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**")

INVESTMENT IN A PAN-EUROPEAN LOGISTICS PROPERTY PORTFOLIO AND WITHDRAWAL OF CAUTIONARY ANNOUNCEMENT

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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 acquire a 42.9% interest in a portfolio of 22 logistics properties located across Europe for an initial equity investment of EUR 74.2 million (inclusive of all transaction costs) ("**Initial Investment**" or the "**Transaction**"). The asset value of the entire initial portfolio of 22 properties is EUR 423 million (inclusive of all transaction and restructure costs) ("**Initial Portfolio**"), which equates to an unlevered net income yield of 6.0%. The Fund's Initial Investment yield equates to approximately 10.5%.

The Fund will be investing alongside funds and other segregated mandates ("**Limited Partners**") managed by Ares Management, L.P. or its affiliate ("**Ares"** or the **"Manager**") (collectively, the "**Consortium**") in order to establish a Pan-European logistics real estate platform (the "**Platform**").

Inclusive of the Initial Investment, Investec Property Fund has committed to investing up to EUR 150 million into the Platform over the next four years. Including Investec Property Fund's commitment, a total of EUR 350 million has been committed to the platform by the Consortium. The investment will assist in the timely aggregation of a scaled and diversified logistics portfolio across Europe.

IPFO's investment will be held through a Delaware limited partnership ("**Delaware LP**"), which in turn will hold 42.9% of two Luxembourg holding companies ("**JV Co**") that will invest directly into a series of locally domiciled property owning companies.

2. RATIONALE

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.

The Transaction provides the Fund with:

- an Initial Investment into a sizeable, diversified Pan-European logistics portfolio, increasing the Fund's offshore exposure to 11% of total assets accompanied by an experienced hands on management team ("**Offshore Assets**");
- an acquisition price at below replacement cost where there is "value in the buy" and in advance of any value add created by the Manager ("wholesale price versus retail price");
- exposure to an asset strategy that is well suited to the current macro environment, whereby the investment returns are generated through income and hands on asset management versus reliance on cap rate compression; and
- earnings accretion due to:
    - attractive risk adjusted returns at an asset level;
    - reduced absolute price through the recent strengthening in the South African Rand (resulting in a cheaper entry into Offshore Assets); and
    - attractive funding costs due to the continued low interest rate environment in Europe.

a. *Offshore expansion strategy*

The Transaction presents an opportunity for the Fund to increase its offshore exposure and bring the first Pan-European logistics property offering to investors on the JSE.

The Fund's international strategy to date has been premised on investing in geographies where the Investec Group has infrastructure and personnel on the ground, hence the current investments in Australia and the United Kingdom. The Fund has however continued to consider offshore opportunities outside of these jurisdictions, where the Fund has the ability to invest with partners that have a well-established track record and a likeminded approach to property investments.

The Transaction fully supports the Fund's offshore investment approach. Ares is an experienced investor in Europe, with an impressive track record in accessing opportunities and unlocking value in "core plus" and value add strategies.

An in-country asset management team of locally based real estate professionals with a strong track record in managing portfolios of this nature has also been assembled by the Manager, which further supports the Fund's requirement for on-the-ground, hands on experience.

b. Positive European real estate dynamics with strong logistics demand and limited supply

There has been significant growth in the European logistics sector boosted by a favorable economic backdrop that is stimulating exports, retail sales and consumer spending despite on-going economic and political uncertainties. However, despite this recent growth, the European logistics market remains less advanced than that of the UK and USA, and therefore presents an attractive opportunity. The rapid growth of e-commerce across Europe is further driving demand in the logistics sector as e-commerce is quickly becoming as important as physical store networks, specifically given the fact that sales generated through e-commerce require three times more logistics space than those generated through traditional retail stores. E-commerce sales in Europe for the 2017 year were estimated to be EUR 602.8 billion, a 13.6% increase from 2016. This represents 8.8% of total retail sales, which lags that of the UK and USA where online spend represents 17.8% and 14.8% of total retail sales respectively[1].

Trade growth across Europe has been higher than GDP growth and is expected to continue to grow faster than GDP, implying a greater requirement for the storage and movement of goods utilising logistic facilities.

Given the uptick in demand, the estimated 12 month forward speculative logistics development pipeline in Europe only caters for 23% of the historical five year average annualised take up of space.

Even with increasing demand resulting in decreased vacancy levels and supply remaining tight, rent levels have only risen marginally, therefore given these supply / demand dynamics rental levels may experience a positive structural adjustment at some point in the near future.

c. The platform strategy

The Initial Portfolio is located across Germany, France, the Netherlands, Spain, Italy and Poland, providing access into core logistics markets across Europe. The intention is to deploy the balance of the Consortium's committed capital to create a Pan-European logistics platform with an asset base of *circa* EUR 875 million within the next 2 to 3 years.

The core investment strategy will be based on the following key principles:

- Major Western European geographies which are liquid and transparent markets;
- Micro-location – target assets in established logistics hubs with high concentrations of industry and consumers
- High quality assets and strong property fundamentals - assets below 20 years of age with asset management opportunities and assets which provide maximum occupational flexibility and attractiveness such as high eaves, large turning circles and expansion potential;
- Target assets with pricing that reflects a discount to replacement cost and / or competing assets, as well as providing positive positioning to benefit from the secular trend of increased demand for logistics and resulting rental growth;
- Target buildings typically ranging in sizes from 10 000 m^2 to 40 000 m^2;
- Robust cash flows – target cash yielding assets with good occupancy history that offer potential for attractive cash on cash yields;
- Off-market situations - target transactions where the Manager is able to capitalise on its network to unlock off-market or complex mispriced opportunities
- Identify "core plus" assets with value add opportunities – shorter leases with relatively low contractual rental terms and asset management upside, compared to prime core assets where pricing is considered to be at unsustainable levels; and
- Diversified tenant base with the majority of rental income derived from tenants operating in the transportation and logistics sector.

Investec Property Fund believes that the strategy is well suited to the current global macro and investment environment. After 10 years of quantitative easing and relaxed monetary policy, asset

[1] *Source – www.statista.com*

pricing in developed markets has enjoyed significant appreciation. Yield curves in these markets are on the rise, and value creation going forward will be driven by real estate fundamentals. The strategy above is driven through focused buying and extraction of value driven by real estate fundamentals and hands on asset management.

d. Manager with strong investment track record across Europe

Investec Property Fund has an opportunity to partner with a Consortium and Manager that have a strong track record of investing across multiple asset classes throughout Europe.

Ares is a publicly traded, leading global alternative asset manager with approximately USD 106 billion of assets under management and approximately 1,000 employees. Ares operates three distinct but complimentary investment groups that invest in credit, private equity and real estate markets. The firm is headquartered in Los Angeles with offices across the United States, Europe, Asia and Australia.

A key contributor to Ares Real Estate Group's track record is the length and breadth of the European Real Estate Team's investment experience. The senior members of the European Real Estate Team have on average 20 years of real estate experience and have worked together for an average of 16 years.

Ares believes it differentiates itself in its ability to identify and act upon changing market dynamics, identify market themes early and remain ahead of capital flows.

The European Real Estate Team has historically been able to access off-market or proprietary deal flow through its expansive network of business relationships extending to property owners, developers, asset managers, institutional investors, lenders and real estate lawyers.

The Ares Real Estate Group's equity investments focus on implementing hands-on value creation initiatives to undermanaged and capital-starved assets.

Ares will make its investment from funds and certain co-investment accounts managed by their European Real Estate Group ("**Ares Fund**"). The Ares Fund focuses on acquiring defensive, income-producing assets which have a history of institutional ownership, and where defined value enhancing improvements can be executed over a 2 to 3 year period.

e. Strong, in country asset management team in place

The in-country asset management will be executed by Urban Real Estate Partners ("**UREP**"), a dedicated management platform led by Paul Rodger (CEO of UREP). UREP is jointly owned by Mr Rodger and JV Co.

Mr Rodger has significant experience in all the core competencies required to manage the Pan-European logistics portfolio, having headed up Hansteen Holdings Plc's ("**Hansteen**") European property portfolio. Hansteen is a commercial property REIT that invests in light industrial, warehousing and logistics properties throughout continental Europe and the United Kingdom. Mr. Rodger held various positions at Hansteen over an 11 year period, and left the business in 2017 after he successfully facilitated the sale of Hansteen's Dutch and German assets to Blackstone for EUR 1.3 billion. Prior to joining Hansteen, Mr. Rodger was an Associate Director of Debenham Thorpe Zadelhoff (DTZ) where he spent 6 years in the Industrial Agency, Development & Investment team.

Mr. Rodger has assembled a team of experienced and locally based real estate professionals with a strong track record in managing portfolios of this nature. The UREP team will consist of a dedicated asset manager for each major investment geography.

Mr Rodger will be personally investing directly into JV Co, and is further aligned through a management incentive plan.

3. KEY TRANSACTION TERMS

The Initial Portfolio comprises 22 assets which were acquired from three separate vendors. JV Co currently owns 21 assets. The remaining asset located in Berlin is subject to contract with settlement expected in mid-May 2018.

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 42.9% interest through a subscription for the entire limited partner interest in Delaware LP. Delaware LP will through a share transfer and loan assignment acquire 42.9% of the shares in JV Co and it’s 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 4 May 2018 (“**Effective Date**”).

The Transaction Agreements are unconditional in their terms.

4. FUNDING AND HEDGING OF THE TRANSACTION

The Initial Investment will be funded through a combination of existing ZAR debt facilities and a new EUR 40 million secured term loan provided by Standard Chartered (“**Euro Facility**”). The Euro Facility is for a term of 4 years and has a fixed interest rate of 2.25% per annum. The Fund may also consider the option of funding a portion of the Initial Investment through the issue of new equity capital should market conditions and timing be favourable.

Investec Property Fund has 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%.

At the property owning company level below JV Co, ring fenced debt has been raised at a loan to cost ratio of 60% with an average all in cost of debt of 2% per annum (“**JV Co Debt**”). The JV Co Debt has been hedged for an average period of 4 years.

5. SALIENT PROPERTY INFORMATION

The Initial Portfolio comprises a total GLA of 747,080 m^2 located in major European geographies. By property value, 35% is situated in Germany, 28% in France, 11% in the Netherlands, 11% in Poland, 8% in Italy, and 7% in Spain. There is a diversified tenant base with the majority of rental income derived from tenants operating in the transportation and logistics sector, including *inter alia* DHL, Nippon Express, CHI, Rhenus and P&G.

The Initial Portfolio is expected to generate a combined net operating income of EUR 23.5 million for the 11 month period ending 31 March 2019 and is let on an average rent of EUR 3.9 m^2 per month with a weighted average unexpired lease term of 3.5 years. The blended day-one occupancy is 88.5% offering upside to the net operating income. The running yield on the Initial Portfolio, including all costs associated with the Platform for the forecast period set out in paragraph 6 below, equates to 6.0% per annum. On a fully let basis the running property yield increases to *circa* 7% per annum.

The properties are well located in primary and secondary logistics locations, with the majority of locations being classified as A and A-. The buildings are generally purpose built, high bay warehouses of a very good grade, with 87% being classified A to A-, and an average age of 11 years. The tenant covenant across the Initial Portfolio is strong, with the majority of tenants being large national and international logistics focused businesses with proven track records. By property value 55% of the Initial Portfolio is general logistics, 25% regional distribution, 13% port logistics and the balance airport and manufacturing logistics.

Detailed below is a description of the material assets within each primary geography:

- **Germany**

  Berlin

  Large logistics park comprising *circa* 80,000 m^2 of logistics warehouse space with additional landbank providing for *circa* 20,000 m2 of development. The property is located approximately 20km east of the Berlin city centre (Germany's largest and most populated city). It sits inside the A10 ring road, which can be accessed via 2 junctions, providing excellent access to customers within the City of Berlin and manufacturers in the broader region including adjacent markets such as Poland. Critically the property sits adjacent to an S-Bahn station (local railway), making it very accessible to employees in surrounding districts. This is a distinct advantage versus more decentralised locations as car ownership is not a requirement for employees, an important consideration in a market where there is a shortage of appropriately skilled labour.

  Frankfurt

  A 26,584m² facility located within Cargo City of Frankfurt Airport, which is the largest cargo hub in Europe handling approx. 50% of Germany's air freight. Cargo City is the only area that provides special customs, tax and handling benefits for occupiers with direct and secured runway access. In addition to exceptional location, the property enjoys strong fundamentals, with eave height of 10m, multiple docks (35, 32 of which have dock levelers) and good yard depth of 35m. The property is fully let to CHI, an international 3PL and cargo handling business specializing in air-freight.

- **Netherlands**

  A 13,268m² facility situated in the industrial area of Hordijk which lies in the Southern part of Rotterdam, with good access to the city centre. There is a shortage of additional land supply in the area, resulting in limited risk of additional supply. The accessibility to the main road network and Rotterdam port is excellent. Rotterdam has the biggest and most active port in Europe and is one of the largest globally.

- **France**

  A 20,509m² facility located North of Orleans, in the Val de Loire. It is a central location and the proximity to the motorway network makes it an ideal location to serve Paris and the wider French region, evidenced by the *circa* 600,000m² of logistics focused warehouses in the surrounding area. The property is fully let to Le Roy Logistique a bespoke logistics solutions operator, operating across the entire country from 26 sites. Le Roy are currently servicing 10 contracts from this site. A key feature of the property is that is has the necessary IPCE authorisations to distribute alcohol and cosmetics. The property further enjoys railway access.

  A 30,180m² facility situated within a highly consolidated logistics zone, directly accessible from the A10 motorway connecting Paris to Bordeaux and continuing to Spain. The asset is a modern distribution centre providing good quality and flexible space, with exceptional fundamentals of: 10m – 17m eave height, 35m yard depth and 28 loading docks.

- **Italy**

  A 76,405m² facility located within the Milan Macro area in Northern Italy which is the most prominent and attractive logistics location in Italy. The property is located 16km from Milan's city centre and 18km from Milan International airport. The property further benefits from easy access to recently upgraded road infrastructure, linking Milan to Naples.

6. FINANCIAL INFORMATION

Set out below are the forecast revenue, operating profit, net profit after tax and earnings available for distribution in respect of the Transaction ("**the Forecast**") for the 11 months ending 31 March 2019 and the year ending 31 March 2020 ("**the Forecast Period**").

The Initial Investment is 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 Transaction is effective from 4 May 2018.

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.

	Forecast for the 11 months ending 31 March 2019 ZAR'000	Forecast for the year ending 31 March 2020 ZAR'000
Revenue	**-**	**-**
Operating Profit	**-**	**-**
Net profit after tax	**46,264**	**37,615**
Earnings available for distribution	**46,264**	**37,615**

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

1. The Forecast is based on information derived from cash flow forecasts prepared by the Fund.
2. The Forecast has been prepared in ZAR, based on a conversion rate of between ZAR/EUR15.39 and 16.13 for the 11 months ending 31 March 2019 and between ZAR/EUR 16.61 and 17.33 for the year ending 31 March 2020.
3. Leases expiring during the Forecast Period have been assumed to be renewed or re-leased within 6 to 18 months depending on the individual property and related supply / demand dynamics. On average, rent free periods of 3 to 9 months have been assumed. In addition, in some instances, tenant incentives of between EUR 15-40/m^2 have been assumed.
4. No material expenditure items are assumed to increase in the Forecast Period by more than 15% over the previous financial period.
5. No fair value adjustment is recognised for the Forecast Period.
6. Management fees payable to Investec Proprietary Limited have been calculated at a rate of 0.5% of the value of the Initial investment.
7. Funding costs comprise ZAR funding at a cost of 8.8% per annum and EUR funding at a fixed cost of 2.25% per annum.
8. The reduction in earnings available for distribution between 31 March 2019 and 31 March 2020 is a result of a short term lease expiring in FY19 and an increase in leasing activity and associated tenant incentives and rent free periods that the Fund has assumed during the Forecast Period based on the expiry of contractual leases.

7. FINANCIAL ASSISTANCE - NOTICE IN TERMS OF SECTION 45(5) OF THE COMPANIES ACT NO 71 OF 2008, AS AMENDED

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.

Notice is hereby given as required in terms of section 45(5) (a) of the Act that the board of directors of the Fund has on 25 April 2018 approved a resolution in terms of section 45(2) of the Act to provide financial assistance to IPFO, (a wholly-owned subsidiary of the Fund), the entity securing the Euro Facility, in order to satisfy certain of the conditions of the finance agreements.

The Board of the Fund 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.

8. CATERGORISATION OF THE TRANSACTION

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.

9. GUIDANCE FOR THE YEAR ENDING 31 MARCH 2019

The dividend guidance for the financial year ending 31 March 2018 provided in the investor trading update published on SENS on 28 March 2018 ("**Trading Update**") remains unchanged.

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 however expects the South African portfolio's performance to improve in the financial year ending 2020.

The 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 FY18) for the financial year ending 31 March 2019 is expected to be between 6.5% and 7.5%.

The aforementioned forecast has not been reviewed or reported on by the Fund's auditors.

10. WITHDRAWAL OF CAUTIONARY

Following the release of this announcement, the cautionary announcement published on SENS on 14 March 2018 is hereby withdrawn. The Fund's shareholders are no longer required to exercise caution when dealing in securities in the Fund.

Sandton
2 May 2018

Financial Advisor and Sponsor
Investec Bank Limited