

**INVESTEC PROPERTY FUND LIMITED**  
Approved as a REIT by the JSE  
(Incorporated in the Republic of South Africa)  
(Registration Number 2008/011366/06)  
Share code: IPF ISIN: ZAE000180915  
("Investec Property Fund" or "the Fund")

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**CO-INVESTMENT INTO A PAN-EUROPEAN LIGHT INDUSTRIAL PROPERTY PLATFORM**

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## 1. INTRODUCTION

Shareholders are advised that Investec Property Fund, through its wholly owned subsidiary Investec Property Fund Offshore Investments Proprietary Limited ("**IPFO**"), has reached agreement to subscribe for shares in ELI Holding S. á r.l. ("**Luxco**"), for an initial subscription consideration of EUR10.2 million (inclusive of all transaction costs), representing an initial 25% interest in Luxco ("**Initial Investment**" or the "**Transaction**").

Although separate to the existing Pan-European logistics property platform ("**Logistics Platform**") (as announced on SENS on 2 May 2018), the Initial Investment will again be made by IPFO alongside funds managed by Ares Management Corporation or its affiliates ("**Ares**") (collectively, the "**Consortium**") and similarly, the in-country asset management will be executed by Urban Real Estate Partners ("**UREP**").

Luxco has aggregated an unlisted portfolio and pipeline of properties located across France, Germany and the Netherlands ("**Potential Portfolio**"). The Potential Portfolio is expected to comprise 21 properties, of which 4 assets located in the Netherlands ("**Initial Portfolio**") have already been acquired and the details of which set out in paragraph 6 below. A further 17 properties located across France and Germany have been identified and Ares is in advanced negotiations with the sellers thereof with a view to concluding these acquisitions by end May. The gross asset value attributable to the Potential Portfolio is expected to be EUR116 million. The Potential Portfolio is 90% let and is expected to generate an unlevered initial asset yield of 7.2% which is expected to grow to a fully let ERV yield of 8.2%. Once leveraged, the Initial Investment is anticipated to deliver an average Euro denominated investment return of approximately 9.6% to the Fund and total returns that significantly exceed the Fund's cost of capital.

The Fund has committed a total of EUR64.5 million into this light industrial platform which is expected to be deployed within the next two years and has been committed as follows:

- 25% of the first EUR100 million of the platform's equity funding requirements; and
- 75% of the next EUR50 million of the platform's equity requirement.

At full deployment, total equity contributed to Luxco by the Consortium will amount to EUR150 million with IPF equity participation representing 42.9%. Luxco's gross asset value will amount to between EUR375 million and EUR500m, leverage dependent.

## 2. RATIONALE

The Transaction is complementary to the Fund's existing investment into the Pan-European logistics platform that was concluded during 2018, together with Ares and UREP and further enhances the Fund's presence in a very strong segment of the real estate market across Europe. The strategy will look to benefit from growth of e-commerce across Europe and its expected impact on last mile logistics.

Furthermore, the Transaction is consistent with the Fund's investment strategy of continuously assessing real estate opportunities in various geographies with an attractive risk-adjusted return profile and demonstrates the following positive characteristics:

- ability to transact in a segment of the market that is challenging for individual purchasers to access and which has been largely ignored by large international fund managers;
- continued partnership with UREP, an asset manager with a proven track record in this asset class and an experienced, on-the-ground management team that will unlock value through intensive asset management initiatives;
- scarcity of available land as increasing urbanisation has seen many industrial infill locations in cities redeveloped for higher value residential or mixed office/retail usage;
- exposure to an asset strategy that is well suited to the current macro environment and playing an increasingly important role in sophisticated supply chain management;
- evidence of rental growth in major Western European cities after a decade of static rates;
- acquisition prices at below replacement cost;

- comparatively limited obsolescence across the small storage unit market with quality of location, rather than specification of property, driving rental growth;
- initial acquisition yields being based on individual asset acquisitions presents potential for uplift through portfolio value yield compression;
- asset class gaining institutional interest, opportune time to invest before cap rates compress further;
- further offshore exposure through deployment into developed markets;
- immediately creates scale and a viable pipeline of opportunities; and
- earnings accretive on day one.

### 3. STRATEGY

Whilst this core light industrial property investment strategy is premised on a similar macroeconomic theme to the Logistics Platform, it will be based on the following more unique principles:

- focus on the Northern corridor of Western Europe, with liquid and transparent property markets;
- micro-location – target assets within close proximity / last mile to cities with high concentrations of industry and consumers, as well as limited land availability;
- high quality assets and strong property fundamentals – assets below 20 years of age which provide maximum occupational flexibility for storage, distribution and general warehousing and expansion potential;
- target assets with pricing that reflects a discount to replacement cost and / or offer active asset management opportunities requiring specialist management skills which UREP possesses through the experience of the management team gained during their time at Hansteen Holdings Plc. Paul Rodgers headed up the Hansteen European property portfolio and successfully facilitated the sale of their Dutch and German assets to Blackstone for EUR1.3 billion;
- target building size typically less than 10 000m<sup>2</sup> whereas the Logistics Platform targets larger unit sizes;
- robust cash flows – target cash yielding assets with good occupancy history that offer potential for attractive cash on cash yields;
- diversified multi-let tenant base ranging from large national through to small and SME tenants which provides diversification of underlying cash flows; and
- ability to upwardly manage rentals given supply / demand dynamics and in-country asset management experience.

### 4. KEY TRANSACTION TERMS

The Transaction agreements entered into with the Consortium include:

- Delaware LP subscription agreement;
- Share transfer agreements;
- Loan assignment agreements;
- JV Co shareholders agreement; and
- Ares Management Agreement.  
(collectively, the “**Transaction Agreements**”).

Investec Property Fund, through IPFO, will acquire its 25% interest through a subscription for the entire limited partner interest in Delaware LP. Delaware LP will through a share transfer and loan assignment acquire 25% of the shares in JV Co and its pro rata share of loans. Delaware LP will also enter into the Ares Management Agreement, which captures the standard terms and structure of a limited partner, general partner and manager relationship.

The Ares Fund, Paul Rodger and Investec Property Fund, through its interest in Delaware LP, will enter into the JV Co shareholders agreement which contains customary governance rights for a significant equity investment.

The effective date of the Transaction and payment by Investec Property Fund for its Initial Investment is expected to be 31 May 2019 (“**Effective Date**”).

All conditions precedent have either been fulfilled or waived, as the case may be, and as such, the Transaction Agreements became unconditional in their terms on 2 May 2019.

### 5. FUNDING AND HEDGING OF THE TRANSACTION

The Initial Investment will be funded through a combination of existing ZAR debt facilities (40%) and either Euro debt facilities or cross-currency swaps (60%). The blended funding cost is anticipated to be approximately 5%.

The Fund will hedge out all the income from the Initial Investment that is not naturally hedged by way of the Euro funding by entering into forward exchange contracts (“FEC’s”) over a period of three to five years. It is anticipated that these FEC’s will provide the Fund with between 6% to 7% growth on the hedged income over the hedged period.

## 6. SALIENT PROPERTY INFORMATION

Details of the Initial Portfolio are set out below. Upon completion of the remaining 17 properties, further details will be provided to shareholders:

Geographic location	Sector	GLA (m <sup>2</sup> )	Vacancy (%)	Weighted average annual rental (EUR/m <sup>2</sup> )	WAULT (years)
Almere, Netherlands	Light Industrial	4,346	100.0%	0.0 <sup>1</sup>	-
Nijmegen, Netherlands	Light Industrial	7,670	4.6%	3.32	1.5
Belfeld, Netherlands	Light Industrial	7,479	-	4.78	3.5
s-Heerenberg, Netherlands	Light Industrial	11,641	2.2%	3.42	2.0
<b>Total</b>		<b>31,136</b>	<b>15.9%</b>	<b>3.78</b>	<b>2.4</b>

The Potential Portfolio of 21 properties is expected to have an aggregate GLA of 151,401m<sup>2</sup> and WAULT of 3.3 years with weighted average annual rental income of EUR5.4/m<sup>2</sup>.

### Notes:

1. The property has been denoted as vacant due to being owner occupied (with the owner set to vacate). It is anticipated that post the inclusion of the remaining 17 properties, the initial vacancy of the Potential Portfolio will be 10%, reducing below that level within a period of 12 months.
2. The vendors of the properties are all individual third party sellers, unrelated to the Fund.
3. As the Fund is subscribing for shares in Luxco, no purchase price per property can be ascribed. The Initial Investment is considered to be equal to the net assets to be acquired.

## 7. FINANCIAL INFORMATION

Set out below are the net profit after tax and earnings available for distribution in respect of the Transaction (“the Forecast”) for the 10 months ending 31 March 2020 and the year ending 31 March 2021 (“the Forecast Period”).

The Initial Investment will be accounted for as an associate. As such there is no impact on the Fund’s revenue and operating profit. The Forecast net profit after tax includes equity accounted earnings and interest income from associates, net of finance costs and management fees.

The Forecast has been prepared on the assumption that the Initial Portfolio is effective from 31 May 2019.

The Forecast, including the assumptions on which it is based and the financial information from which it has been prepared, is the responsibility of the directors of the Fund. The Forecast has not been reviewed or reported on by independent reporting accountants.

The Forecast presented in the table below has been prepared in accordance with the Fund’s accounting policies, which are in compliance with International Financial Reporting Standards.

	<b>Forecast for the 10 months ending 31 March 2020 ZAR'000</b>	<b>Forecast for the year ending 31 March 2021 ZAR'000</b>
<b>Net profit after tax</b>	1,433	1,464
<b>Earnings available for distribution</b>	1,433	1,464

The Forecast incorporates the following material assumptions in respect of revenue and expenses:

1. The Forecast is based on concluded acquisitions only (i.e. the Initial Portfolio).
2. The Forecast is based on information derived from cash flow forecasts prepared by the Fund.
3. Contracted revenue is based on existing lease agreements including stipulated increases.
4. Assumptions regarding lease expiration and new leases during the forecast period is based on historical evidence and current market dynamics. Where it has been assumed that vacant space will be let in future, the rental income for that space is based on an ERV rate and rent free periods may be applied based on market convention.
5. Of the earnings available for distribution for the 10 months ending 31 March 2020, 94% relates to contractual rental income, 2% relates to near-contacted rental income and 4% relates to uncontracted rental income.
6. Of the earnings available for distribution for the 10 months ending 31 March 2021, 78% relates to contractual rental income, 6% relates to near-contacted rental income and 16% relates to uncontracted rental income.
7. The Forecast has been prepared in ZAR, based on a spot rate of ZAR/EUR 16.08 and forward conversation rates of ZAR/EUR 17.33 for the year ending 31 March 2020 and ZAR/EUR 18.70 for the year ending 31 March 2021.
8. No material expenditure items are assumed to increase in the Forecast Period by more than 15% over the previous financial period.
9. No fair value adjustment is recognised for the Forecast Period.
10. Management fees payable to Investec Proprietary Limited have been calculated at a rate of 0.5% of the value of the Initial investment.
11. Funding costs comprise ZAR funding at a cost of 9.0% per annum and EUR funding at a fixed cost of 2.36% per annum.

On the basis that the remaining 17 properties are acquired and the full Initial Investment deployed, this would result in further net earnings available for distribution of R2.9m in the year ending 31 March 2020 and R7.5m in the year ending 31 March 2021.

## **8. CATEGORISATION OF THE TRANSACTION**

Based on the Fund's commitment into this investment, the Transaction is classified as a category 2 acquisition in terms of the JSE Listings Requirements. Accordingly, it is not subject to approval by the Fund's shareholders.

Sandton  
3 May 2019

**Financial Advisor and Sponsor**  
Investec Bank Limited