Cash and cash equivalents, trade and other receivables, trade and other payables and variable rate loans are carried at amortised cost and the carrying value is a reasonable approximation of fair value.

R'000	Reviewed 31 March 2018	Audited 31 March 2017
3.1 Listed investments		
Investment in IAPF	1 051 544	1 292 426
% holding	20.9%	22.9%
The reduction in holding results from a dilution due to an IAPF placement, not a sale of shares		
Investment in Ingenuity	114 643	99 147
% holding	9.2%	8.0%
Total fair value	**1 166 187**	**1 391 573**

The Fund carries its investments in IAPF and Ingenuity at fair value. IAPF is classified as an associate and Ingenuity is classified as an investment.

R'000	Reviewed 31 March 2018	Audited 31 March 2017
3.2 Unlisted investments		
U.K. investment	191 800	–
% holding	10.0%	0.0%

The Fund carries the U.K. investment at fair value and classifies it as an investment.

Reviewed 31 March 2018 R'000	Carried at fair value	Level 1	Level 2	Level 3	Carried at amortised cost
3.3 Fair value hierarchy					
Investments	1 357 987	1 166 187	–	191 800	–
Equity accounted investment in and loans to associate[1]	–	–	–	–	188 988
Derivative financial instruments	62 579	–	62 579	–	–
Trade and other receivables[2]	–	–	–	–	133 456
Cash and cash equivalents	–	–	–	–	507 338
Total financial assets	**1 420 566**	**1 166 187**	**62 579**	**191 800**	**829 782**
Derivative financial instruments	142 814	–	142 814	–	
Long-term borrowings (including current)	–	–	–	–	6 756 743
Trade and other payables[3]	–	–	–	–	332 454
Total financial liabilities	**142 814**	**–**	**142 814**	**–**	**7 089 197**

Audited 31 March 2017 R'000	Carried at fair value	Level 1	Level 2	Level 3	Carried at amortised cost
Fair value hierarchy					
Investments	1 391 573	1 391 573	–	–	–
Derivative financial instruments	8 311	–	8 311	–	–
Trade and other receivables[2]	–	–	–	–	153 967
Cash and cash equivalents	–	–	–	–	159 377
Total financial assets	**1 399 884**	**1 391 573**	**8 311**	**–**	**313 344**
Derivative financial instruments	98 841	–	98 841	–	–
Long-term borrowings (including current)	–	–	–	–	6 390 317
Trade and other payables[3]	–	–	–	–	422 252
Total financial liabilities	**98 841**	**–**	**98 841**	**–**	**6 812 569**

1. *Equity accounted investment in and loans to associate excludes the equity portion which is a non-financial instrument.*
2. *Trade and other receivables exclude prepayments which are non-financial instruments.*
3. *Trade and other payables exclude revenue received in advance and value added tax as these are non-financial instruments.*

R'000	Reviewed 31 March 2018	Audited 31 March 2017
3.4 Level 3 valuations		
The level 3 valuation of the U.K. investment is reconciled as follows:		
Opening balance	–	–
Acquisition	173 329	–
Fair value gain*	18 471	–
Closing balance	**191 800**	**–**

** Reflected in fair value adjustments in the consolidated statement of comprehensive income, comprising a fair value gain of R25.6m and a fair value loss relating to exchange rate changes of R7.1m.*

Valuation techniques used to derive level 3 fair value

The significant unobservable inputs used to derive the fair value measurement are those relating to the valuation of underlying investment properties. The table below includes the following descriptions and definitions relating to key unobservable inputs made in determining fair value:

Expected rental value ('ERV')	The rent at which space could be let in the market conditions prevailing at the date of valuation.
Equivalent yield	The equivalent yield is defined as the internal rate of return of the cash flow from the property, assuming a rise to ERV at the next review, but with no further rental growth.
Long-term vacancy rate	The ERV of the expected long-term average structural vacant space divided by ERV of the whole property. Long-term vacancy rate can also be determined based on the percentage of estimated vacant space divided by the total lettable area.

Significant unobservable inputs	Relationship between unobservable inputs and fair value measurement
Expected rental value ('ERV')	Increases in ERV would increase estimated fair value.
Equivalent yield	Increases/decreases in the equivalent yield would result in decreases/increases in the estimated fair value
Long-term vacancy rate	Increases/decreases in the long-term vacancy rate would result in decreases/increases in the estimated fair value.

The fair value of the underlying property portfolio has been determined using the income capitalisation method.

If the fair value of the underlying properties was 10% higher/lower, due to a change in the underlying unobservable inputs, the fair value of the U.K. investment would be R34m higher/lower than the reported closing balance.

Notes to the reviewed preliminary condensed consolidated financial results

(continued)

R'000	Reviewed 31 March 2018	Audited 31 March 2017
4. Equity accounted investment in and loans to associate		
Equity investment in Izandla	18 247	–
Mezzanine facility (prime + 3.5%)	110 786	–
Junior facility (prime + 5.5%)	78 202	–
	207 235	**–**

The Fund holds a 35% interest in Izandla and has advanced senior and junior mezzainine facilities to facilitate the initial set up of Izandla. The investment is accounted for as an associate using the equity accounting method. During the current year the Fund earned R2.3m of interest income on the Izandla borrowings.

5. Fair value of investment properties

The Fund's policy is to assess the value of investment properties at each reporting period. During the year ended 31 March 2018 the assessment resulted in a net upward revaluation of R475.9m (March 2017: 563.3m). The directors' valuation method is the income capitalisation method which is a generally accepted methodology used in the industry. Each property is externally valued every three years on a rotational basis by MRB Gibbons of Mills Fitchet Magnus Penny Proprietary Limited, who is registered in terms of Section 19 of the Property Valuers Professional Act, no 47 of 2000. In the current year 47% of the properties were externally valued.

R'000	Reviewed 31 March 2018	Audited 31 March 2017
6. Deferred taxation		
Balance at the beginning of the year	5 386	–
Cumulative gain on fair value of investments	2 765	5 386
Balance at the end of the year	**8 151**	**5 386**

Deferred taxation is recognised for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Section 25BB of the Income Tax act allows for the deduction of the qualifying distribution paid to shareholders, but the deduction is limited to taxable income. To the extent that no tax will be payable in future as a result of the qualifying distribution, no deferred tax is raised on items such as the straight line rental revenue adjustment and revenue received in advance.

As the Fund is a Real Estate Investment Trust ('REIT'), capital gains tax ('CGT') is no longer applicable on the sale of investment property in terms of section 25BB of the Income Tax Act. The deferred tax rate applied to investment property at the sale rate will therefore be 0%. In addition, in the event that the fund holds greater than 20% of an investment, this investment is a 'property company' as defined in section 25BB of the Income Tax Act and therefore the sale is not subject to CGT, however those investments with holdings less than 20% are subject to capital gains tax. These tax consequences are taken into account in determining the extent of deferred tax that is required to be recognised.

A deferred tax liability arose on the fair value gain through profit and loss on Ingenuity and the U.K. investments as a result of these investments not being classified as REITs. On disposal of the investments the Fund would be subject to capital gains tax, as such deferred tax has been recognised on the unrealised fair value gains.

R'000	Reviewed 31 March 2018	Audited 31 March 2017
7. Non-current assets held-for-sale		
Non-current assets held-for-sale	117 654	770 618

The Fund intends to sell 6 buildings with settlement expected to be within 12 months of reporting date and has presented those assets as non-current assets held-for-sale.

R'000	Reviewed 31 March 2018	Audited 31 March 2017
8. Long-term borrowings		
Movements in the long-term borrowings (including short-term portion) are reconciled as follows:		
Balance at the beginning of the year	**6 390 317**	**5 792 601**
Long-term borrowings	5 630 885	5 093 477
Short-term borrowings	759 432	699 124
Corporate bond and commercial paper raised	812 000	562 000
Corporate bond repaid	(526 000)	(125 000)
Term loan raised	200 000	500 000
Revolving credit facilities repaid	(121 431)	(342 744)
Amortisation of transaction fees	1 857	3 460
Balance at the end of the year	**6 756 743**	**6 390 317**
Long-term borrowings	5 917 743	5 630 885
Short-term borrowings	839 000	759 432
Accrued interest (included in trade payables)	57 951	62 731
Balance at the end of the year including accrued interest	**6 814 694**	**6 453 048**

R'000	Reviewed 31 March 2018	Audited 31 March 2017
9. Capital commitments	11 530	310 252
Authorised and contracted	**11 530**	**310 252**

At 31 March 2018, the Fund had committed to capital expenditure of R11.5m.

Notes to the reviewed preliminary condensed consolidated financial results

(continued)

R'000	Reviewed 31 March 2018	Audited 31 March 2017
10. Related parties		
The Fund has entered into the following related party transactions during the year:		
Investec Property Proprietary Limited		
Asset management fees	(60 702)	(43 061)
Letting commissions	(14 078)	(12 339)
Property acquisitions	(154 949)	–
Rental guarantees received	–	870
Capital expenditure	–	(1 889)
Investec Australia Property Fund		
Underwriting fees	–	7 203
U.K. Investment		
Acquisition of 10% of the equity of a joint venture within the Investec Group	(173 329)	–
Izandla Property Fund		
Net proceeds from sale of properties	314 111	–
Equity investment	18 247	–
Loans receivable	188 988	–
Finance income	2 338	–
Investec Bank Limited Group		
Cash and cash equivalents[1]	128 083	115 127
Borrowings[1]	(441 615)	(493 075)
Fair value of derivative instruments[1]	(60 292)	(85 376)
Nominal value of swap derivatives	(4 678 057)	(4 978 276)
Nominal value of FEC's	515 232	162 178
Rentals received	61 724	57 152
Interest received[2]	7 859	7 631
Sponsor fees paid	(170)	(170)
Corporate advisory and structuring fees paid	(1 250)	(743)
Interest paid on related party borrowings	(52 881)	(46 297)
Interest paid on swap derivatives	(21 825)	(15 716)
Settlement of swap derivatives	(16 933)	–

[1] *Included in carrying values as per the statement of financial position.*
[2] *Interest is earned at the overnight safex call rate of 6.55% (FY2017: 6.80%).*

11. Subsequent events

On 13 April 2018, the Fund invested a further £0.7m in the U.K. Fund to fund its pro rata share of an acquisition of an industrial property in North London.

On 26 April 2018, the Fund has rolled R274m of 3-month commercial paper at margin of 45.5 basis points.

On 2 May 2018, the Fund announced a 42.9% shareholding in a Pan-European logistics platform for an initial equity contribution of €74.2m (R1.1bn). On 3 May 2018, the Fund raised a €40m (R0.6bn) secured term loan from Standard Chartered. Refer to the Pan-European Logistics portfolio paragraph on page 17 for further details.

Introduction

Investec Property Fund Limited ('the Fund' or 'IPF') is a South African Real Estate Investment Trust and currently comprises an investment portfolio of direct and indirect real estate investments in South Africa, Australia, the U.K. and Europe. The direct investments comprise 105 properties in South Africa with a total gross lettable area ('GLA') of 1 240 851m² valued at R17.6bn (March 2017: R17.4bn). The Fund's local investment portfolio also comprises a R0.1bn (March 2017: R0.1bn) investment in Ingenuity Property Investments Limited ('Ingenuity') and a R0.2bn (March 2017: nil) investment in Izandla Property Fund Proprietary Limited ('Izandla'). The Fund's offshore investments include Investec Australia Property Fund ('IAPF') of R1.0bn (March 2017: R1.3bn), Investec Argo U.K. Property Fund ('U.K Investment/U.K. Fund' registered as Nestor Investment Holdings Limited) of R0.2bn (March 2017: Rnil) and post year-end an investment into a Pan-European logistics portfolio of R1.1bn providing the Fund with geographic diversification and exposure to quality real estate in developed markets (details are given in the 'Investments' section of this announcement).

This year, the Fund has focused on four strategic pillars and has achieved progress in each area, however there remains room for improvement and these continue to be of strategic priority:

Strategic pillar	The Fund's progress
1) Revenue security and growth	Revenue on the base portfolio[1] has grown by 8.0% year-on-year driven by a 5.9% increase in rental income with the remaining increase attributable to an increase in rates and operating cost recoveries (effectively a recovery of the increases in the underlying rates and operating cost expenses). The Fund has contracted income of circa 90% for the next 12 months (1H18 93%) and, whilst vacancies have increased off a historically low base, they remain below sector averages.
2) Client service excellence	The Fund's continual client engagement strategy and formal client feedback programme aims to ensure clients' needs are timeously addressed and service delivery remains relevant, enabling us to continue to try and differentiate ourselves in an otherwise commoditised market. The Fund's feedback programme and scoring mechanisms provide measurable, actionable objectives and ensure ongoing improvement and delivery of service to clients.
3) Value add asset management and capital allocation	The Fund's strategy continues to focus on providing a relevant and differentiated level of service and ensuring efficient capital allocation to maximise long-term risk adjusted asset returns. The Fund's objective of increasing its offshore balance sheet exposure to 20% remains a core objective. Following the conclusion of the Pan-European logistics transaction announced on 2 May 2018 the Fund's balance sheet now comprises 11.7% offshore exposure in developed markets. The Fund continues to explore opportunities to allocate up to 10% of the balance sheet into 'broken core' and value add opportunities.
4) Cost efficiency and system optimisation	The Fund's focus on cost measures remains a primary focus in the current environment. Whilst the majority of the fixed operating costs of the property portfolio and fund level expenses remained below inflation, the Fund committed to additional spend in areas that benefited client service and/or enhanced the safety and security of our offering.

[1] *Base portfolio refers to R16.4bn of properties that have been held by the Fund for the full comparative periods.*

Financial results

The board of directors is pleased to announce a final dividend of 70.16 cents per share ('cps') for the six months ended 31 March 2018 (March 2017: 66.74 cps). This takes the full year dividend to 138.53 cps (FY2017: 127.65 cps). The full year dividend represents year-on-year growth of 8.5%. Included in the interim dividend was a one-off antecedent dividend received from IAPF. On a normalised basis, excluding this antecedent dividend, the year-on-year dividend per share ('DPS') growth is 6.1%.

Despite an extremely challenging operating environment, the base property portfolio delivered net property income ('NPI') growth of 5.7%. All three sectors delivered positive like-for-like NPI growth with retail being the strongest performing sector at 7.8% growth.

The Fund's cost to income ratio has deteriorated from 15.2% to 16.8% in the current year as a result of:

1. an increase in core rental (contractual rental, parking rental and turnover rental) of 6.3%;
2. an increase in gross recoveries of 6.0%,
3. offset by an increase in gross costs of 7.6%. The growth of the cost base in excess of the growth in revenue results in the increase of the cost to income ratio. The increase in costs is largely driven by an increase in rates attributable to increased municipal valuations, increased property management fees, security and costs relating to letting activity (letting commission and incentives).

Vacancies have increased from 1.4% last year to 4.8% at 31 March 2018. Office (5.4%) and retail (3.3%) vacancies remain well below industry averages with the portfolio vacancy driven largely by the industrial portfolio as a result of a 22 057m² vacancy arising in February 2018 and a tenant occupying 10 517m² going into liquidation in the final quarter. In the retail portfolio approximately 8 636m² is being held vacant due to development. If these planned vacancies are excluded the portfolio vacancy ratio drops to 4.0% and the retail vacancy drops to 1.2%.

Fund expenses have increased by 28.9% due to the increase in asset management fees arising from the decrease in the Zenprop fee waiver and an increase in the share price to which the management fee is linked. The Fund's other administrative expenses have decreased year-on-year by 6.2%.

Income from the Fund's offshore portfolio represented 6.7% of FY2018's total revenue and dividend income, as well as making up 6.5% of balance sheet investments at 31 March 2018. IAPF delivered post withholding tax ('WHT') distribution growth of 0.6% in AUD, which translated into 3.7% growth in ZAR. 11.2% of FY2018's income from IAPF was unhedged and was adversely impacted by a strengthening Rand in Q4. The Fund's initial investment into the U.K. of £10m has performed well, delivering a GBP income return of 7.2% and total return of 22.9% during the year.

The Fund places a continual focus on optimising balance sheet metrics through active treasury and risk management. At 31 March 2018, the gearing ratio is marginally down from the prior year of 33.2% to 32.6%. The percentage of debt hedged is 84% which is well above the targeted minimum of 75%, the weighted average swap expiry was extended from 3.2 years to 3.8 years, with the average swap rate reducing from 7.73% to 7.56%. This led to a reduction in the all in cost of funding to 8.6% from 8.9%.

Sector update

The South African economy's lack of growth has had an adverse effect on South African companies and consumers alike. The recent shift in sentiment is encouraging, which the Fund hopes will lead to longer term economic growth. Immediate relief from a challenging environment, however, is not expected to materialise, at least for the next 12 to 18 months.

At the same time, the South African real estate market has also seen over supply in most metropolitan sectors and markets, combined with anaemic demand which has led to pressure on occupancy and rental levels. Over the last 12 to 24 months, the industry has been characterised by negative reversions, reduced escalations and increased incentives required to attract and retain tenants.

It is against this backdrop that the Fund is pleased with the 12-month performance to 31 March 2018, with the underlying portfolio delivering 5.7% NPI growth on its base portfolio during the year. The portfolio's income stream is underpinned by contractual escalations of 7.6%, (March 2017: 7.7%) a weighted average lease expiry ('WALE') of 3.3 years (March 2017: 3.1 years) and a strong client base. The retail portfolio comprises 77% national clients which further underpins the stability of the portfolio.

The table below presents a snapshot of the property portfolio as at 31 March 2018:

	Total		Office		Industrial		Retail	
Portfolio	**FY18**	**FY17**	**FY18**	**FY17**	**FY18**	**FY17**	**FY18**	**FY17**
Number of properties	105	119	31	33	40	46	34	40
Asset value (Rbn)	17.6	17.4	6.5	6.6	4.1	3.9	7.0	6.9
Base growth	5.7%	8.7%	4.7%	5.9%	4.4%	10.2%	7.8%	10.6%
Cost to income	16.8%	15.2%	17.0%	14.2%	14.0%	13.7%	18.2%	17.2%
GLA	1 240 851	1 274 323	251 678	266 700	574 262	582 172	414 911	425 451
Vacancy	4.8%	1.4%	5.4%	2.2%	5.7%	1.0%	3.3%[1]	1.3%
WALE (years)	3.3	3.1	3.3	3.4	3.7	3.1	3.0	2.9
In-force escalations	7.6%	7.7%	8.0%	8.0%	7.9%	7.9%	7.3%	7.4%

[1] *Includes planned vacancy for development of 8 636m^2.*

Commentary

(continued)

Letting activity

The table below reflects the letting activity for the full year:

	Expiries and cancellations GLA	Renewals and new lets GLA	Gross expiry rental R/m^2	Gross new rental R/m^2	Rental reversion %	Average escalation %	Wale years	Retention %	Incentive % lease value
Office	29 186	18 519	168.90	176.02	4.2%	8.1%	4.3	48%	5.0%
Industrial	148 057	106 270	61.89	59.55	(3.8%)[2]	7.7%	5.3	28%	3.1%
Retail	78 339	68 125	130.17	137.10	5.3%	7.3%	4.0	78%	0.7%
Subtotal	**255 582**	**192 914**	**96.24**	**98.07**	**1.9%**	**7.5%**	**4.7**	**46%**	**2.5%**
Early letting[1] – effective FY18	41 537	41 537	83.14	83.32	0.2%	7.8%	4.4	59%	2.7%
Total	**297 119**	**234 451**	**93.94**	**95.49**	**1.6%**	**7.5%**	**4.7**	**48%**	**2.5%**

1 *Early letting has been concluded with eight tenants across the portfolio on leases that were due to expire in FY2019, effective in FY2018 and therefore no longer form part of the FY2019 expiries balance.*

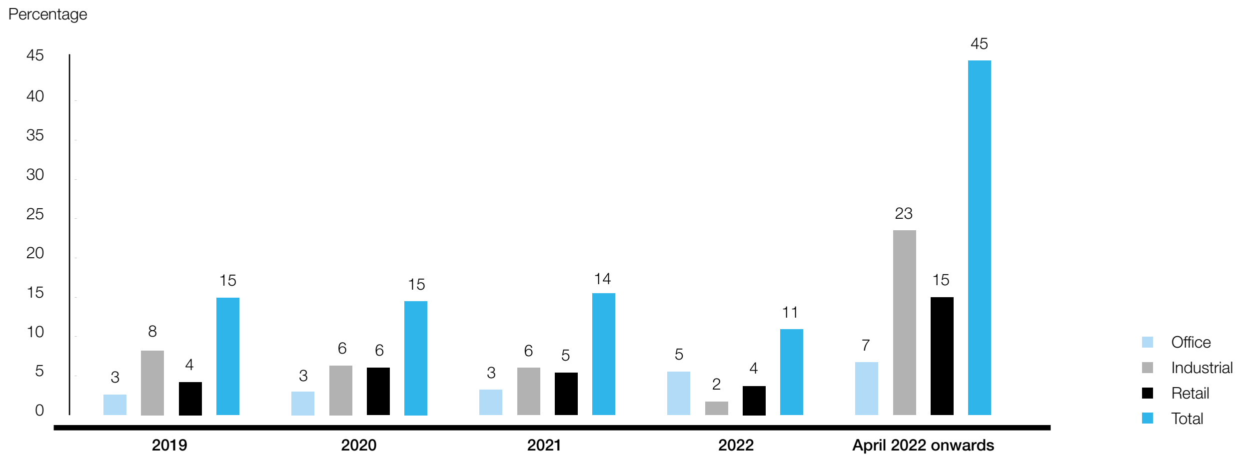
2 *The negative reversion in industrial is largely as a result of the decrease in rental at a property in Longmeadow (7 640m^2) which was acquired at an above market rental, for which a price adjustment was made.*

The Fund began the period with an opening vacancy of 17 278m^2 (1.4%) with 245 211m^2 expiring and a further 10 371m^2 being cancelled during the year. The Fund has renewed or re-let 184 940 (73%) of the expiring space and let a further 7 974m^2 of opening vacancy at a positive reversion of 1.9%. This has resulted in the Fund's closing vacancy increasing to 4.8%. The increase is largely as a result of the two industrial properties totalling 32 574m^2 mentioned on page 12.

A WALE of 4.7 years was achieved on the renewed and newly let space, which is enhancing to the overall portfolio WALE. A total of 41 537m^2 of space was renewed prior to expiring in FY2019 and has become effective in the financial year, which has resulted in a de-risking of future expiries.

A total of 214 024m^2 expires in FY2019 with circa 90% contractual income in the portfolio. Of this, approximately 61 228m^2 (29%) has already been renewed or re-let. The asset management team continue to reduce this letting risk by engaging with clients well ahead of expiry dates. The Fund's focus has been on ensuring stability of cash flow, reducing potential void periods through active and early engagement with existing clients and structuring renewals and new lets to ensure a competitive offering. In some sub-markets, the Fund has offered shorter term leases with lower rentals and more aggressive incentives to protect income and the underlying value of the portfolio during this period of imbalance.

Lease expiry profile by revenue



Sectoral performance

Office

The Fund's office portfolio has remained relatively defensive in the current market. Key challenges have been, and remain, the oversupply and decreased demand in the sector. These conditions are expected to continue, resulting in further pressures on reversions and increased costs and incentives to ensure that the Fund is competitive in attracting and retaining tenants.

The office sector achieved base NPI growth of 4.7% as a result of income growth of 8.1% offset by an increase in the cost base of 28.9%. Revenue growth comprises contractual rental growth of 5.7% and an increase in rates and operating cost recoveries which increased by 25.7%. The increase in costs results primarily from the increase in rates expense (recovered in revenue), letting related costs, property management fees and security costs. Additional repairs and maintenance costs were also incurred on several properties. Gross electricity costs across the office portfolio were flat year-on-year whilst recoveries reduced marginally. The net cost to income ratio increased from 14.2% to 17.0% as a result of the increased cost base and was also impacted by lower recoveries as a result of longer void periods and an increase in vacancy.

The Funds office vacancy has increased to 5.4% from 2.2% a year ago. The largest contributors being International SOS at Grand Central vacating (3 604m^2) as well as increased vacancy in Randburg and Fourways properties.

The Fund's exposure to Sandton, which accounts for 21% of the office GLA, is defensive with a WALE of 3.8 years and a nodal vacancy of 5.3% which is substantially lower than the overall vacancy in Sandton of 13%. There is 17 145m^2 of space expiring in this node in FY2019 of which 47% (8 095m^2) has already been renewed and the remainder is under negotiation with potential clients.

Despite the increase in vacancy rates, Sandton still remains a sought after office destination for many blue-chip corporates.

Bryanston has grown into a core commercial hub and is the fourth largest office node in Johannesburg. Bryanston offers more spacious solutions compared to other major nodes owing to the varying nature of density and amenity planning. The Fund has four properties in Bryanston, which make up 14% (33 965m^2) of the office portfolio. The properties are well located with frontage onto the major arterials and close proximity to the Nicolway shopping centre. The Fund has 21 883m^2 in Bryanston expiring during FY2019 with 10 291m^2 already renewed and 2 500m^2 currently under negotiation.

Industrial

The industrial sector continued to face a tough operating environment with the lack of business confidence negatively impacting certain sectors of the Fund's industrial client base. Clients in the manufacturing sector have experienced the most pressure with the smaller clients being the worst affected. In spite of this the base portfolio NPI increased 4.4% year-on-year.

Clients have been looking to consolidate their facilities and are reluctant to commit to long-term leases. Competition in the sector from new developments continues to increase with developers willing to conclude deals at sub-economic rentals in order to convert vacant land holdings into an income stream.

Base gross income has increased by 6.0% which is lower than contractual escalations due to negative average reversions on renewals and increased vacancies. The cost base increased 16.3% due to an increase in bad debts, property management fees, security and letting related costs.

The sector's cost to income ratio has increased marginally year-on-year despite the increase in the cost base and lower income growth. This is largely attributable to the acquisition of two single tenanted, triple net properties that reduce the portfolio ratio.

The Fund continues to display it defensiveness and desirability of product fundamentals, with 143 996m^2 of space being let during the year. The leasing activity comprised renewals of 41 307m^2, 61 486m^2 of new lets and letting of 3 477m^2 of opening vacancy, at an overall negative reversion of 3.8%. Contractual escalations of 7.7% were achieved which is slightly below the existing contractual escalations of 7.9%. The contractual WALE of the portfolio was enhanced, with the average WALE of the current year's letting activity at 5.3 years. An additional 37 726m^2 of FY2019 expiries were proactively let early, thereby de-risking 2019 expiries. The average reversion was impacted materially by one property as mentioned under the letting table on page 14, and if excluded the average negative reversion would have been 0.4%.

The closing vacancy has increased year-on-year to 5.7% due to the two large expiries referred to on page 12.

The retention ratio is low at 28% but is not reflective of client relationships or property offering. Rather the lower retention rate was driven by business consolidation, downsizing, moving to 'owner occupied' premises and liquidation.

Looking forward to FY2019, 96 528m^2 expires during the year in addition to the opening vacancy of 32 967m^2. The Fund has been engaging with current and prospective tenants in order to minimise vacancy risk. The majority of the space that is expiring is well located with strong fundamentals and the Fund is confident of the letting prospects thereof.

Commentary

(continued)

Retail

The retail portfolio includes 34 properties, and comprises regional and community shopping centres, prominent in their respective nodes, as well as standalone single tenanted properties that are niche in relation to a specific offering or category. There is a focused strategy of maintaining a high average of national clients to ensure the assets are able to trade through periods of subdued economic growth and depressed consumer spending. The current percentage of national clients across the portfolio is 77%.

The Fund's retail base portfolio reported NPI growth of 7.8% which is testament to the underlying quality of the portfolio. Like-for-like gross income grew 9.2% underpinned by contractual rental growth of 8.0% and an increase in rates recoveries of 41.3% due to increased rates valuations. The sector's cost base increased 15.1%, largely as a result of the increase in the rates expense (23.0%), increase in property management fees, security costs and an increase in bad debts. Net utility expenses showed further improvement as a result of solar projects introduced at Musina Mall and Fleurdal.

The retail sectors' net cost to income ratio has increased from 17.2% to 18.2% with the majority of the increase explained by the increase in rates expense. The increase has been recovered within gross income.

The retail portfolio renewed or re-let 84% of the 78 339m^2 expiring during the year and let a further 2 489m^2 of opening vacancy. Positive average reversions of 5.3% and in-force escalations of 7.3% were achieved across the portfolio.

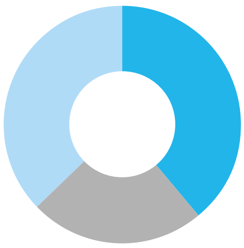
Vacancy remains lower than the industry average at 3.3% which is an increase from opening vacancy of 1.3% largely due to planned vacancies at properties earmarked for redevelopment. Once normalised for these planned vacancies the vacancy falls to 1.2%.

The sector has not been immune to the difficult economic situation in the country in the last 12 months which is evidenced by lower turnover rentals constrained by consumer spending and confidence. However, the nature of the Fund's retail properties and their strength in their respective nodes has meant that the Fund continued to report above inflation turnover growth at the majority of its centres. Turnover growth of the Fund's shopping centres on a normalised basis, excluding new centres and those affected by redevelopment plans or surrounding road construction, was 6% and demonstrates the strong performance of these centres.

The Fund's regional malls performed well during the year. Zevenwacht Mall, Dhilabeng Mall and Musina Mall continue to show strong year-on-year growth evidencing their leading positioning in the regional markets. Newcastle Mall continues to trade well, however, its performance has been impacted by the refurbishment of the Amajuba Centre in town. Kriel Mall had an excellent year with double digit growth as the coal mines returned to operation. Volatility in the region is expected to continue and is however being closely watched by the Fund. The above positive performance was offset by lower trade at Balfour Mall which has been negatively impacted by the Rea Via roadworks on Louis Botha which is significantly obstructing access to the Mall.

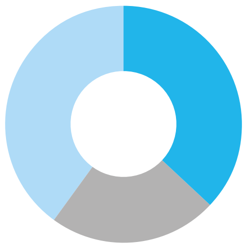
The Fund has 23 Edcon brands located across 10 retail properties, making up 1.9% of the total portfolio revenue. Edcon is once again in a process to restructure its business and has approached the Fund about store portfolio rationalisation (which may include store closures). No agreements have been reached as yet however the Fund does not expect the outcome to have a significant impact on revenue.

Sectoral spread



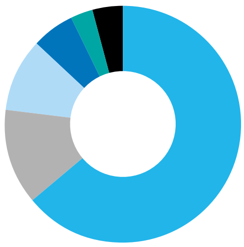
Revenue (%)	
Office	39%
Industrial	24%
Retail	37%

Sectoral spread



Asset value	
Office	37%
Industrial	23%
Retail	40%

Geographical spread



Revenue (%)	
Gauteng	64%
KwaZulu-Natal	13%
Western Cape	10%
Free State	6%
Limpopo	3%
Other	4%

Receivables

Receivables represent 3.1% of total collectables (March 2017: 1.9%) with the increase largely a result of three clients (1.9% if excluded). One of these clients is making good progress with payments under a payment plan. Asset managers continue to work closely with clients in arrears. Provision for bad debts covers all debtors greater than 60 days and the Fund has adequately provided for receivables at risk.

Investments

As previously highlighted, the Fund's strategy continues to focus on efficient capital allocation to maximise long-term risk adjusted asset returns. The Fund's objective to grow its offshore balance sheet exposure to comprise up to 20% of total asset value (currently 11.7%) has further materialised subsequent to the European transaction. The Fund has committed a total of €150m to the European transaction, which will increase the offshore exposure to 16.4% once the full committed amount is invested. The Fund continues to target an allocation of 10% of its balance sheet into "broken core" opportunities where we believe the risk adjusted returns on these assets remain attractive.

Offshore investments

Australia (listed)

The current value of the Fund's investment in IAPF is R1.0bn (March 2017: R1.3bn). The decrease in the IAPF share price from R12.96 at 31 March 2017 to R10.50 at 31 March 2018 is largely driven by the strength of the South African Rand and is not, in our view, a reflection of underlying value or deterioration of the portfolio in Australian Dollars ('AUD'). At current share price levels, IAPF trades at a yield of 8.0% which the Fund believes is a discount to fair value and IAPF's Australian peer group.

IAPF's direct property portfolio increased in value by 8.0% in AUD and its NAV increased by 11.1%, driven by further cap rate compression and value enhancing asset management. IAPF delivered pre-WHT distribution growth in AUD of 3% which was in line with market expectations, and post-WHT growth in AUD of 0.6%. The dilution in growth between pre and post-WHT distribution is as a result of an increase in the effective tax rate. The effective tax rate has been impacted by a reduction in the depreciation shield from 45% in FY2017 to 39% in FY2018 along with the antecedent distribution that is not subject to WHT being a larger component of the FY2017 distribution. The Fund hedges the majority of the anticipated IAPF distributions and on a ZAR basis, recorded 3.7% like-for-like growth in distribution. The ZAR growth in income received was materially impacted by the strength of the Rand impacting the unhedged portion of the H2 distribution.

The Fund continues to employ a conservative approach to hedging of both the income and capital risk of the investment. The Fund did not increase its AUD cross-currency swap ('CCS') exposure during the year, with only 51% of the cost of the investment hedged by way of CCSs. The Fund took advantage of positive mark-to-market on these CCSs to extend the expiry profile from 2.8 years to 3.8 years at a fixed AUD rate of 4.7% (from 4.6%). In terms of income, the Fund has hedged between 38% and 89% of its distributions over a five-year period at a range of between R10.40 and R14.16. The Fund actively manages this position on an ongoing basis.

United Kingdom (unlisted)

The Fund made a £10m initial investment into the U.K. Fund in June 2017, acquiring a 10% stake. The Fund entered into two CCSs for 50% of the investment value at a fixed rate of 2.3% and weighted expiry of four years. There was no further investment activity undertaken by the U.K. Fund during the year.

During the year, the U.K. Fund undertook a number of asset management initiatives, the most notable being the re-gear of three Sainsbury leases for an additional lease term of 10 years (taking the total expiry of the leases to 17 years). The initial investment generated an income return of 7.2% and a capital return of 15.7% based on an uplift in net asset value ('NAV') arising from the aforesaid asset management initiatives.

The U.K. Fund's industrial portfolio (circa 30% of the total portfolio) provides future asset management opportunities and the Fund expects to see rental growth across the sector of between 10% to 15% over time.

The U.K. Fund is well placed to deliver long-term sustainable income and capital growth underpinned by a property portfolio WALE of 10 years and weighted average swap expiry of 8.9 years.

Post year-end, the Fund has committed a further £0.7m to fund its *pro rata* share of an acquisition of an industrial property in North London.

Pan-European logistics portfolio (unlisted)

On 2 May 2018 the Fund announced that it had acquired a 42.9% interest in a portfolio of 22 logistics properties located across Europe for an initial equity investment of €74.2m. The investment will be held by Investec Property Offshore Investments Proprietary Limited ('IPFO'), a wholly owned subsidiary of the Fund. The effective date of the transaction was 4 May 2018.

The asset value of the initial portfolio of 22 properties is €423m and generates an unlevered net income yield of 6.0%. The Fund's initial investment yield equates to approximately 10.5% and is expected to deliver earnings accretion due to:

- attractive risk adjusted returns at an asset level;
- reduced absolute price through the recent strengthening in the ZAR (resulting in a cheaper entry into offshore assets); and
- attractive funding costs due to the continued low interest rate environment in Europe.

Inclusive of the initial investment, the Fund has committed to investing up to €150m into the platform over the next four years. Including the Fund's commitment, a total of €350m has been committed to the platform by the investors. The investment will assist in the timely aggregation of a scaled and diversified logistics portfolio across Europe.

IPFO's investment is held through a Delaware limited partnership, which in turn holds 42.9% of two Luxembourg holding companies that has invested directly into a series of locally domiciled property owning companies. The Fund has invested alongside funds and other segregated mandates managed by Ares Management, L.P. or its affiliate. Ares is a publicly traded, leading global alternative asset manager with approximately USD160bn of assets under management, and focuses on implementing hands-on value creation initiatives to under managed and capital-starved assets.

The investment was funded through a combination of existing ZAR debt facilities and a new €40m secured term loan provided by Standard Chartered. The Euro facility is for a term of 4 years at a margin of 1.75%. The Fund has entered into a 4 year Euro interest rate swap at a rate of 0.35% for 100% of the floating rate exposure.

The Fund has economically hedged 100% of the expected income from the transaction for a period of 5 years at a commencing spot rate of ZAR 15/EUR 1. The average forward ZAR/EUR curve over the 5 year period has embedded growth of approximately 7%.

Local investments

Izandla Property Fund (unlisted)

Izandla, a majority black-owned property investment vehicle, was launched in May 2017. As part of the seed transaction, the Fund sold a R521.1m property portfolio to Izandla, with all the properties transferring to Izandla during March 2018. As part of the initial transaction, the Fund acquired a 35% shareholding in Izandla and provided a subordinated loan to facilitate the transaction, the terms of which are set out below. The Fund received net proceeds from the sale of R314.1m. The majority shareholder (65%) of Izandla is the Entrepreneurial Development Trust ('EDT'), a broad-based charitable trust that focuses on educational and entrepreneurial initiatives. Programmes and beneficiaries include Raizcorp, Promaths, Young Treps and various others. The EDT is independent of the Fund and has a substantial portfolio of private equity investments.

Post year-end, Izandla acquired a further asset for a total consideration of R80.7m. The transaction was funded with a larger equity contribution than the initial transaction. IPF provided its *pro rata* share of equity funding (R11.3m) and a senior mezzanine facility (R6.9m) on the same terms as the initial transaction.

	Initial transaction	Further acquisition	Total
Total equity	R52.1m (10%)	R32.3m (40%)	R84.4m
– IPF participation	R18.2m (35%)	R11.3m (35%)	R29.5m (35%)
Total senior mezzanine debt	R130.3m (25%)	R8.0m (10%)	R138.3m
– IPF participation	R110.7m (Prime +3.5%)	R6.9m (Prime +3.5%)	R117.6m
Total junior mezzanine debt	R78.2m (15%)	Nil	R78.2m
– IPF participation	R78.2m (Prime + 5.5%)	Nil	R78.2m
Bank debt	R260.5m (50%)	R40.4m (50%)	R300.9m
Total	**R521.1m**	**R80.7 m**	**R601.8m**

In the short time since its inception in May 2017, Izandla has already identified several attractive turnkey development and sale and leaseback opportunities with blue-chip tenants which significantly supports the strength of the Izandla business model. Izandla is looking to acquire a sizable undivided share in 4 office assets that are underpinned by 10 to 12 year triple net leases. The total estimated value of the transaction is R800m and negotiations with property owners are currently underway. In addition, Izandla has been appointed to undertake a warehouse and office development of approximately 14 000m^2 which will have a 15 year lease. Funding for the project has been secured with final agreements to be signed. The intention is to strengthen Izandla's balance sheet through the acquisition of quality property backed by strong covenants and long dated leases, resulting in an increased equity layer and a reduced need for the Fund to provide material loan funding.

In terms of the existing loans advanced to Izandla to fund the initial transaction and the further acquisition, the Fund will only distribute interest income to the extent it is serviced.

Ingenuity (listed)

During the year, the Fund acquired a further 21.5m Ingenuity shares for R20.7m at an average price of 96 cents per share. This brings the total investment in Ingenuity to R114.6m (9.2%). The Fund continues to believe that Ingenuity represents an attractive investment opportunity, underpinned by a portfolio of quality Western Cape property. The Fund's average cost of acquisition of R0.84 per share is well below the last reported NAV of Ingenuity of R1.32 per share.

The Fund has added back to the distributable earnings the notional cost of funding the investment into Ingenuity (March 2018: R7.6m; March 2017: R1.7m). If this interest had been capitalised to the carrying value of the investment in Ingenuity, the resulting cost per share of R0.92 would still reflect a 30% discount to Ingenuity's last reported NAV.

Acquisitions and disposals

Since the sizable acquisitions in FY2016 and the uncertain local economic environment the Fund has been focused on integrating the assets into the existing platform and has been less active in terms of new acquisitions. In the current year, the Fund acquired three buildings – one in the office sector and two industrial buildings – for a total consideration of R233.5m at an average yield of 8.6%. A total of 17 buildings were sold for proceeds of R690.7m at an average yield of 9.2%. 13 of these were sold to Izandla at an initial yield of 9.7%.

As at 31 March 2018, the Fund has six buildings valued at R118m which are earmarked for sale.

The Fund has a continual focus on capital allocation and uses its capital to invest in quality assets that deliver long-term income and capital growth to shareholders and risk adjusted returns in excess of the Fund's cost of capital.

Balance sheet and risk management

Balance sheet and treasury management remains a fundamental focus area and the Fund continues to adopt a conservative approach to both source and cost of funding. Maintaining long-term certainty of cost and access to adequate liquidity remains of paramount importance in the current environment.

	2018	2017
Average all in cost of funding	8.60%	8.90%
Average debt margin – ZAR	1.64%	1.65%
Average all in fixed rate – AUD	4.71%	4.60%
Average all in fixed rate – GBP	2.32%	–
Average ZAR swap rate	7.56%	7.73%
Debt maturity	2.7 years	3.2 years
Swap maturity	3.8 years	3.2 years
Hedged %	84%	86%
Gearing %[1]	32.6%	33.2%
Encumbrance ratio[2]	33.5%	33.6%
% debt unsecured[3]	65.4%	66.0%
Sources of funding		
DMTN	42%	40%
Bank	54%	56%
Commercial paper	4%	4%

1 *Calculated as total debt less cash, over total investments (including equity investment in and loans to associate).*
2 *Secured assets as a % of total property assets valued at R17.6bn and investments valued at R1.6bn.*
3 *Based on total debt facilities.*

The Fund maintains a profile of diversified funding and its debt raising decisions are based on a number of factors including, but not limited to, margin, flexibility, security, committed revolving facilities, etc. The Fund will look to maintain a diversified funding split in order to manage liquidity risk. In FY2018, debt capital markets provided more liquidity than the banks as international investors continued to search for yield. Banks are also looking to the bond market as a means to extend their high quality liquid assets ('HQLA') programmes. At 31 March 2018, the Fund had not yet entered into any HQLA issuances but continues to explore the opportunity.

During the year, the Fund raised R207.3m of equity through a private placement at R15.75 per share. The Fund issued R800m of corporate bonds at a weighted average price of three-month JIBAR plus 178 basis points ('bps') and average tenor of 5.9 years. The Fund utilised R526m of the corporate bond proceeds to refinance maturing bonds. The remaining proceeds were utilised to part fund investment activity and capital projects. Post year-end, the Fund again rolled R274m of commercial paper at three-month JIBAR plus 45.5bps which is marginally better than previous funding rates.

IPF manages its cash requirements through maintaining undrawn committed facilities. At 31 March 2018, IPF had R1.4bn of available undrawn bank facilities and R507.3m available cash. This more than covers the re-finance risk for the next 12 months. Whilst the committed facilities were undrawn, excess cash was placed on deposit in a Deposit Note Programme earning 7.55% annualised. Post-year end, the majority of the cash was utilised to part fund the Pan-European logistics platform acquisition. The Fund continues to engage with lenders to maintain headroom on committed facilities. This is utilised to manage cash flow for distributions and to ensure that IPF is able to act quickly and effectively in respect of acquisition activity.

There is a continued drive to fund long-term assets with long-term borrowings and to conservatively manage refinancing and credit risk. As such, the Fund continually engages with lenders to re-finance and where possible will early refinance and extend its maturity profile. IPF is already in negotiations to re-finance the R0.5bn of bank debt that matures in FY2019 and R1.5bn that matures in FY2020.

Commentary

(continued)

The balance sheet remains significantly unencumbered and at 31 March 2018 the Fund's encumbrance ratio was maintained at 33.5% (March 2017: 33.6%). Unsecured debt made up 65.4% of the total debt book (March 2017: 66.0%). This provides flexibility for future funding initiatives and allows efficiency in acquisition and disposal decisions.

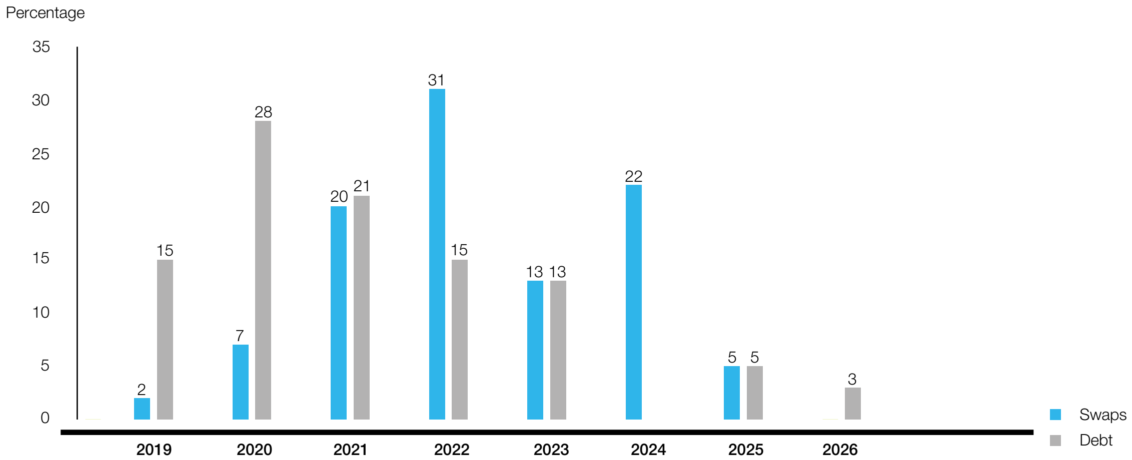
The Fund is active in its treasury management and maintains a focused strategy of attaining the lowest available rate for the longest possible tenor. The Fund began the year with R4.9bn interest swaps and R0.5bn swaps rolled off and were replaced. In order to mitigate some of the volatility in the first half of FY2018 R0.5bn new swaps were entered into which increased the Fund's hedge percentage to circa 90% as reported at interim. In the last quarter of FY2018 R0.4bn swaps were settled in order to benefit from lower floating rates in a potential rate cutting cycle bringing the closing hedge percentage to 84% (R5.0bn swaps). In addition, R1.3bn swaps were restructured which improved their weighted average tenor by 1.6 years and reduced their rate by 56bps.

Post year-end, the Fund entered into a €40m secured debt facility with Standard Chartered at a margin of 1.75% above three-month Euribor, which was utilised to part fund the Pan-European transaction. A Euro interest rate swap was entered into to hedge the debt at a rate of 0.35%. R1.2bn of South African properties were secured against the facility.

The Fund's gearing ratio is 32.6% at 31 March 2018. Post the acquisition of the Pan-European logistics portfolio it increased to circa 36% as it was fully debt funded. The Fund calculates the gearing ratio with reference to total debt, less cash, over total investments (equity accounted investments and other investments).

The Fund continues to maintain strong credit metrics and its corporate rating was maintained at $A_{(ZA)}$ with a positive outlook in August 2017, whilst the secured was reaffirmed and released in June 2017 as $AA_{(ZA)}$ with a stable outlook.

Debt and swap expiry profile



The debt expiry has reduced from 3.2 years to 2.7 years as a function of limited acquisition activity and limited re-finance requirements. The Fund expects this to increase as it re-finances FY2019 and FY2020 expiries.

Capital expenditure

During the year, the Fund spent R65.0m on maintenance capex and R56.4m on projects delivering a return on investment ('ROI').

The significant ROI projects include:

- The refurbishment of Shoprite Vanderbijlpark which was completed in August 2017 for R42m. The refurbishment allowed for the renewal of the Shoprite lease for 10 years at a 6% escalation and the renewal of the Shoprite Liquor lease for five years at a 6% escalation. The redevelopment yield of the property is 8.9%.
- The completion of the Musina Mall solar plant for R8.5m.

The Fund has earmarked R239m for ROI capex projects during FY2019 (R92m for the Fleurdal extension as well as a further R147m earmarked for sustainability projects).

The 5 881m² extension of Fleurdal Mall is imminent and will break ground in July 2018. National retailers that have committed to the scheme include Woolworths, Dischem, Markhams and Mr Price Sport. The Fund expects an initial development yield of 6.2%. Although initially dilutive, the extension will further cement the centre's positioning in the South of Bloemfontein and is expected to improve long-term returns from the property. This extension is of a very similar nature to that undertaken at Dihlabeng where the Fund added 6 000m² of space to accommodate Woolworths.

Sustainability and corporate social responsibility

Over the next 12 months, the Fund will continue with the roll-out of sustainability initiatives through a comprehensive programme involving further capital investment as mentioned on page 20. The Fund is also engaging in the process of obtaining an Existing Building Performance rating from the Green Buildings Council for certain of its office properties.

The Fleurdal Mall Solar PV plant is producing ± 22% of the Mall's monthly consumption. Musina Mall's Solar PV is producing ± 24% of the Mall's monthly consumption. These projects have resulted in the Fund exploring the roll-out of Solar PV on another eight sites. The technology will continue to be rolled out across feasible buildings and assist in reducing the cost base of IPF as well as the cost of occupation for clients.

The Fund continues to monitor the Cape Town water shortage crisis. Water usage at buildings is being limited through the use of reduced pressure valves, installation of water tanks, usage of grey water where possible and communication with clients to increase their awareness of the crisis.

In 2016, the Fund rolled out an Enterprise and Supplier Development initiative called AMP. The purpose of AMP is to bring together black-owned suppliers within various disciplines of the property industry to facilitate opportunities for them to collaborate in a space that will nurture and grow their offerings, services and projects. As part of the Fund's enterprise and supplier development offering the Fund has provided these entrepreneurs with subsidised office space, skills, mentorship and assistance with facilitating procurement opportunities. FY2019 will see the roll-out of the second phase of AMP where the Fund will identify additional black-owned SMMEs in the property sector to partner and collaborate with and assist in developing and nurturing entrepreneurial talent in the property sector.

The Fund initiates CSI projects in the communities in which our retail centres are located, with a specific focus on schools. Promaths is an acceleration programme aimed at assisting grade 10-12 learners from disadvantaged schools to achieve results in maths and science. Through Promaths the Fund has sponsored 96 learners until they complete grade 12 (48 learners from Khayelitsha, 23 from Joe Slovo Secondary School,13 from Masiyile Secondary School and 12 from Usasazo Secondary School).

Several entrepreneurship workshops were held at schools linked to communities near the Fund's retail centres. These impacted 319 learners who completed the entrepreneurship workshop. The aim was to equip young people with salient skills such as: establishing a business, improving capacity to enter tertiary level education specifically in business, management and commercial disciplines, and improving employability.

The Fund's current BEE rating, under the revised Property Sector Charter of 2017, is a level 4, with the next verification scheduled for October 2018.

Dividend re-investment programme

The board is considering offering a dividend re-investment alternative in which a shareholder would be entitled to elect to reinvest the cash dividend in return for IPF shares, failing which they will receive the cash dividend in respect of all or part of their shareholdings. A further announcement will be made in this regard on or before 29 May 2018.

Financial assistance

Shareholders are advised that at the annual general meeting of the Fund held on 21 August 2017, shareholders approved and passed a special resolution in terms of section 45 of the Companies Act, No. 71 of 2008, as amended (the Act) authorising the Fund to provide financial assistance to, among others, related or inter-related companies of the Fund.

Shareholders are hereby notified that in terms of S45(5)(b) of the Companies Act, No. 71 of 2008, as amended, the board of directors of the Fund authorised the issue of guarantees and suretyships to third parties for finance and other facilities granted by those third parties to wholly-owned subsidiaries of the Fund during the period 1 April 2017 to 31 March 2018.

The board has confirmed that, after considering the reasonable foreseeable financial circumstances of the Fund, it is satisfied that immediately after providing such financial assistance, the Fund would satisfy the solvency and liquidity test, as contemplated in terms of section 4 of the Act, and that the terms under which such financial assistance was given were fair and reasonable to the Fund.

Shareholders

At 31 March 2018, Investec Limited, Coronation Fund Managers, Public Investment Corporation, STANLIB Asset Management and Investec Asset Management are the only shareholders holding in excess of 5% of the Fund's total shares in issue.

Shareholding at:	31 March 2018	31 March 2017
Investec Limited	26.75%	27.92%
Coronation Fund Managers	16.44%	23.28%
Public Investment Corporation	6.36%	Less than 5%
STANLIB Asset Management	5.87%	Less than 5%
Investec Asset Management	5.41%	Less than 5%

Commentary

(continued)

Prospects and guidance

As communicated in the trading update, the short term outlook in South Africa remains challenging. This is expected to impact the performance of the Fund's South African portfolio in the short term, resulting in the South African portfolio delivering low single digit growth for the year ending 31 March 2019. The Fund would expect to benefit from any earlier translation of the improved sentiment in South Africa into real economic growth.

The Pan-European logistics transaction is accretive to the Fund's dividend for the financial year ending 31 March 2019 and has the potential to deliver further income and capital growth as further capital is deployed, the letting and asset management strategy is executed and the attractive secular dynamics increasingly support the European logistics sector.

Taking the above into account the Fund's growth in core dividend per share (excluding the Investec Australia Property Fund's antecedent dividend in FY2018) for the financial year ending 31 March 2019 is expected to be between 6.5% and 7.5%.

This forecast has not been reviewed or audited by the Fund's independent external auditors.

On behalf of the Board of Investec Property Fund Limited

Sam Hackner
Non-executive Chairman

Nicholas Riley
Chief executive officer

15 May 2018

Basis of accounting

The reviewed preliminary condensed consolidated financial information for the year ended 31 March 2018 has been prepared in compliance with International Financial Reporting Standards ('IFRS'), the presentation and disclosure requirements of IAS 34, *Interim Financial Reporting*, the SAICA Financial Reporting Guide as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by The Financial Reporting Standards Council, the Companies Act, (71 of 2008, as amended) of South Africa and the JSE Listings Requirements.

The accounting policies applied in the preparation of the results for the year ended 31 March 2018 are consistent with those adopted in the financial statements for the year ended 31 March 2017, other than the adoption of those standards that became effective in the current period, which had no significant impact on the financial results. These reviewed preliminary condensed consolidated financial statements have been prepared under the supervision of Andrew Wooler, FCA.

Review conclusion

Ernst & Young Inc., the Fund's independent auditors, have reviewed the consolidated statement of comprehensive income, consolidated statement of financial position, condensed consolidated statement of cash flows, condensed consolidated statement of changes in equity, condensed consolidated segmental information and notes to the consolidated condensed financial results, as set out on pages 1 to 11 of the interim condensed consolidated financial results, and have expressed an unmodified review conclusion. A copy of their review conclusion is available for inspection at the company's registered office.

Final dividend

Notice is hereby given of the declaration of final dividend number 15 ('Cash dividend') of 70.16228 cents per share for the period 1 October 2017 to 31 March 2018.

Other information

- The dividend has been declared from income reserves.
- A dividend withholding tax of 20% will be applicable on the dividend portion to all shareholders who are not exempt.
- The issued share capital at the declaration date is 731 400 437 ordinary shares of no par value.

In accordance with Investec Property Fund's status as a REIT, shareholders are advised that the dividend meets the requirements of a 'qualifying distribution' for the purposes of section 25BB of the Income Tax Act, No. 58 of 1962 ("Income Tax Act"). The dividends on the shares will be deemed to be dividends for South African tax purposes in terms of section 25BB of the Income Tax Act.

Tax implications for South African resident shareholders

Dividends received by or accrued to South African tax residents must be included in the gross income of such Shareholders and will not be exempt from income tax in terms of the exclusion to the general dividend exemption contained in section 10(1)(k)(i)(aa) of the Income Tax Act because they are dividends distributed by a REIT. These dividends are, however, exempt from dividend withholding tax ("Dividend Tax") in the hands of South African resident Shareholders provided that the South African resident Shareholders have provided to the CSDP or broker, as the case may be, in respect of uncertificated Shares, or the Fund, in respect of certificated Shares, a declaration by the beneficial owner (in such form as may be prescribed by the Commissioner) that the dividend is exempt from dividends tax in terms of section 64F and a written undertaking (in such form as may be prescribed by the Commissioner) to forthwith inform the CSDP, broker or the Fund, as the case may be, should the circumstances affecting the exemption change or if the beneficial owner ceases to be the beneficial owner.

If resident Shareholders have not submitted the abovementioned documentation to confirm their status as South African residents, they are advised to contact their CSDP, or broker, as the case may be, to arrange for the documents to be submitted prior to the date determined by the regulated intermediary, or if no date is determined, by the date of payment of the dividend.

Tax implications for non-resident shareholders

Dividends received by non-resident Shareholders from a REIT will not be taxable in South Africa as income and instead will be treated as ordinary dividends which are exempt from income tax in terms of the general dividend exemption in section 10(1)(k)(i) of the Income Tax Act. It should be noted that up to 31 December 2013 dividends received by non-residents from a REIT were not subject to Dividend Tax. With effect from 22 February 2017, any dividend received by a non-resident from a REIT will be subject to Dividend Tax at 20%, unless the rate is reduced in terms of any applicable agreement for the avoidance of double taxation ('DTA') between South Africa and the country of residence of the non-resident Shareholder. Assuming Dividend Tax will be withheld at a rate of 20%, the net dividend amount due to non-resident Shareholders is 56.12982 cents per Share. A reduced dividend withholding rate in terms of the applicable DTA may only be relied on if the non-resident Shareholder has provided the following forms to their CSDP or broker, as the case may be, in respect of uncertificated Shares, or the Fund, in respect of certificated Shares:

- A declaration by the beneficial owner (in such form as may be prescribed by the Commissioner) that the dividend is subject to a reduced rate as a result of the application of the DTA
- A written undertaking (in such form as may be prescribed by the Commissioner) to forthwith inform, the CSDP, broker or the Fund, as the case may be, should the circumstances affecting the reduced rate change or if the beneficial owner ceases to be the beneficial owner.

If applicable, non-resident Shareholders are advised to contact the CSDP, broker or the Fund, as the case may be, to arrange for the abovementioned documents to be submitted prior to the date determined by the regulated intermediary, or if no date is determined, by the date of payment of the dividend, if such documents have not already been submitted.

- As at the date of this announcement, the ordinary issued share capital of Investec Property Fund is 731 400 437 ordinary Shares of no par value before any election to re-invest the cash dividend
- Income Tax Reference Number of Investec Property Fund: 9332/719/16/1
- Shareholders are encouraged to consult their professional advisors should they be in any doubt as to the appropriate action to take.

Summary of the salient dates relating to the Cash Dividend and potential dividend re-investment alternative:	**2018**
Circular and form of election posted to shareholders and announced on SENS	Tuesday, 29 May
Last day to withdraw the Share Re-Investment Alternative	Monday, 4 June
Announcement of Share Re-Investment Alternative issue price and finalisation information ("Finalisation Date") on SENS on	Tuesday, 5 June
Last day to trade in order to participate in the election to receive shares in terms of the Share Re-Investment Alternative or to receive a cash dividend ("LDT")	Tuesday, 12 June
Shares to trade ex-dividend	Wednesday, 13 June
Listing of maximum possible number of Share Re-Investment Alternative shares commences on the JSE	Friday, 15 June
Last day to elect to receive the Share Re-Investment Alternative (no late forms of election will be accepted) at 12:00 (South African time)	Friday, 15 June
Record date ("Record Date")	Friday, 15 June
Announcement of results of Cash Dividend and Share Re-Investment Alternative on SENS	Monday, 18 June
For Shareholders electing the Cash Distribution cheques posted to Certificated Shareholders and accounts credited by CSDP or broker to Dematerialised Shareholders electing the Cash Dividend on or about	Monday, 18 June
Share certificates posted to Certificated Shareholders and accounts credited by CSDP or broker to Dematerialised Shareholders electing the Share Re-Investment Alternative on	Wednesday, 20 June
Adjustment to the maximum number of shares listed on or about	Thursday, 21 June

Notes:

1. *Shareholders electing the Share Re-Investment Alternative are requested to note that the new Shares will be listed on LDT + 3 and these new Shares can only be traded on LDT + 3 as the settlement of the Shares will occur three days after record date, which differs from the conventional one day after record date settlement process.*
2. *Shares may not be dematerialised or rematerialised between commencement of trade on Wednesday, 13 June 2018 and close of trade on Friday, 15 June 2018 both dates inclusive.*
3. *The above dates and times are subject to change. Any changes will be released on SENS.*

Investec Bank Limited

Company Secretary

15 May 2018

Directors

S Hackner *(Chairman)*#
SR Leon *(Deputy Chairman)*#
N Riley *(Chief Executive Officer)*
A Wooler *(Financial Director)*
LLM Giuricich#
S Mahomed#*
CN Mashaba#*
MM Ngoasheng#*
KL Shuenyane#*
P Hourquebie #*

Non-executive
* *Independent*

Investec Property Fund Limited

(Incorporated in the Republic of South Africa)
(Registration number 2008/011366/06)
Share code: IPF ISIN: ZAE000180915
(Income tax reference number 9332/719/16/1)

Registered office

C/o Company Secretarial, Investec Limited
100 Grayston Drive, Sandown, Sandton, 2196

Transfer secretary

Computershare Investor Services Proprietary Limited
(Registration number 2004/003647/07)
Rosebank Towers, 15 Biermann Avenue
Rosebank, Johannesburg, 2196

Sponsor

Investec Bank Limited
100 Grayston Drive, Sandown, Sandton, 2196