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)

Reviewed condensed consolidated interim results 2018

Key highlights for the period ended 30 September 2018

INTERIM DISTRIBUTION OF 68.81 (cents per share)

5.4% increase in normalised DPS year-on-year

SOUTH AFRICAN MACROECONOMIC ENVIRONMENT
remains challenging and has continued to deteriorate since last reporting date. Conditions are not expected to improve in the short term.

BASE NET PROPERTY INCOME
growth of 1.7% year-on-year

VACANCY REDUCED
to 3.1% (March 2018: 4.0%).
(Excluding development vacancy)

91% of space expiring in the period renewed or re-let at an average WALE of 3.8 years

EUR71.9m invested into the
PAN-EUROPEAN LOGISTICS INVESTMENT
taking offshore exposure to 13.7%

11.6% income return and 14.7% capital return since deployment

NET ASSET VALUE
per share growth of 2.9%
attributable to the offshore investment performance

R0.6 billion of capital to be recycled through the
DISPOSAL OF SEVEN PROPERTIES with an average yield of 7.5%

Key financial indicators

All in cost of funding
significantly reduced from
8.6% to 8.0% as a result of Euro funding

Weighted average swap expiry
3.3 years
(March 2018: 3.8 years)

Corporate rating
upgraded to A+(za) from A(za)

Refinancing of R3 billion post 30 September 2018
increases the weighted average debt expiry to 3.7 years

Gearing

36.3% increased to fund Pan-European investment
(March 2018: 32.6%)

Hedged percentage at 83%
(March 2018: 84%)

In-force escalations
stable at 7.6%

Cost to income increased to 19.3% from 16.8% at March 2018
(mostly due to increased costs of letting and rates increases)

Consolidated statement of comprehensive income

| R'000 | Notes | Reviewed Six months ended 30 September 2018 | Reviewed Six months ended 30 September 2017 | Audited Year ended 31 March 2018 |
|---|---|---|---|---|
| Revenue, excluding straight-line rental revenue adjustment | | 892 917 | 888 535 | 1 810 542 |
| Straight-line rental revenue adjustment | | 23 626 | 16 475 | 52 698 |
| Revenue | | 916 543 | 905 010 | 1 863 240 |
| Property expenses | | (172 256) | (147 152) | (303 356) |
| Net property income | | 744 287 | 757 858 | 1 559 884 |
| Other operating expenses | | (46 050) | (37 454) | (72 604) |
| Operating profit | | 698 237 | 720 404 | 1 487 280 |
| Fair value adjustments and foreign exchange gains/(losses) | 2 | 372 175 | (4 024) | 230 684 |
| (Loss)/profit on disposal of investment property | | (4 999) | 4 886 | 2 655 |
| Income from other investments | | 56 799 | 49 975 | 107 530 |
| Finance costs | | (309 884) | (299 503) | (590 360) |
| Finance income(#) | | 9 552 | 7 331 | 19 771 |
| Finance income from associate(#)* | | 14 587 | - | - |
| Finance income from loans to associates at fair value through profit and loss* | | 61 747 | - | - |
| Profit before taxation | | 898 214 | 479 069 | 1 257 560 |
| Taxation | 6 | (7 169) | (5 501) | (9 870) |
| Total comprehensive income attributable to equity holders | | 891 045 | 473 568 | 1 247 690 |
| Distribution reconciliation | | | | |
| Total comprehensive income attributable to equity holders | | 891 045 | 473 568 | 1 247 690 |
| Less: Straight-line rental revenue adjustment | | (23 626) | (16 475) | (52 698) |
| Fair value adjustments and foreign exchange (gains)/losses | | (372 175) | 4 024 | (230 684) |
| Loss/(profit) on disposal of investment property | | 4 999 | (4 886) | (2 655) |
| Izandla mezzanine interest not received | | (6 005) | - | (800) |
| Add: Investment dividend accrual (net of withholding tax ('WHT'))(1) | | 1 937 | 29 094 | 30 124 |
| Notional cost of funding the Ingenuity acquisition(2) | | 4 372 | 3 402 | 7 576 |
| Deferred taxation | | 4 514 | 2 291 | 2 765 |
| Antecedent dividend(3) | | 1 554 | - | 2 867 |
| Less: Final dividend paid | | - | - | (513 167) |
| Interim dividend | | 506 615 | 491 018 | 491 018 |
| Number of shares | | | | |
| Shares in issue | | 736 290 993 | 718 150 167 | 731 400 437 |
| Weighted average number of shares in issue | | 734 270 981 | 718 150 167 | 722 796 837 |
| Cents | | | | |
| Total dividend per share | | 68.81 | 68.37 | 138.53 |
| Final dividend per share | | - | - | 70.16 |
| Interim dividend per share(4) | | 68.81 | 68.37 | 68.37 |
| Basic and diluted earnings per share | | 121.35 | 65.94 | 172.62 |
| Headline earnings per share | 1 | 129.07 | 52.68 | 106.41 |

(1) The Fund considers the expected future Investec Australia Property Fund ('IAPF') dividend and the expected future Investec Argo Property Fund

('U.K. Investment') 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.
(2) 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.
(3) The antecedent dividend arose from the share issue of 4 890 556 shares at R16.60 in June 2018.
(4) Excluding the once-off antecedent dividend received from IAPF of R22.2 million in FY2018, the normalised dividend per share for the prior year is 65.27 cents per share, resulting in growth of 5.4% year-on-year.
(#) Finance income is calculated using the effective interest rate method.
* Refer to the segmental investment portfolio for further details on the source of this income.

Consolidated statement of financial position

| R'000 | Notes | Reviewed 30 September 2018 | Audited 31 March 2018 | Reviewed 30 September 2017 |
|---|---|---|---|---|
| ASSETS | | | | |
| Non-current assets | | 20 383 392 | 19 085 578 | 18 571 990 |
| Investment property | 3 | 16 527 208 | 17 004 260 | 16 524 114 |
| Straight-line rental revenue adjustment | | 501 748 | 476 955 | 446 656 |
| Derivative financial instruments | 4 | 106 533 | 39 141 | 227 |
| Investments | 4 | 1 590 178 | 1 357 987 | 1 600 993 |
| Equity accounted investment in and loans to associate | 5 | 227 209 | 207 235 | - |
| Loans to associates at fair value through profit and loss(1) | 4 | 1 430 516 | - | - |
| Current assets | | 467 199 | 749 642 | 319 560 |
| Trade and other receivables | | 285 138 | 218 866 | 170 568 |
| Cash and cash equivalents(2) | | 180 295 | 507 338 | 143 578 |
| Current portion of derivative financial instruments | 4 | 1 766 | 23 438 | 5 414 |
| Non-current assets held-for-sale | 7 | 604 461 | 117 654 | 606 779 |
| Total assets | | 21 455 052 | 19 952 874 | 19 498 329 |
| EQUITY AND LIABILITIES | | | | |
| Shareholders' interest | | 13 102 770 | 12 643 769 | 12 162 405 |
| Stated capital | | 10 267 710 | 10 186 582 | 9 988 322 |
| Retained earnings | | 2 835 060 | 2 457 187 | 2 174 083 |
| Non-current liabilities | | 5 896 814 | 6 032 267 | 6 173 702 |
| Long-term borrowings | 8 | 5 725 980 | 5 917 743 | 5 991 282 |
| Derivative financial instruments | 4 | 158 169 | 106 373 | 174 744 |
| Deferred taxation | 6 | 12 665 | 8 151 | 7 676 |
| Current liabilities | | 2 455 468 | 1 276 838 | 1 162 222 |
| Trade and other payables | | 391 169 | 401 397 | 385 155 |
| Current portion of long-term borrowings(3) | 8 | 2 044 504 | 839 000 | 744 876 |
| Current portion of derivative financial instruments | 4 | 19 795 | 36 441 | 32 191 |
| Total equity and liabilities | | 21 455 052 | 19 952 874 | 19 498 329 |
| Shares in issue | | 736 290 993 | 731 400 437 | 718 150 167 |
| Net asset value per share (cents) | | 1 780 | 1 729 | 1 694 |

(1) Loans to associates have arisen in the current year due to the investment into the Pan-European logistics portfolio. Investec Property Fund Offshore Investments (Pty) Limited ('IPFO') is a wholly owned subsidiary of Investec Property Fund Limited. IPFO consolidates AREG Hexagon Co-Invest Vehicle II, L.P. ('AREG L.P.') which in turn owns 42.9% of the share capital of two associate entities in Luxembourg, namely Hexagon Holdco S.a.r.l and Hexagon Holdco S.a.r.l. 2 ('Hexagon'). These entities hold property companies which invest into direct real estate in various jurisdictions across Europe. The loans to Hexagon earn variable interest returns based on the returns in the underlying property companies. The loan amount also includes a convertible loan granted to Izandla Property Fund (Pty) Limited ('Izandla') of R51.4 million.

(2) The cash balance includes restricted cash relating to tenant deposits of R50.0 million as well as cash received in advance for October 2018 rentals of R50.9 million.

(3) Post 30 September 2018, the Fund will conclude refinance agreements with certain lenders which extends the debt expiry profile to 3.7 years and reduces the short-term portion of debt to R931 million.

Consolidated statement of cash flows

| R'000 | Reviewed Six months ended 30 September 2018 | Reviewed Six months ended 30 September 2017 | Audited Year ended 31 March 2018 |
|---|---|---|---|
| Cash generated from operations | 604 561 | 655 575 | 1 320 763 |
| Finance income received | 9 552 | 7 331 | 18 971 |
| Finance costs paid | (309 792) | (304 308) | (593 255) |
| Dividend income from investments (net of WHT) | 54 145 | 46 764 | 100 425 |
| Finance income from associates | 31 606 | - | - |
| Dividends paid to shareholders | (513 172) | (479 090) | (979 167) |
| Net cash outflow from operating activities | (123 100) | (73 728) | (132 263) |
| Capital expenditure and acquisitions of investment property | (88 839) | (257 933) | (358 103) |
| Proceeds on disposal of investment property | 21 225 | 163 619 | 672 444 |
| Investment in IAPF | - | (4 037) | - |
| Investment in Ingenuity | - | (8 473) | (20 755) |
| Investment in the U.K. Fund | (11 744) | (173 329) | (173 329) |
| Investment in Izandla | (71 303) | - | (188 988) |
| Loans to Hexagon | (1 105 059) | - | - |
| Net cash outflow from investing activities | (1 255 720) | (280 153) | (68 731) |
| Shares issued, net of costs | 81 128 | - | 207 319 |
| Term loans raised | 669 153 | 200 000 | 200 000 |
| Revolving credit facilities and general banking facilities drawn down | 150 496 | 416 301 | (121 432) |
| Commercial paper issued and repaid (net) | 201 000 | 5 000 | 12 000 |
| Corporate bonds repaid | (50 000) | (426 000) | (526 000) |
| Corporate bonds issued | - | 150 000 | 800 000 |
| Derivative financial instruments settled | - | (7 219) | (22 932) |
| Net cash inflow from financing activities | 1 051 777 | 338 082 | 548 955 |
| Net (decrease)/increase in cash and cash equivalents | (327 043) | (15 799) | 347 961 |
| Cash and cash equivalents at the beginning of the period | 507 338 | 159 377 | 159 377 |
| Cash and cash equivalents at the end of the period | 180 295 | 143 578 | 507 338 |

The negative cash flow from operations is largely caused by the increase in tenant incentives and letting commission paid, which is held on balance sheet and amortised over the period of the lease, as well as the accrual for interest income from the Pan-European logistics portfolio received after period end.

Consolidated statement of changes in equity

| R'000 | Stated capital | Retained earnings | Total equity |
|---|---|---|---|
| Balance at 31 March 2017 | 9 999 838 | 2 168 089 | 12 167 927 |
| Total comprehensive income attributable to equity holders | - | 1 247 690 | 1 247 690 |
| Shares issued net of costs | 207 319 | - | 207 319 |
| Dividends declared and paid | - | (979 167) | (979 167) |
| Transfer between reserves* | (20 575) | 20 575 | - |
| Balance at 31 March 2018 | 10 186 582 | 2 457 187 | 12 643 769 |
| Total comprehensive income attributable to equity holders | - | 891 045 | 891 045 |
| Shares issued net of costs | 81 128 | - | 81 128 |
| Dividends declared and paid | - | (513 172) | (513 172) |

| | | | |
|---|---|---|---|
| Balance at 30 September 2018 | 10 267 710 | 2 835 060 | 13 102 770 |

* Relates to antecedent dividends in relation to shares issued in March 2017 and November 2017.

Condensed consolidated segmental information

SOUTH AFRICAN PROPERTY PORTFOLIO

For the six months ended 30 September 2018

| R'000 | Office | Industrial | Retail | Total |
|---|---|---|---|---|
| Statement of comprehensive income extract | | | | |
| Revenue, excluding straight-line rental revenue adjustment | 345 828 | 203 427 | 343 662 | 892 917 |
| Straight-line rental revenue adjustment | 4 565 | 11 569 | 7 492 | 23 626 |
| Revenue | 350 393 | 214 996 | 351 154 | 916 543 |
| Property expenses | (73 349) | (34 612) | (64 295) | (172 256) |
| Net property income | 277 044 | 180 384 | 286 859 | 744 287 |
| Statement of financial position extracts | | | | |
| Investment property opening balance at 1 April 2018 | 6 415 678 | 4 061 897 | 7 003 640 | 17 481 215 |
| Net additions, acquisitions and disposals | 8 030 | 15 363 | 57 987 | 81 380 |
| Fair value adjustment and straight-lining | (56 637) | (17 136) | 40 909 | (32 864) |
| Transfer to non-current assets held-for-sale | (24 675) | (476 100) | - | (500 775) |
| Fair value of investment property at 30 September 2018 | 6 342 396 | 3 584 024 | 7 102 536 | 17 028 956 |

For the six months ended 30 September 2017

| R'000 | Office | Industrial | Retail | Total |
|---|---|---|---|---|
| Statement of comprehensive income extract | | | | |
| Revenue, excluding straight-line rental revenue adjustment | 343 569 | 211 702 | 333 264 | 888 535 |
| Straight-line rental revenue adjustment | 621 | 2 087 | 13 767 | 16 475 |
| Revenue | 344 190 | 213 789 | 347 031 | 905 010 |
| Property expenses | (54 163) | (30 098) | (62 891) | (147 152) |
| Net property income | 290 027 | 183 691 | 284 140 | 757 858 |
| 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 | 18 511 | 230 475 | 109 562 | 358 548 |
| Fair value adjustment and straight-lining | 55 347 | 96 377 | 391 100 | 542 824 |
| Transfer to non-current assets held-for-sale | (21 034) | - | - | (21 034) |
| Fair value of investment property at 31 March 2018 | 6 415 678 | 4 061 897 | 7 003 640 | 17 481 215 |

Condensed consolidated segmental information

INVESTMENT PORTFOLIO

For the six months ended
30 September 2018

| R'000 | Australia(1) | Europe(2) | U.K.(3) | South Africa(4) | Total |
|---|---|---|---|---|---|
| Statement of comprehensive income extract | | | | | |
| Income from other investments | 50 706 | - | 6 093 | - | 56 799 |
| Finance income from associate | - | - | - | 14 587 | 14 587 |
| Finance income from loans to associates at fair value through profit and loss | - | 61 747 | - | - | 61 747 |
| Fair value adjustments(#) | 200 294 | 235 519 | 19 004 | 1 150 | 455 967 |
| Foreign exchange translation losses on items not at fair value | - | (42 554) | - | - | (42 554) |
| Investment earnings at 30 September 2018 | 251 000 | 254 712 | 25 097 | 15 737 | 546 546 |
| Statement of financial position extracts | | | | | |
| Investments | 1 251 838 | - | 222 548 | 115 792 | 1 590 178 |
| Equity accounted investment in and loans to associate | - | - | - | 227 209 | 227 209 |
| Loans to associates at fair value through profit | | | | | |

| | Australia | Europe | U.K. | South Africa | Total |
|---|---|---|---|---|---|
| and loss | - | 1 379 124 | - | 51 392 | 1 430 516 |
| Investments at 30 September 2018 | 1 251 838 | 1 379 124 | 222 548 | 394 393 | 3 247 903 |

For the six months ended
30 September 2017

| R'000 | Australia | Europe | U.K. | South Africa | Total |
|---|---|---|---|---|---|
| Statement of comprehensive income extract | | | | | |
| Income from other investments | 49 975 | - | - | - | 49 975 |
| Fair value adjustments(#) | 15 463 | - | 8 428 | (310) | 23 581 |
| Investment earnings at 30 September 2017 | 65 438 | - | 8 428 | (310) | 73 556 |
| Statement of financial position extracts | | | | | |
| Investments | 1 051 544 | - | 191 800 | 114 643 | 1 357 987 |
| Equity accounted investment in and loans to associate | - | - | - | 207 235 | 207 235 |
| Investments at 31 March 2018 | 1 051 544 | - | 191 800 | 321 878 | 1 565 222 |

(1) Investment in IAPF.
(2) Investment in AREG L.P./Hexagon.
(3) Investment in the U.K. Fund.
(4) Investment in Ingenuity and Izandla.
(#) Included in fair value adjustments are foreign exchange gains and losses on items measured at fair value.

This segmental breakdown of investments by geography has been included for the first time as the geographical spread of the business has increased significantly from prior years.

Notes to the reviewed condensed consolidated financial results

| R'000 | Reviewed Six months ended 30 September 2018 | Reviewed Six months ended 30 September 2017 | Audited Year ended 31 March 2018 |
|---|---|---|---|
| 1. Headline earnings per share | | | |
| 1.1 Reconciliation of basic earnings to headline earnings | | | |
| Total comprehensive income attributable to equity holders | 891 045 | 473 568 | 1 247 690 |
| Less: Fair value adjustment on investment property | 51 695 | (90 378) | (475 868) |
| Loss/(profit) on disposal of investment property | 4 999 | (4 886) | (2 655) |
| Headline earnings attributable to shareholders | 947 739 | 378 304 | 769 167 |
| Headline earnings per share | 129.07 | 52.68 | 106.41 |
| 1.2 Reconciliation of total dividend per share to normalised dividend per share | | | |
| Interim dividend/final dividend | 506 615 | 491 018 | 513 167 |
| Less: IAPF antecedent dividend | - | (22 277) | - |
| Normalised dividend | 506 615 | 468 741 | 513 167 |
| Shares in issue at interim reporting period | 736 290 993 | 718 150 167 | 731 400 437 |
| Normalised dividend per share | 68.81 | 65.27 | 70.16 |
| 2. Fair value adjustments | | | |
| Fair value adjustments on derivative instruments | 10 457 | (117 983) | (12 610) |
| Fair value adjustments on investment property | (51 695) | 90 378 | 475 868 |
| Fair value adjustments on investments(#) | 220 448 | 23 581 | (232 574) |
| Fair value adjustments on Hexagon loans*(#) | 235 519 | - | - |
| Foreign exchange translation losses on items not at fair value | (42 554) | - | - |
| | 372 175 | (4 024) | 230 684 |

* The value of this loan is linked to the value of the properties in the underlying European logistics portfolio. Therefore, the movement in the value of the loan is driven by the change in values of the properties.
(#) Included in fair value adjustments are foreign exchange gains and losses on items measured at fair value.

3. Fair value of investment property

The Fund's policy is to assess the valuation of investment properties at each reporting period. At interim reporting periods a directors' valuation is carried out and properties are revalued if there are significant changes in value. During the six months ended 30 September 2018, changes to revenue and risk forecasts since year-end resulted in a decrease of R51.7m (March 2018: R475.9m revaluation, September 2017: R90.4m revaluation). The directors' valuation method is the income capitalisation method which is a generally accepted methodology used in the industry.

4. Financial instruments

Financial instruments held at fair value by the Fund include the investment in IAPF, the investment in Ingenuity, the U.K. Investment, the loans to Hexagon, the Izandla convertible loan, derivatives and certain long-term borrowings.

* 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 is an unlisted company and their shares are not traded on a regulated exchange, therefore there are significant unobservable inputs used to determine the fair value, making it a level 3 valuation.

* The profit participating loans ('PPL') receivable and payable are valued based on the value of the underlying investment properties. There are significant unobservable inputs used to determine the fair value of these loans, making them level 3 valuations.

* The Izandla convertible loan is based on the present value of future cash flows plus the value of the option to convert, making it a level 3 valuation.

* 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 4.4 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 Six months ended 30 September 2018 | Audited Year ended 31 March 2018 | Reviewed Six months ended 30 September 2017 |
|---|---|---|---|
| 4.1 Listed investments | | | |
| Investment in IAPF | 1 251 838 | 1 051 544 | 1 311 926 |
| % holding | 20.9% | 20.9% | 22.9% |
| Investment in Ingenuity | 115 792 | 114 643 | 107 310 |
| % holding | 9.2% | 9.2% | 8.7% |
| Total fair value | 1 367 630 | 1 166 187 | 1 419 236 |

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

| R'000 | Reviewed Six months ended 30 September 2018 | Audited Year ended 31 March 2018 | Reviewed Six months ended 30 September 2017 |
|---|---|---|---|
| 4.2 Unlisted investments | | | |
| U.K. Investment | 222 548 | 191 800 | 181 757 |
| % holding | 10.0% | 10.0% | 10.0% |

The Fund carries its U.K. investment at fair value through profit and loss and classifies it as an investment.

| R'000 | Reviewed Six months ended 30 September 2018 | Audited Year ended 31 March 2018 | Reviewed Six months ended 30 September 2017 |
|---|---|---|---|
| 4.3 Loans to associates at fair value through profit and loss | | | |
| AREG L.P. investment | | | |
| Finance income accrual | 38 660 | - | - |
| Loans to Hexagon | 1 340 464 | - | - |
| | 1 379 124 | - | - |

IPFO has invested into AREG L.P. which has advanced PPLs to Hexagon. The return and repayment of PPLs owed by the Hexagon entities comprises 42.9% of the net rental income earned on leasing the investment properties held by the underlying property companies.

The Hexagon entities have an obligation to deliver all returns to AREG L.P. via the PPLs and therefore the equity of this associate is valued at nil.

| | | | |
|---|---|---|---|
| Izandla | | | |
| Convertible shareholder loan | 51 392 | - | - |

The convertible shareholder loan was provided to part fund the Sasol development, with the option of conversion to equity upon completion of the development.

| | | | |
|---|---|---|---|
| Total | 1 430 516 | - | - |

| At 30 September 2018<br>R'000 | Carried at fair value | Level 1 | Level 2 | Level 3 | Carried at amortised cost |
|---|---|---|---|---|---|
| 4.4 Fair value hierarchy | | | | | |
| Assets | | | | | |
| Investment in IAPF | 1 251 838 | 1 251 838 | - | - | - |
| Investment in Ingenuity | 115 792 | 115 792 | - | - | - |
| Investment in the U.K. Fund | 222 548 | - | - | 222 548 | - |
| Equity accounted investment in and loans to associate | - | - | - | - | 195 860 |
| Loans to associates at fair value through profit and loss | 1 430 516 | - | - | 1 430 516 | - |
| Other investments | | | | | |
| Derivative financial instruments | 108 299 | - | 108 299 | - | - |
| Trade and other receivables(1) | - | - | - | - | 167 440 |
| Cash and cash equivalents | - | - | - | - | 180 295 |
| Total financial assets | 3 128 993 | 1 367 630 | 108 299 | 1 653 064 | 543 595 |
| Derivative financial instruments | 177 964 | - | 177 964 | - | - |
| Long-term borrowings (including current) | 54 991 | - | - | 54 991 | 7 715 493 |
| Trade and other payables(2) | - | - | - | - | 336 388 |
| Total financial liabilities | 232 955 | - | 177 964 | 54 991 | 8 051 881 |
| | | | | | |
| Assets | | | | | |
| Investment in IAPF | 1 051 544 | 1 051 544 | - | - | - |
| investment in Ingenuity | 114 643 | 114 643 | - | - | - |
| Investment in U.K. Fund | 191 800 | - | - | 191 800 | - |
| Equity accounted investment in and loans to associate | - | - | - | - | 188 988 |
| Other investments | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Derivative financial instruments | 62 579 | - | 62 579 | - | - |
| Trade and other receivables(1) | - | - | - | - | 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(2) | - | - | - | - | 332 454 |
| Total financial liabilities | 142 814 | - | 142 814 | - | 7 089 197 |

(1) Trade and other receivables exclude prepayments which are non-financial instruments.
(2) Trade and other payables exclude revenue received in advance and value added tax as these are non-financial instruments.

R'000

4.5 Level 3 valuations

| The level 3 valuations are reconciled as follows: | U.K. investment(1) | Izandla convertible loan(2) | Hexagon loan(3) | Long-term borrowings(4) |
|---|---|---|---|---|
| Balance at the beginning of the period | 191 800 | - | - | - |
| Acquisition | 11 744 | 51 392 | 1 105 059 | (54 991) |
| Fair value and forex gain | 19 004 | - | 235 405 | - |
| Finance income accrual | - | - | 38 660 | - |
| Balance at the end of the period | 222 548 | 51 392 | 1 379 124 | (54 991) |

(1) As at 30 September 2018, there is no revaluation on the underlying investment. The gain is a forex revaluation of the GBP position. If the value of the underlying properties changed by 5% the investment value would move by R20.1 million.
(2) The fair value of the loan is linked to the value of Izandla. If this changed by 5% the value of the loan would move by R0.1 million.
(3) The fair value gain on the Hexagon loans arose from the revaluation of the underlying properties in the Pan-European portfolio. The entire property portfolio was externally valued at 30 September 2018 by CBRE Limited. The fair value gain on the loan receivable and loan payable is R157.1 million. If the fair value of the underlying properties was 5% higher or lower, the fair value of the Hexagon loans would be R152.5 million higher/lower than the reported closing balance.
(4) Long-term borrowings includes other Euro funding of EUR3.3 million. The value of the loan is linked to the performance of the underlying properties in the Pan-European portfolio. If the fair value of underlying properties changed by 5% the value of the loan would move by R10.8 million.

Valuation techniques used to derive level 3 fair value

The significant unobservable inputs used to derive the fair value measurements 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 the 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/decrease 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.

| R'000 | Reviewed Six months ended 30 September 2018 | Audited 31 March 2018 | Reviewed Six months ended 30 September 2017 |
|---|---|---|---|
| 5. Equity accounted investment in and loans to associate | | | |
| Izandla | | | |
| Equity | 31 349 | 18 247 | - |
| Loans | 195 860 | 188 988 | - |
| Senior mezzanine | 117 658 | 110 786 | - |
| Junior mezzanine | 78 202 | 78 202 | - |
| | 227 209 | 207 235 | - |

| R'000 | Reviewed Six months ended 30 September 2018 | Audited Year ended 31 March 2018 | Reviewed Six months ended 30 September 2017 |
|---|---|---|---|
| 6. Deferred taxation | | | |
| Balance at the beginning of the period | 8 151 | 5 386 | - |
| Gain on fair value of investments | 4 514 | 2 765 | 7 676 |
| Balance at the end of the period | 12 665 | 8 151 | 7 676 |

A deferred tax liability arose on the fair value gain through profit and loss on Ingenuity and the U.K. investment as a result of these investments not being classified as REITs. The Fund holds less than 20% of Ingenuity and the U.K. investment and therefore these investments do not meet the definition of a property company as defined under S25BB of the Income Tax Act. 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 Six months ended 30 September 2018 | Audited 31 March 2018 | Reviewed Six months ended 30 September 2017 |
|---|---|---|---|
| 7. Non-current assets held-for-sale | | | |
| Office | 38 000 | 21 034 | 264 587 |
| Industrial | 559 552 | 81 066 | 198 971 |
| Retail | 6 909 | 15 554 | 143 221 |
| Balance at the end of the period | 604 461 | 117 654 | 606 779 |

The Fund will be selling seven buildings with settlement taking place within 12 months of reporting date for a consideration of R604.5 million and has presented those assets as non-current assets held for sale.

| R'000 | Reviewed Six months ended 30 September 2018 | Audited 31 March 2018 | Reviewed Six months ended 30 September 2017 |
|---|---|---|---|
| 8. Long-term borrowings | | | |

| | | | |
|---|---|---|---|
| The balance at the end of the period comprises: | 7 825 308 | 6 811 119 | 6 792 486 |
| Long-term borrowings | 5 725 980 | 5 917 743 | 5 991 282 |
| Short-term borrowings | 2 044 504 | 839 000 | 744 876 |
| Interest accrual on borrowings* | 54 824 | 54 376 | 56 328 |

* Included in trade and other payables.

| R'000 | Reviewed Six months ended 30 September 2018 | Audited 31 March 2018 | Reviewed Six months ended 30 September 2017 |
|---|---|---|---|
| 9. Related parties | | | |
| The Fund has entered into the following related party transactions during the six months: | | | |
| Investec Property Proprietary Limited | | | |
| Asset management fees | (38 184) | (60 702) | (29 400) |
| Letting commissions | (10 633) | (14 078) | (8 073) |
| Property acquisitions(1) | - | (154 949) | (154 949) |
| U.K. Investment | | | |
| Additional acquisition of 10% of the equity of a joint venture within the Investec Group(2) | (11 744) | (173 329) | (173 329) |
| Izandla Property Fund | | | |
| Net proceeds from sale of properties | - | 314 111 | - |
| Movement in equity investment | 13 102 | 18 247 | - |
| Movement in loans receivable | 58 264 | 188 988 | - |
| Finance income | 14 587 | 2 338 | - |
| AREG.L.P/Hexagon | | | |
| Loans to Hexagon entities | 1 379 124 | - | - |
| Finance income | 61 747 | - | - |
| Investec Bank Limited Group | | | |
| Cash and cash equivalents(3) | 124 178 | 128 083 | 87 062 |
| Borrowings3 | (441 482) | (441 615) | (739 377) |
| Fair value of derivative instruments(3) | (80 170) | (60 292) | (186 320) |
| Nominal value of swap derivatives | (4 521 750) | (4 678 057) | - |
| Nominal value of FECs | 1 449 119 | 515 232 | - |
| Rentals received | 32 855 | 61 724 | 30 401 |
| Interest received(4) | 4 419 | 7 859 | 3 641 |
| Sponsor fees paid | (193) | (170) | (85) |
| Corporate advisory and structuring fees paid | (1 455) | (1 250) | (1 380) |
| Interest paid on related party borrowings | (23 479) | (52 881) | (28 423) |
| Interest received/(paid) on swap derivatives | 1 494 | (21 825) | (9 141) |
| Settlement of swap derivatives | - | (16 933) | - |

(1) Property acquisitions were concluded at market value.
(2) Direct equity investment, not acquisition of equity from Investec Bank Limited Group.
(3) Included in carrying values as per the statement of financial position.
(4) Interest is earned at the overnight safex call rate of 6.30% (FY2018: 6.55%).

10. Subsequent events

Post 30 September 2018, the Fund has rolled R451 million of three-month commercial paper at margin of 45.5 basis points.

The Fund also rolled a five-year unsecured note of R85 million at 3-month JIBAR plus 167 basis points.

Relating to the refinance of R3 billion of bank debt, the Fund has finalised R1.3 billion with Nedbank at an average margin of 1.75% and an average expiry of 4.5 years.

Commentary

## 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 104 properties in South Africa with a total gross lettable area ('GLA') of 1 243 331m2 valued at R17.6bn (March 2018: R17.6bn). The Fund's local investment portfolio comprises a R0.1bn (March 2018: R0.1bn) investment in Ingenuity Property Fund Limited (Ingenuity) and R0.3bn (March 2018: R0.2bn) investment into the empowerment fund, Izandla Property Fund Proprietary Limited (Izandla).

The Fund's offshore investments include Investec Australia Property Fund ('IAPF') of R1.3bn (March 2018:R1.0bn), Investec Argo UK Property Fund ('U.K. Investment') of R0.2bn (March 2018: R0.2bn) and an investment into a Pan-European logistics portfolio of R1.4bn, entered into in May 2018. The investments provide geographic diversification and exposure to quality real estate in developed markets, providing attractive returns in a period of muted growth in South Africa. All of the offshore platforms are well established with teams on the ground who have local expert knowledge. These investments have underpinned the growth in the current period (details of this and other investments are given in the 'Investments' section of this announcement).

During the first six months of the year, the Fund continued to focus on its four strategic objectives:

| Strategic pillar | The Fund's progress |
|---|---|
| 1) Revenue security and growth | The Fund let 91% of space expiring for the period and 42% of opening vacancy with 63% of space expiring in the full year already let. IPF continues to engage with clients to re-negotiate leases as early as possible in order to de-risk future income. |
| 2) Client service excellence | The Fund's continual client engagement strategy and formal client feedback programme aims to ensure that the Fund timeously addresses clients' needs and that service delivery remains relevant. The Fund's feedback programme and scoring mechanisms provide measurable, actionable objectives and ensure ongoing improvement and delivery of an 'out of the ordinary' service offering. Although the feedback to date has shown progress, there is still room for improvement. |
| 3) Value add asset management and capital allocation | The Fund's strategy continues to focus on providing a relevant and efficient core offering, a differentiated level of service and ensuring efficient capital allocation to maximise long-term risk adjusted returns.<br><br>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 the Funds balance sheet now comprises 13.7% offshore exposure, all focused to developed markets. The Fund continues to explore opportunities to allocate up to 10% of the balance sheet into 'broken core', value add and specialised asset opportunities. |
| 4) Cost efficiency and system optimisation | The Fund is committed to maintaining fixed operating expenses below inflation as was achieved for the majority of fixed operating expenses. However, the Fund is willing to spend more in areas that benefit client service and/or enhance the safety and security of the offering. Variable expenses increased due to higher tenant incentives offered to retain existing and attract new clients in this competitive environment. |

## Financial results

The board of directors is pleased to announce an interim dividend of 68.81 cents per share ('CPS') for the six months ended 30 September 2018 (September 17: 68.37 cps, normalised 65.27 cps). The prior year interim dividend included a once-off antecedent dividend received from IAPF relating to the final H2 dividend for FY2017 received on the shares subscribed for in the February 2017 rights offer. On a normalised basis, year-on-year dividend per share ('DPS') growth is 5.4%.

The South African landscape remains challenging and is not expected to improve in the short term. The environment of little to no growth has resulted in a lower demand for space, downward pressure on rentals, longer void periods, a higher cost to attract and retain clients, and no local acquisition activity. Recent proactive reforms and initiatives by government in the form of the jobs and investment summits are welcome and inform our positive views on South Africa for the medium- to long-term.

Against this backdrop, the growth from the South African property portfolio has been limited with base(1) net property income ('NPI') growth at historically low levels of 1.7%. The remainder of the growth in DPS stems from the Fund's investments into its offshore platforms, specifically and most recently, its investment into the Pan-European logistics portfolio.

(1) Base portfolio refers to R16.8bn of properties that have been held by the Fund for the full comparative periods.

The contributors to the base NPI growth in South Africa were:

1. 3.4% core rental growth which is lower than contractual escalations due to void periods and lower rental reversions;
2. An increase in gross recoveries of 14.1% caused by the increase in rates costs following revised municipal valuations; and
3. An increase in gross costs of 16.7%. This increase in costs was driven by the abovementioned increase in rates as well as increased costs of letting. Fixed costs have been well controlled with an increase of only 6.2%. Within the fixed costs, security costs have increased above inflationary rates as the Fund places high importance on the safety and security of clients and was able to make improvements in this area with additional spend.

The impact is that the total portfolio cost to income ratio increased from 16.8% at March 2018 to 19.3% at period-end. This margin level is expected to remain in the short- to medium-term as a result of lower revenue growth and elevated variable costs.

Revenue for the total portfolio was almost static year-on-year due to the disposals that took place towards the end of FY2018 and no acquisition activity on the current year.

Despite the challenging environment, vacancy has decreased since last reported, from 4.0% down to 3.1%. This vacancy excludes pockets of space held vacant for development, (if included, the vacancy ratio would be 3.8%, decreased from 4.8%). The decrease in vacancy in a market that favours tenants rather than landlords is testament to the quality of the assets and the relationships the Fund's management has nurtured with its client base.

The Fund has re-let or renewed 113 573m2 (91%) of space expiring in the period, as well as 25 137m2 (42%) of opening vacancy. The letting concluded was at an average negative reversion of 5.6%, reflective of the current letting environment. The weighted average lease expiry ('WALE') on letting concluded was 3.8 years and the average contractual escalation was 7.4%.

For the full year to March 2019, the Fund has let 139 495m2 (65%) of the space expiring, as well as 27 830m2 (46%) of opening vacancy. The remaining space to be let is 101 658m2 and is largely in the industrial portfolio.

The total arrears as a percentage of collectables has remained flat since March 2018 at 3.1%. This ratio includes tenants that are subject to legal proceedings, (if excluded, the ratio is 1.0%, decreased from 1.1%). The smaller industrial and retail tenant base remains under pressure.

There has been limited local acquisition activity during the period, with R71.3 million invested into Izandla to fund development opportunities.

The Fund is in the process of recycling capital through the sale of seven properties valued at R0.6 billion at an average yield of 7.5% which are classified as held-for-sale. The proceeds are earmarked to reduce debt levels, and to be deployed into the European platform that generates cash on cash returns in excess of 10% or other value enhancing investment opportunities. As noted in the year-end results, the Fund deployed EUR71.9 million into a Pan-European logistics portfolio in May 2018. The investment has outperformed the initial acquisition budgeted income return of 10.5%, delivering 11.6% during the period. This is due to stronger leasing activity than initially forecast. At 30 September 2018, the underlying properties in the portfolio were revalued by 7.4% in Euro (equating to 13.9% capital return on IPF's initial investment in Euro), further underpinning the Fund's investment into the platform. This equates to a ZAR capital return of 14.7%.

The Fund continues to be a strong supporter of its 20.9% investment in IAPF and its intention to dual-list on the ASX. Distributions received in the period (post WHT) were flat year-on-year, in line with market guidance. IPF achieved 4% growth on its net returns, post funding. 100% of the income for FY2019 is now fully hedged.

The U.K. Fund added to its portfolio with the acquisition of an industrial property in North London. IPF funded its pro rata share (R11.7 million) of this acquisition. The existing portfolio is underpinned by secure income with potential growth in the reversionary rental uplift from the industrial portfolio.

Balance sheet and risk management remains a fundamental focus area for the Fund. During the period, the Fund entered heads of terms with existing banks to refinance R3.0 billion of debt maturing in the next two years. The refinance is for a blended period and margin of 4.7 years and 1.75 basis points respectively. This represents 66% of total existing bank debt (and 33% of total debt). The refinance significantly reduces liquidity risk going into a period of further market uncertainty and increases the Fund's weighted average debt expiry to 3.7 years (March 2018: 2.7 years). The Fund expects to have concluded final agreements before the end of November 2018.

Net asset value per share has increased by 2.9% since the last reporting date. This was primarily driven by a fair value increase of the IAPF investment, (R201 million or 19.0%), and the Fund's share of the revaluation of the underlying buildings in the European portfolio (R157 million or 14.7%).

Property portfolio

The Fund's current property portfolio consists of a diverse base of 104 quality properties with an average value per property of R169m (March 2018: R167m).

The table below presents a snapshot of the property portfolio as at 30 September 2018:

| | Total | Office | Industrial | Retail |
|---|---|---|---|---|
| Portfolio | | | | |
| Number of properties | 104 | 32 | 39 | 33 |
| Asset value (Rbn) | 17.6 | 6.4 | 4.1 | 7.1 |
| Base NPI growth | 1.7% | 0.2% | (3.8%) | 5.6% |
| Cost to income | 19.3% | 21.2% | 17.0% | 19.1% |
| GLA(m2) | 1 243 331 | 251 722 | 573 404 | 418 205 |
| Vacancy(1) | 3.1% | 6.5% | 3.4% | 0.8%1 |
| WALE (years) | 3.3 | 3.1 | 3.5 | 3.2 |
| In-force escalations | 7.6% | 8.1% | 7.9% | 7.1% |

(1) The vacancy ratio excludes development vacancy of 8 636m2.

Letting activity

The Fund began the interim period with an opening vacancy of 59 902m2 (4.8% including development vacancy), with 124 460m2 expiring during the six months. The Fund has renewed or re-let 113 573m2 (91%) of space expiring in the period at an average negative reversion of 5.6%. A further 25 137m2 of opening vacancy was also let.

On a full year basis the Fund has let 139 495m(2) (65%) of the 215 053m(2) that expires. After taking into account GLA adjustments and month-to-month letting, there is 101 658m2 remaining to be let in the second half of the year. A marginal increase in vacancy is expected for the remainder of the financial year with key risks in the leasing of large office and industrial spaces that expire in the next six months. This has been taken into account in its guidance for the full year distribution growth.

The table below reflects the letting activity for the year to date:

| | Expiries and cancellations GLA | Renewals and new lets GLA | Gross expiry rental R/m2 | Gross new rental R/m2 | Rental reversion % | Average escalation % | WALE years | Retention % |
|---|---|---|---|---|---|---|---|---|
| Office | 26 339 | 22 696 | 183.9 | 154.8 | 15.8)(1) | 7.4 | 4.6 | 77.6 |
| Industrial | 49 831 | 43 755 | 50.7 | 48.0 | (5.2)(2) | 8.0 | 2.0 | 40.0(4) |
| Retail | 48 290 | 47 122 | 157.1 | 157.1 | 0.0(3) | 6.9 | 4.7 | 92.5 |
| Subtotal | 124 460 | 113 573 | 121.4 | 114.6 | (5.6) | 7.4 | 3.8 | 68.3 |

(1) Negative reversion driven by the competitive letting environment and supply exceeding demand.
(2) Long-term leases where expiry rentals had escalated above current market, renewed at market.
(3) Reversion subdued due to renewals concluded with two national tenants where five and seven years were concluded respectively. Excluding these renewals, the balance of letting activity reflected growth of 6.8%.
(4) Low retention due to two clients not renewing 8 549m2 and 21 441m2 respectively. The first was acquired by a large multi-national with multiple facilities
and the operations were consolidated and the second, due to consolidated business operations and reduced space.

Lease expiry profile by revenue

| 2019 | Percentage | 2020 | Percentage | 2021 | Percentage | 2022 | Percentage | April 2022 onwards | Percentage |
|---|---|---|---|---|---|---|---|---|---|

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Office | 5 | Office | 5 | Office | 6 | Office | 7 | Office | 14 |
| Industrial | 2 | Industrial | 8 | Industrial | 3 | Industrial | 1 | Industrial | 12 |
| Retail | 1 | Retail | 8 | Retail | 8 | Retail | 5 | Retail | 18 |
| Total | 8 | Total | 18 | Total | 17 | Total | 13 | Total | 44 |

Sectoral performance

Office

The office sector has experienced significant pressure as a result of the supply/demand imbalance across the major office nodes, specifically Sandton and Bryanston. Rosebank is anticipated to soften in the next 18 months given the number of developments currently under construction and limited demand-led drivers evident in the current market. Letting activity is driven by tenants looking to capitalise on a tenant-favoured market by relocating to better quality buildings at similar or better rentals. The high levels of competition in the market has resulted in downward pressure on rentals and higher associated incentive costs to retain or acquire new clients.

Like-for-like NPI growth was 0.2% year-on-year. The lack of growth was caused by negative rental reversions and an increase in variable costs, specifically those relating to letting (tenant installations and letting commission). Fixed costs were well controlled with security costs being the only significant increase in this category. The base cost to income ratio has increased to 21.2% (September 17: 15.8%), due to subdued growth in the revenue line, and has been further impacted by a significant increase in rates valuations on five properties.

The office sector's vacancy has increased to 6.5% at 30 September 2018 (March 2018: 5.4%) but remains below the national average. The increase in vacancies is attributable to vacancies at Nicol Main in Bryanston, 3 and 4 Sandown Valley Crescent and the Firs. The Firs vacancy will remain due to planned refurbishment works that will be complete before calendar year-end, after which vacancy is expected to reduce. The Fund expects vacancy to increase further by financial year-end due to a large expiry in the portfolio in February 2019 which may not be re-let by 31 March 2019.

On a year to date basis, 86% of the 26 339m2 expiring during the period was renewed or re-let at a negative reversion of 15.8%, with an average WALE of 4.6 years. On a full year basis, the portfolio has 27 198m2 remaining to be let. The majority of the space is located in quality assets situated within Sandton (c.9 200m2), Bryanston (c.6 700m2) and Rosebank (c.6 100m2). Given the quality, the Fund is confident of concluding renewals and securing new clients, however, this is likely to take longer given the current market conditions.

Industrial

The industrial sector has continued to be negatively impacted by the current economic climate, with smaller business, specifically in the manufacturing sector, being the worst affected.

A lack of business confidence and economic uncertainty has translated into tenants being unwilling or unable to commit to long-term leases and therefore a sizable portion of the letting activity has been short term. Furthermore, rentals remain under pressure due to expiry rentals at the end of long-term leases having enjoyed the benefit of compound contractual escalations, which have outstripped market rental growth resulting in negative rental reversions.

Base NPI has contracted by 3.8% year-on-year due to negative reversions and void periods. The sector's cost to income ratio remains under pressure with the weak tenant demand resulting in longer void periods (resulting in a decline in rental revenue of 1.3%), and the expense base continuing to be impacted by costs not being recovered during these void periods.

Despite the weak demand environment the industrial sector vacancy has decreased to 3.4% (March 2018: 5.7%) driven largely by the letting of opening vacancy.

On a year-to-date basis, 88% of the 49 831m2 expiring has already been renewed or re-let at a negative reversion of 5.2%, and with an average WALE of 2.0 years. The short WALE results from two short-term deals where the Fund retains full cancellation flexibility should a long-term deal arise. 22 057m2 of opening, vacancy was also let. For the remainder of the year there is 62 777m2 still to be let. The Fund is in advanced negotiations with clients for the renewal of c.39 000m2 which is anticipated to be concluded imminently. Furthermore, proposals have been submitted to prospective clients for c.19 000m2, of which c.8 500m2 has been accepted on a conditional basis. This will result in a further improvement of the vacancy ratio by March 2019.

Retail

The retail portfolio comprises retail assets that are well located in their respective nodes or are niche in relation to a specific product offering
or category. The current percentage of national clients across the portfolio is approximately 82% that ensures that the assets are able to trade through periods impacted by the sluggish macroeconomic conditions.

The portfolio like-for-like NPI growth was positive at 5.6%, being the Fund's strongest sector, with pressure from a decline in escalations on renewals. The cost increase of 9.7% was largely due to variable expense increase of 37% (mainly letting commissions). Other expenses are tightly controlled and growing below inflation.

Year-on-year turnover growth continues to show a recovery from a low in January 2018 of 1.9% to 3.0% in September 2018. Balfour Mall remains under pressure because of the Rea Vaya roadworks that obstruct access to the mall, with Design Quarter currently undergoing a redevelopment. If these two centres are excluded, turnover growth would have been 5.4% at 30 September 2018.

Although foot traffic has been fairly static during the period, the positive turnover growth achieved by the Fund's malls,is evidence of each centre's appeal. The declining foot traffic is believed to be a result of high transport costs and consumers purchasing a larger basket of goods less frequently. The marketing strategy has been adjusted accordingly. To date, the portfolio has been resilient through the subdued trading conditions and malls like Zevenwacht Mall, Kriel Mall, Dhilabeng Mall and Fleurdal Mall all growing sales above inflation. The strong trading results are underpinned by a low vacancy of 0.8% (excluding development vacancy) and the strong national retailer tenant base.

The quality of the retail portfolio was reflected through the positive letting activity during the period. Cost of occupation for portfolio was healthy at 6.4% at September 2018 (March 2018 6.8%). The Fund continues to monitor this closely due to a tough macro environment. 98% of the 48 290m(2)
that expires during the year has been renewed or re-let, as well as 3 080m(2) of opening vacancy being let.

Total geographical spread

| Asset value (%) | |
|---|---|
| Australia | 6% |
| Europe | 7% |
| U.K. | 1% |
| South Africa | 86% |

SA sectorial spread

| Asset value (%) | |
|---|---|
| Office | 37% |
| Industrial | 21% |
| Retail | 42% |

SA geographical spread

| Asset value (%) | |
|---|---|
| Gauteng | 59% |
| KwaZulu-Natal | 14% |
| Western Cape | 10% |
| Free State | 9% |
| Limpopo | 4% |
| Other | 4% |

Local investments

Ingenuity

There has been no further investment into Ingenuity during the period and the Fund's average cost of acquisition remains at R0.84 per share (representing a 36% discount to Ingenuity's last reported NAV of R1.32 per share at 28 February 2018). Ingenuity offers an attractive investment opportunity into a Western Cape focused portfolio with significant development opportunity.

Izandla

During the period, the Fund invested a further R71m into Izandla to support its acquisition of an office property in Hatfield and the development of a logistics facility for Sasol on the back of a 15 year lease.

As disclosed at year-end, interest on the mezzanine loans will only be included in distributable income to the extent serviced.

Offshore investments

Australia (listed)

The Fund's investment in IAPF amounts to R1.3bn, representing 20.9% of IAPF (March 2018: 20.9%). There has been no change to the Fund's holding in the investment during the period. The increase in the IAPF share price to R12.50 reflects a 19% increase from year-end and positively contributed to the net asset value ('NAV') growth of the Fund for the interim period. The share price still reflects a c.10% discount to NAV in AUD.

The shareholders gave consent via a vote in August 2018 to list IAPF on the ASX within 12 months. Management is seeking out acquisition opportunities to underpin the listing. Looking forward, IAPF has informed shareholders that they will be adjusting their distribution pay-out ratios to align with other ASX listed REITs and best practice in Australia. The Fund is supportive of this change as it has only a short-term dilutionary effect on yield but does not impact total return to investors as the reduced distribution will increase NAV. This change also enhances IAPF's ability to secure Australian capital at a value closer to NAV, thereby potentially increasing total returns to South African shareholders.

United Kingdom (unlisted)

During the period, the U.K. Fund added GBP19.5 million to its portfolio with the acquisition of an industrial property in North London. IPF funded its pro rata share of this acquisition, keeping its equity investment at 10%.

The underlying portfolio comprises GBP234 million of high quality assets, underpinned by a weighted average unexpired lease term ('WAULT') of 10.5 years and a vacancy ratio of 2.3% (excluding development vacancy). The weighted average debt expiry of the U.K. Fund is 4.1 years and swap expiry is 8.2 years.

Pan-European logistics portfolio (unlisted)

Between 4 May 2018 and period end, the Fund invested EUR71.9 million into the Pan-European logistics portfolio through a co-investment vehicle AREG Hexagon Co-Invest Vehicle II, L.P.

The initial investment was funded through a combination of existing ZAR debt facilities and a EUR40 million secured term loan at a margin of 1.75%. The Fund entered into a four-year Euro interest rate swap at a rate of 0.35% for 100% of the floating rate exposure.

100% of the expected income from the investment has been hedged for a period of five years at rates between R15.39 and R20.6 to the Euro.

The investment has outperformed the initial acquisition budgeted income return of 10.5%, delivering an 11.2% income return (11.6% in ZAR) during the period resulting from stronger leasing activity than initially forecast.

The underlying properties in the portfolio were externally revalued during September 2018 resulting in an increase in direct asset value of 7.4% and an increase in the Fund's investment of 13.9% (14.7% in ZAR).

A further EUR7m will be deployed into the platform during FY2019 to support the acquisition of two further logistics properties in France and Poland. The returns from these acquisitions are in line with those of the initial transaction and will be part funded with Euro-denominated debt.

In terms of capital allocation across both the local and international portfolio, the Fund believes that this investment platform offers shareholders the best risk adjusted return based on the current universe of opportunities and will continue to actively deploy capital into this strategy.

Balance sheet and risk management

Balance sheet and risk management remains a fundamental focus area for the Fund.

| | September 2018(1) | March 2018 |
|---|---|---|
| Average all in cost of funding | 8.0% | 8.60% |
| Average debt margin - ZAR | 1.65% | 1.64% |
| Average ZAR swap rate | 7.57% | 7.56% |
| Average all in fixed rate - AUD | 4.71% | 4.71% |
| Average all in fixed rate - GBP | 2.36% | 2.32% |
| Average all in fixed rate - EUR | 1.98% | n/a |
| Debt maturity (years)(2) | 3.7 | 2.7 |
| Interest rate swap maturity (years) | 3.3 | 3.8 |
| Hedged %(3) | 83.2% | 84.0% |
| Gearing %(4) | 36.3% | 32.6% |
| Encumbrance ratio(5) | 38.4% | 33.5% |
| % debt unsecured(6) | 59.4% | 65.4% |
| % CCS of AUD investment | 43.7% | 51.0% |
| % CCS of GBP investment | 36.4% | 50.0% |
| % Euro denominated debt of EUR investment | 54.8% | n/a |
| Sources of funding | | |
| DMTN | 31% | 42% |
| Commercial paper | 5% | 4% |
| Bank debt | 34% | 54% |
| HQLA(7) | 23% | 0% |
| Foreign debt (Euro-denominated) | 7% | 0% |

(1) All metrics are shown post the R3.0bn bank debt refinance to be concluded post-balance sheet date.
(2) Based on drawn debt and shown post the refinance of R3.0bn bank debt.
(3) Hedged percentage includes all interest rate swaps and cross currency swaps over total debt.
(4) Gearing shown net of cash.
(5) Secured assets as a percentage of total investments.
(6) Secured debt as a percentage of total debt facilities.
(7) Bonds issued to banks which qualify as 'High Quality Liquid Assets'.

The Fund's balance sheet is geared at 36.3% (March 2018: 32.6%) with the increase due to the investment into the Pan-European logistics portfolio in May 2018. The balance sheet remains significantly unencumbered, with only 38.4% (March 2018: 32.6%) of investments secured, providing significant flexibility in terms of future funding initiatives particularly as debt markets remain attractive.

The Fund's weighted average cost of funding reduced to 8.0% (March 2018: 8.6%) as a result of the Euro debt introduced to fund the Pan-European investment. On a like-for-like basis this would have remained at similar levels reported at year-end.

Including cross currency interest rate swaps ('CCIRS'), the Fund's interest rate exposure is 83% hedged at 30 September 2018 (March 2018: 84%) with a weighted average term of 3.3 years (March 2018: 3.8 years).

Post reporting date, the Fund will conclude the refinance of R3.0bn of debt maturing in the next two years. This represents 66% of total existing bank debt (and 33% of total debt), significantly reducing liquidity risk going into a period of further market uncertainty and increasing the Fund's weighted average debt expiry to 3.7 years (March 2018: 2.7 years).

During the period, the Fund raised R81.1 million of equity through the DRIP offered to shareholders at year-end at R16.60 per share. The Fund also increased its commercial paper programme to R475 million (March 2018: R274 million) in line with previous funding rates and settled R50 million of corporate bonds in July 2018. Post period end, the Fund rolled a note of R85 million at 3-month JIBAR plus 167 basis points ('bps') (previously 173 bps) and rolled R451 million of its commercial paper at 45.5 bps.

Bank/HQLA/DMTN expiry

| 2019 | Percentage | 2020 | Percentage | 2021 | Percentage | 2022 | Percentage |
|---|---|---|---|---|---|---|---|
| Bank | 0 | Bank | 7 | Bank | 3 | Bank | 16 |
| HQLA | 0 | HQLA | 0 | HQLA | 0 | HQLA | 0 |
| DMTN | 4 | DMTN | 7 | DMTN | 7 | DMTN | 4 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Commercial paper | 5 | Commercial paper | 0 | Commercial paper | 0 | Commercial paper | 0 |

| 2023 | Percentage | 2024 | Percentage | 2025 | Percentage | 2026 | Percentage |
|---|---|---|---|---|---|---|---|
| Bank | 12 | Bank | 0 | Bank | 0 | Bank | 2 |
| HQLA | 0 | HQLA | 12 | HQLA | 11 | HQLA | 0 |
| DMTN | 3 | DMTN | 3 | DMTN | 4 | DMTN | 0 |
| Commercial paper | 0 | Commercial paper | 0 | Commercial paper | 0 | Commercial paper | 0 |

Debt and swap expiry profile

| 2019 | Percentage | 2020 | Percentage | 2021 | Percentage | 2022 | Percentage |
|---|---|---|---|---|---|---|---|
| Debt | 9 | Debt | 14 | Debt | 10 | Debt | 20 |
| Swaps | 2 | Swaps | 6 | Swaps | 23 | Swaps | 24 |

| 2023 | Percentage | 2024 | Percentage | 2025 | Percentage | 2026 | Percentage |
|---|---|---|---|---|---|---|---|
| Debt | 15 | Debt | 15 | Debt | 14 | Debt | 3 |
| Swaps | 25 | Swaps | 17 | Swaps | 3 | | |

Tables shown post the debt refinance to be concluded post period-end.

Capital allocation

Capital allocation is a fundamental focus of the business. To date, the Fund has R0.6bn of assets held for sale at an average yield of 7.5%. The majority of the proceeds relate to the Brandhouse disposal which was sold (subject to Competition Commission approval at period end) at a yield of 7%. The proceeds are earmarked to pay down debt, as well as to be deployed into the European platform commitment that generates cash on cash returns in excess of 10% or similar investment enhancing acquisitions.

The Fund has a budget of R209 million for FY2019 for projects delivering a return on investment ('ROI'). R104 million is for the extension of Fleurdal Mall and R105 million relates to sustainability projects.

The Fleurdal project is under way with completion expected during August 2019. The extension creates space for national retailers such as Woolworths, Dischem and Mr Price Sport which have already committed to taking space. This development will most likely close out the potential for similar competing developments in the area.

The ROI sustainability projects include further rooftop solar installations and energy efficiency upgrades. The two solar projects already live (Fleurdal Mall and Musina Mall) are generating a yield of approximately 12%.There are an additional nine sites earmarked for roll-out during the remainder of the financial year.

In addition to the ROI projects the Fund has allocated R29 million to upgrade the Firs and give the centre a contemporary look and feel and to provide the patrons with an improved experience.

The Fund is still finalising plans to refurbish the Design Quarter Centre. The refurbishment will improve vertical communication, maintain the décor offering and grow the lifestyle and convenience offering which will vastly improve the shopper experience.

Financial assistance

Shareholders are advised that at the annual general meeting of the Fund held on 20 August 2018, 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 Company 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 Company during the period 1 April 2018 to 30 September 2018.

The board has confirmed that, after considering the reasonable foreseeable financial circumstances of the Company, it is satisfied that immediately after providing such financial assistance, the Company 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 Company.

## Shareholding

At 30 September 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.

| Rank | Beneficial shareholder: | Shareholding at 30 September 2018 | Shareholding at 31 March 2018 | Change |
|---|---|---|---|---|
| 1. | Investec Limited | 26.57% | 26.80% | (0.23) |
| 2. | Coronation Fund Managers | 15.03% | 16.44% | (1.41) |
| 3. | Investec Asset Management | 6.75% | 5.41% | 1.34 |
| 4. | STANLIB Asset Management | 5.89% | 5.87% | 0.02 |
| 5. | Public Investment Corporation | 6.57% | 6.36% | 0.21 |

## Change in management

Nick Riley will be stepping down as chief executive officer of the Fund effective 1 December 2018. He will be taking on a broader role within Investec Bank Limited, however, will remain on the board as a non-executive director. Andrew Wooler and Darryl Mayers have been appointed as joint chief executive officers of the Fund effective 1 December 2018. Both Andrew and Darryl are experienced and respected members of the Investec property team, and the Fund will continue to benefit from their vast experience in finance, the listed environment, as well as in direct real estate management and development.

The Board extends its appreciation to Nick and Andrew for their contribution and commitment in their current roles and looks forward to working with Andrew and Darryl in their new capacities.

## Prospects and guidance

As indicated in the pre-close trading update on 28 September 2018, due to the continued deterioration of market dynamics, specifically within the South African office and industrial sectors, the Fund expects to deliver normalised DPS growth of between 5% and 5.5% for the year ended 31 March 2019. In providing this guidance, the Fund has assumed no material change to the operating environment and that no material tenant failures take place in the second half of the year.

This or any other reference to future financial performance forecast has not been reviewed or audited on 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

12 November 2018

## Basis of accounting

The reviewed interim condensed consolidated financial results for the six months ended 30 September 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 six months ended 30 September 2018 are consistent with those adopted in the financial statements for the year ended 31 March 2018, other than the adoption of those standards that became effective in the current period, (including IFRS 9 Financial Assets and Financial Liabilities and IFRS 15 Revenue for Contracts with Customers), which had no material impact on the financial results. These reviewed interim condensed consolidated financial statements have been prepared under the supervision of Andrew Wooler, FCA.

## Review conclusion

Ernst & Young Inc., the Fund's independent auditor, have reviewed the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in equity, condensed consolidated segmental information and notes to the reviewed condensed consolidated financial results, as set out on pages 1 to 13 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.

Interim dividend

Notice is hereby given of the declaration of interim dividend number 16 ('Cash dividend') of 68.80645 cents per share for the period 1 April 2018 to 30 September 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 736 290 993 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 55.04516 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; 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 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.

A worked example illustrating the impact for resident and non-resident Shareholders will be announced as part of the finalisation information on SENS on the Finalisation Date.

Other information

- As at the date of this circular, the ordinary issued share capital of Investec Property Fund is 736 290 993 ordinary Shares of no par value before any election to reinvest 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: | 2018 |
|---|---|
| Declaration date | Tuesday, 13 November |
| Last day to trade ('LDT') cum dividend | Tuesday, 11 December |
| Shares to trade ex dividend | Wednesday, 12 December |
| Record date | Friday, 14 December |
| Payment date | Tuesday, 18 December |

1. Shares may not be dematerialised or rematerialised between commencement of trade on Wednesday, 12 December 2018 and close of trade on Friday, 14 December 2018.
2. The above dates and times are subject to change. Any changes will be released on SENS.

Investec Bank Limited
Company Secretary

12 November 2018

Company information

Directors
S Hackner (Chairman)(#)
SR Leon (Deputy Chairman)(#)
NP Riley (Chief Executive Officer)
AR Wooler (Financial Director)
LLM Giuricich(#)
S Mahomed(#)*
CM Mashaba(#)*
MM Ngoasheng(#)*
KL Shuenyane(#)*
PA Hourquebie(#)*

(#) Non-executive
* Independent

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