GCR GLOBAL CREDIT RATING CO.
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Investec Property Fund Limited

South Africa Corporate Analysis **August 2016**

Rating class	Rating scale	Rating	Rating outlook	Review date
Long term Short term	National National	A(ZA) A1(ZA)	Stable	August 2017

Financial data:

(USD'm Comparative)

	31/03/15	31/03/16
R/USD (avg)	10.11	13.78
R/USD (close)	10.58	14.83
Total assets	835.0	1,162.9
Total debt	194.0	390.6
Total capital	625.3	748.3
Cash & equiv.	5.8	3.6
Contractual income°	71.8	80.0
EBITDA	70.8	73.6
NPAT	87.5	80.8
Op. cash flow	49.9	47.2
Market cap.*	R10.3bn/USD777.0m	
Market share	n.a	

°Inclusive of recoveries.
*As @ 18/08/16 @ R14.33/USD.

Rating history:

Initial Rating (November 2011)
Long term: BBB+(ZA)
Short term: A2(ZA)
Outlook: Stable

Last Rating (August 2015)
Long term: A(ZA)
Short term: A1(ZA)
Outlook: Stable

Related methodologies/research:

Criteria for rating corporate entities, updated February 2016

Criteria for rating property funds, updated May 2016

Investec Property Fund Limited ("IPF, the fund or the REIT") Issuer rating reports, 2011-2015

Investec Property Fund: Senior Secured Notes; New Issuance/Surveillance Reports,

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Summary rating rationale

- The ratings continue to reflect the underpin from a strong international brand, represented by, amongst others; an industry leading fund manager, access to liquidity, group systems and protocols, as well as past support for share issues. These linkages remain despite the progressive decrease in Investec Limited's ("Investec") shareholding in past years.
- The purchase of the Zenprop and Griffin portfolios saw the investment portfolio double to R17bn at FYE16. While initially income dilutive for shareholders, the acquisitions have enhanced the defensiveness and income predictability of an already robust fund. The focus going forward is on optimising the existing portfolio by recycling capital released from ancillary assets into yield and/or quality accretive acquisitions. GCR also notes the investment in Investec Australia Property Fund ("IAPF"), which should provide an effective Rand hedge through the cycle.
- Property portfolio fundamentals outstrip those depicted by IPF's peers, on the back of disciplines derived from a strong group culture. The overall vacancy rate, for example, declined to a new low of 1.1% (FYE15: 2.8%), with office in particular, at just 0.6% (FYE15: 5.2%), in an increasingly fraught market plagued by weak demand and oversupply.
- Well positioned properties and asset management underpin a lease profile averaging 3.7 years, with 39% of leases maturing after five years. Certain assets have income guarantees beyond the tenor of the existing medium term contracts, adding comfort assuming a protracted industry downturn.
- IPF property portfolio is quite granular, with the top 10 assets making up 36% of value and 20% of GLA (FYE15: 41%; 33%), and multi-tenanted assets accounting for 64% and 53% respectively. Tenant quality is fairly high, with 'A' grade lessees' contributing c.70% of revenue.
- The 40% increase in net property income to R1bn achieved in F16 was mainly driven by acquisitions, with note also taken of strong YoY growth of 8% from the base portfolio. Despite the adverse impact of exogenous cost pressures and negative real reversions on the industry's performance, IPF's recurring operating profit margin averaged 78% over the past three years, and 81% including IAPF distributions. Medium term margins are expected to be relatively resilient, backed by robust in-force escalations.
- A cumulative R8.7bn in cash raised from shareholders since listing, coupled with shares issued to vendors to fund certain acquisitions and dividend reinvestments have kept gearing metrics conservative. In line with previous guidance of c.35%, the LTV ratio rose to 34% at FYE16 (FYE15: 24%), while debt to EBITDA reflected considerable drag due to a contribution of only four months' (or less) from the Zenprop assets.
- Interest cover fell to 3.7x in F16 (F15: 5.6x), and is likely to register close to the 2.5x threshold for 'A' rated funds in F17. IPF has reflects very low asset encumbrances (FYE16: 35%), while mean debt and swap maturities of 3.9 years and 3.6 years respectively, together with the ample unutilised facilities, mitigate exposure to the taciturn debt capital markets.

Factors that could trigger a rating action may include

Positive change: Growth from conservatively funded acquisitions and property upgrades, as well as resilient portfolio fundamentals despite the challenging operating environment, would be positively considered.
Negative change: Gearing metrics exceeding 'A' band thresholds due to a marked deterioration in market conditions or unforeseen financial risk *(inter alia)* that adversely impacts valuations.

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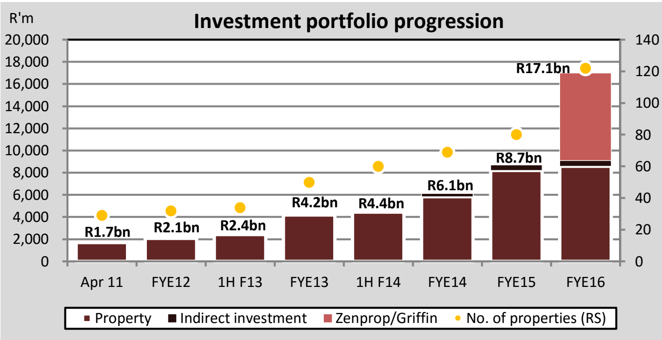
Business profile and shareholding

Listed on the JSE in April 2011 IPF is a middle-tier SA REIT, and an offshoot of Investec Limited ("Investec"). IPF has gained significant traction since listing, with the size of its investment portfolio having doubled in the 12 months to March 2016, on the back of the Zenprop and Griffin portfolio acquisitions (R7.1bn and R826m respectively). Of the overall investment portfolio value of R17bn at FYE16, R532m represented a 12% stake in IAPF.



Note: The carrying values per interim periods prior to F15 are for illustrative purposes.

Notwithstanding the much more rapid pace of capital accumulation in recent years, the funding profile has remained conservative, with just 35% of the properties encumbered and a net LTV ratio comfortably within the 'A' band limit of 40%, at 34% (FYE15: 26%; 24%). These metrics have been well managed on the back of continued support from Investec, which has managed down its interest in IPF by disposing of some of its shares *via* book builds, usually in anticipation of large acquisitions by the REIT. This has been followed by new share subscriptions through vendor placement to avoid a substantial net dilution of its stake at any one time. Investec also continues to reinvest its dividends from the fund.

While IPF's ratings were initially driven by Investec's 50% shareholding, ongoing funding and operational support to the much larger fund warrant the same weighting. Particularly important is the competitive leverage derived from asset manager[1] Investec Property (Pty) Limited ("IP"), which includes benefits from its strong industry track record and execution, first access to strongly performing properties developed and managed within the group, as well as linkages with various potential vendors that are long standing Investec clients. IP is currently engaged on a seven-year, renewable contract and earns a management fee of 0.5% of IPF's enterprise value per annum. Other incentives include transaction fees; IP earned R35m on Zenprop in F16 (a cost IPF capitalised), and has only charged the fund transaction fees twice in five years. In one of the most palpable demonstrations of the group's long term view on IPF, IP chose to waive its management fee on Zenprop assets (pegged against the acquisition cost) for a year, then 40%, 25% and 15% in each of the ensuing financial years. The ratcheted structure means IP will waive R102m in management fees over a period of five years. The cost alleviation gives management time to comfortably bed down the substantial acquisition.

Other spin-offs from the broader Investec relationship include funding flexibility and operational efficiencies drawn from well-established group systems, as well as Investec's rigorous enterprise risk framework. With the planned, progressive dilution of Investec's stake, IPF has secured strong institutional support as reflected by the granularity of its shareholder profile. Together with vendors' readiness to accept scrip as consideration (especially on large acquisitions), this is reflective of the REIT's ability to raise equity to fund further growth.

Table 1: Major shareholders by proxy (%)	FYE14	FYE15	FYE16
Investec	45.14	33.95	28.82
Coronation Fund Managers	8.29	22.00	24.91
Public Investment Corporation	4.12	4.44	5.48
Fynbos Trust	--	--	4.53
S Giuricich Holdings	4.75	4.00	3.29
STANLIB Asset Management	5.89	2.81	3.24
Directors (incl. the directorate of IPF's manager)	**5.31**	**4.08**	**3.64**

IPF, along with the vast majority of domestic REITs, is currently trading at a discount to its NAV. This is mostly attributable to investor sentiment regarding the property sector's future prospects. The narrowing gap between IPF's market capitalisation and its NAV is nonetheless reflective of the market factoring its strong fundamentals into its price, in comparison to many of its peers that are trading at much deeper discounts.

Table 2: Strategic overview	
Focused property fundamentals	The REIT has a long term focus of its investments, which are selected for their ability to generate sustainable cash flows. Accordingly, it targets well-positioned, high quality assets with long leases backed by high quality tenants.
Quality asset section and capital allocation	IPF targets niche opportunities and as such, growth in itself is not a primary focus. Property extensions are kept simple, but should nonetheless provide material value or income enhancement to the respective assets.
Active asset management	Focus on hands-on asset and property management, which in turn engenders sustainable cost efficiencies, strong letting performance and high tenant retention.
Balance sheet management	A conservative funding profile, which gives management flexibility to fund identified opportunities. Freed up capital is recycled into value enhancing upgrades and acquisitions, while a conservative hedging strategy is used to preserve capital and to support sustainable growth.
Relationships and management	The Investec relationship remains an important underpin. The proven industry experience of the asset manager is now also complemented by skills of driven young professionals that have been upskilled within Investec and in the fund. The maintenance of long term stakeholder relationships and strong strategic execution remain key focal points.
Sustainability	Sustainability in respect of business practices; environment, and empowerment; corporate social investment initiatives.

IPF's focus remains on building up a medium to large scale portfolio of income-generating properties in the office, industrial and retail space. The active, hands-on management of these assets is expected to generate robust cash flows and by extension, sustainable clean dividend growth that outperforms peers in the medium and long term. The strategy provides room for dilutive acquisitions, but only for opportunities with business cases deemed supportive of sound future income streams and capital growth. The offshore exposure through IAPF will serve as an effective Rand hedge through the cycle and will be maintained, although other indirect investments are unlikely. The tenets behind IPF's strategy will remain unchanged, barring refinements in the medium term. This provides a stable yardstick against which execution can be measured, and is positively considered.

[1] Investec Property outsources the property management function, with the counterparties subject to controls set within respective service level agreements. Internal audits are also used as an early signalling mechanism that enables the board to proactively revise the risk protocols in place to manage this exposure.

Corporate governance

The REIT is subject to the Companies Act and JSE Listings Requirements over and above its amended Memorandum of Incorporation ("MoI") mandates. It also complies with King III in all material respects and is focused on enhancing its reporting and disclosure on sustainability, in keeping with Code standards.

Table 3: Corporate governance summary	
Executive directors	Two
Non-executive directors	Eight, with five independents
Frequency of meetings	Four times p.a. *Ad hoc* meetings where necessary.
Separation of the chairman	Although the chairman is separate from the CEO, he is not independent. Accordingly, Graham Rosenthal serves as the lead independent.
Board committees	Audit & Risk; Investment; Nominations; Social & Ethics. Committees are chaired by independents.
Internal control/compliance	Reports to the Audit & Risk committee. The board's effectiveness and performance is evaluated annually.
External auditors	Ernst & Young Inc. has served as IPF's external auditor in all five years under review. Unqualified audit opinions have been issued in each fiscal year.

Following the appointment of Nick Riley as Chief Executive in April 2014, Andrew Wooler assumed the position of CFO in August 2015 upon David Donald's retirement. Both appointments speak to succession planning driven from group principles. The incumbent CEO was previously with Investec Corporate Finance, while the CFO has been with the fund since 2012. Sam Hackner is the non-executive chairman and Samuel Leon his deputy. Both represent the strong real estate legacy entrenched within the group.

Property portfolio composition

The Zenprop acquisition brought in 27 office, industrial and retail properties; 21 of which were independently valued between R97m and R795m for the purposes of the transaction. Office assets accounted for 44% of the Zenprop portfolio's initial value, with retail making up another 30%. Incorporation of the Zenprop assets made the overall portfolio very granular, with the top 10 contributing 36% of the property pool's carrying value and c.20% of GLA at FYE16 (FYE15: 41%; 33%). As shown below, six of the fund's top 10 assets came out of Zenprop. In addition, all of the 10 properties have a value of at least R350m, in contrast to many similar-sized funds, whose granularity comes with much lower average asset values. The multiple versus single tenancy profile has shifted towards the former, at a split of 64:34 by value and 53:47 by GLA, compared to a dominance of single-tenanted, mostly office buildings in the first few years of IPF's listing.

Table 4: Overview: top 10 properties		Book value (R'm)	% contribution Value	GLA
1 & 1A Protea Place*	Office	813.9	4.9	1.5
Zevenwacht Mall*	Retail	788.2	4.8	3.0
Newcastle Mall*	Retail	785.3	4.8	2.9
Design Quarter Mall*	Retail	573.6	3.5	1.9
2929 on Nicol*	Office	506.1	3.1	1.2
Dihlabeng Mall	Retail	498.5	3.0	2.0
Balfour Mall	Retail	491.2	3.0	2.4
The Firs	Office	442.2	2.7	1.0
Brandhouse*	Industrial	418.6	2.5	2.7
30 Jellicoe	Office	373.7	2.3	0.8
Total		**5,691.3**	**34.6**	**19.4**

*Properties traded into the fund as part of the Zenprop acquisition.

The elevation in absolute administrative costs has not diluted margins, attesting to continued cost rigour and scale efficiencies. In addition to the portfolio presenting considerably lower concentration by property compared to most of IPF's peers, the average asset value has risen markedly, from R65m at FYE12 to R135m at FYE16 (FYE15: R103m), with most of the traction registered since March F14 (R84m).

While surpluses were logged on some Zenprop assets per directors' valuations at FYE16 (particularly the top five), GCR nonetheless still considers management's overall assessment of the overall property pool to be conservative. This is based on the prudence of overall assumptions used to determine and/or reassess asset values, which led to material write downs on some large, legacy properties (such as Alrode Multipark, Investec Durban and Clover Head Office). Overall, a R99m impairment was taken, translating to a net surplus on the property portfolio of R334m. IPF's management attributed R315m of this to the base portfolio, mainly arising from income growth.

IPF sold a number of marginal properties at competitive exit yields in F16, with the capital released mainly earmarked for planned/ongoing asset upgrades. GCR has noted that the sales pipeline at year end included two assets from the 22 that were part of the Griffin pool. At FYE16, only 17 Derrick Road (an industrial property) was unlet out of the entire fund. It represented just 0.5% of total GLA, and its sale post year end will sustain the overall vacancy rate below/around 1%, all things being equal.

Table 5: Disposals	GLA (sqm)	Vacancy*	Book value (R'm)	Sell price (R'm)	Transfer date
118 Bofors	13,395	-	43	45	Oct-15
230 15th Road	6,759	13.4	40	41	Oct-15
10 Starfield	3,246	100.0	21	23	May-15
Boksburg Minipark	9,151	37.2	19	21	Jan-16
Heriotdale Minipark	4,851	-	14	16	Feb-16
Mafuri House	682	8.3	9	12	Mar-16
Hycol Mini Units	2,350	-	8	8.7	Feb-16
Completed during F16	**40,434**		**153**	**167**	
Subaru/Renew It	12,000	-	95	105	Conditional
17 Derrick Road	5,997	100.0	21	22	Jun-16
So - So Trading	3,190	-	9	8	Lodged
Pipeline at FYE16	**21,187**		**124**	**135**	

Portfolio performance

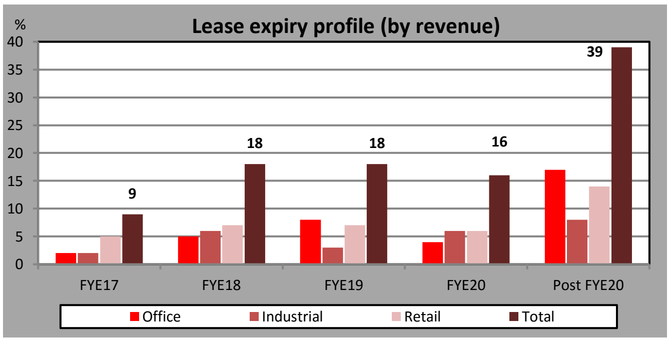
Apart from marking the fund's progression in absolute terms, table 6 shows the continued strengthening of its fundamentals over the years. According to management, conservative asset selection underlies the build-up of a portfolio of high quality properties that have proven to be defensive even in nodes/sectors with high overall vacancies and suppressed rental rates due to oversupply.

Table 6: Performance overview	F13	F14	F15	F16
GLA (sqm)	568,151	693,256	831,990	1,300,278
Distribution per share, FYE (cents)	100.0	108.2	119.2°	124.7
Price/share, FYE (Rand)	16.21	14.49	17.01	14.30
NAV/share (Rand)	12.43	13.98	15.15	16.05°
Major provinces (by revenue)**				
GP	67	70	69	68
WC	14	12	11	10
FS	1	2	6	8
MP	2	6	5	3
Limpopo	5	5	4	3
KZN	9	4	n.a*	7
Vacancy rate (% of GLA)	2.9	2.6	2.8	1.1
Single tenanted-by GLA**	40	46	47	47
'A' grade tenants (% of GLA)**	71	63	62	70
'A' grade tenants (% of revenue)**	73	70	67	70

*At FYE15, KZN and three other provinces contributed a combined 5% of revenue.
°Normalised.
**Rounding is based on disclosure per full year results.

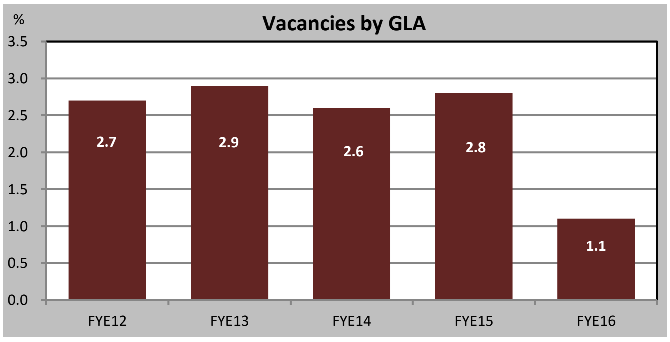
Geographic concentration by province is typical of most domestic REITs and is a reflection of the placement of most commercial property in urbanised areas or along major transportation routes. Dispersion by contractual revenues versus GLA is relatively disparate in certain provinces. Regional diversification is not central to the REIT's strategy, albeit deliberate clustering is evident in some nodes in Johannesburg, Cape Town and Durban. For example, IPF has a sizeable portfolio of assets in Sandton, Bryanston, Fourways and Woodmead, lately dominated by Zenprop properties. This is based on the selection of assets whose positioning (amongst other factors) attracts long term leases with mostly 'A' grade lessees. Retail has led to modest dilution in the overall weighting of 'A' grade tenants compared to F12 and F13, but at least 70% of the small regional centres' GLA is occupied by national lessees. Overall; nationals, listed and other large corporates, as well as professional firms, made up 85% of revenue, from 84% previously.

As with most REITs, IPF's retail portfolio is the most geographically diverse out of the three sectors. It consists of niche community or small regional centres, which mostly target the mid to high LSM customer base. The two largest centres have respective GLAs of nearly 40,000sqm, compared to SAPOA's regional shopping centre designation of at least 50,000sqm. The portfolio now reflects much more diversification by sector, compared to the dominance by office properties in the earlier years. Retail slightly exceeds office's contribution to rentals, on the back of 39 properties, of which 14 are valued above R100m. The contribution of shopping centres has risen with time, but IPF still has a number of dealerships and other single-tenanted properties that fall under the retail designation. In comparison, office is comprised of 34 assets with an average value of R191m, and industrial 49 properties with an average valuation of R79m.



IPF continues to display a well-dispersed lease maturity profile, with at least 35% of its in-force rental contracts expiring after five years. Its WALE remains defensive, albeit having eased slightly to 3.7 years (FYE15: 3.8 years). The property portfolio's lease expiry profile is reflective of trends across all three sectors. The metrics are underpinned by medium term leases, secured through strong letting protocols that include engaging tenants well ahead of contract expiry. At FYE16, IPF had let 86% of the 78,830sqm GLA from leases that expired during the year, and 43% of residual vacancies from F15, at positive reversion of 3%. In addition, 93% of the REIT's F17 revenues are locked into medium term leases. In comparison, many private and listed players are conceding to material negative reversions to retain contractual rentals. These pressures translated to a marginal reversion of 0.7% on industrial space let in F16. While the reversion was positive, it illustrates the continued pressure on the already suppressed rentals in the sector. In comparison, a 1.7% negative reversion was reported on the 4.5% of office GLA let during the year. Comfort is, however, taken from the low annual sector expiries through to FYE20. The positive retail reversion of 9.4% reflects defensive asset positioning and entrenched client relationships. A total of 53% of the 99,502sqm with leases due to expire by FYE17 had been relet by June 2016, at a 4.2% positive reversion.

The REIT's vacancy rate declined to a new low of 1.1% (FYE15: 2.8%). Office vacancies in particular, came down to just 0.6% (FYE15: 5.2%). The improvement comes off rates that were already around property sector lows, and was achieved in a particularly fraught environment for industrial and office property. In view of the mostly medium term lease expiries across all sector exposures and entrenched tenant relationships, the low vacancies are considered sustainable.



A more granular profile of performance over the past four years shows strong execution across all sectors and reinforces the sustainability of IPF's strategy through the cycle. Specifically, retail achieved 9% turnover growth in F16, backed by strong trading at its regional centres (contrasting general market observations of overtraded malls). Kriel Mall, however, underperformed on the back of setbacks at two coal mines driving custom in its locality. This shows that IPF's assets are not immune to economic pressures, although the risk is well diversified.

Table 7: Performance indicators by sector		**F13**	**F14**	**F15**	**F16**
Retail	YE value (R'bn)	1.7	2.1	3.5	6.1
	Vacancy by GLA (%)	2.6	2.0	1.2	1.1
	In-force escalations (%)	7.7	7.8	7.8	7.6
	% of total revenue	23	41	41	39
	WALE (years)	3.8	3.7	4.1	3.3
Office	YE value (R'bn)	1.5	2.4	3.2	6.6
	Vacancy by GLA (%)	7.3	5.1	5.2	0.6
	In-force escalations (%)	8.1	8.0	8.0	8.0
	% of total revenue	42	33	36	38
	WALE (years)	6.7	5.6	4.9	4.0
Industrial	YE value (R'bn)	0.8	1.3	1.5	3.8
	Vacancy by GLA (%)	2.0	2.0	3.0	1.4
	In-force escalations (%)	8.2	8.7	8.6	8.0
	% of total revenue	35	26	23	23
	WALE (years)	2.7	3.5	4.0	3.7

The office profile has strengthened markedly, due both to Zenprop assets and the resilient performance of the base portfolio, whose net property income grew by 12% YoY, from 7% previously. Conversely, industrial's base growth declined to 3%, from 12% in F15, due to the marginal positive reversion, a bad debt provision, and transient vacancies (which have since normalised). IPF is partly managing the latter exposure by investing in well-sized properties that are readily adaptable to new tenants' requirements.

Financial performance

A summary of the financials for the past five years is attached to this report, and brief commentary follows.

While the financial position captures the scope of the Zenprop and Griffin portfolio, the former assets only transferred in December 2015 and January 2016, too late in the fiscal year to impact earnings. As such, F16 earnings and cash flows are mostly reflective of the fundamentals of the base property portfolio (R8.5bn, at a forward yield of 9%; compared to an 8% yield from R16.5bn in properties at FYE16). Overall performance and credit risk metrics will nonetheless still be sound with a 12-month contribution from acquisitions in F17.

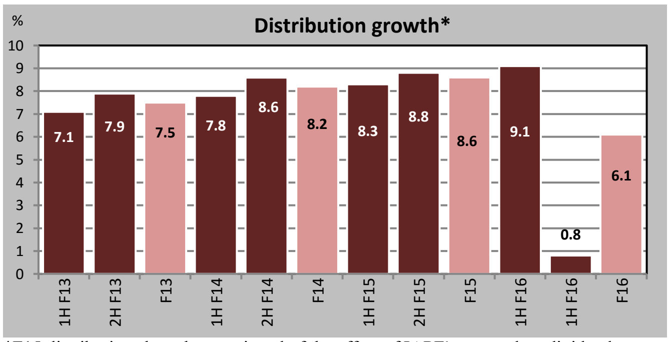
Table 8: Portfolio statistics	F15	F16
Weighted avg. net rental (R/sqm)		
Office	131	149
Industrial	38	47
Retail	87	99
Weighted avg. rental escalation (%)		
Office	8.0	8.0
Industrial	8.6	8.0
Retail	7.8	7.6
Net cost: income (%)	**16.6**	**16.1**
Office	13.1	13.4
Industrial	14.7	14.3
Retail	20.8	19.8
Arrears (% of collectibles)	0.6	0.7
Interest rate exposure hedged (%)	83.0	75.0
All-in cost of funding (%)	8.5	9.0

IPF achieved a 40% increase in net property income to R1bn in F16 on the back of acquisitions. The base portfolio continued to perform, and reported growth of 8%, with the gross cost inflation contained to just 2% YoY. Uplift in F17 will be driven by the full throughput from the aforementioned portfolios, whose aggregated yield at FYE16 was 7.8%. Gross property costs remain dominated by electricity and municipal charges, at 43% and 21% of the F16 total respectively. Of note in this respect is the increase in the recovery rate to 105% (F15: 102%), due to improved monitoring structures in the office space in particular. Sustained cost rigour is reflected in a further moderation in the net cost to income from the F14 high, to 16% in F16. Arrears have been sustained at less than 1% of total collectibles, albeit noticeably above a 0.3% low reported in F14.

After accounting for a R47m distribution from IAPF (on the back of a 12% increase in dividend per share and the Rand uplift), net operating income increased by 42% to R1bn. This pushed up the margin to a new high of 84% in F16, and the average to 79%. Recurring profit margins, specifically, averaged 78% over the past three years, and 81% including IAPF distributions. The operating margin is likely to moderate due to pressure on renewal rates, as tenants try to balance their all-in costs of tenancy. Nonetheless, it is considered defensive and likely to remain close to historic averages.

The net finance charge went up by 139% to R247m, reflecting the much higher quantum of debt; a 113bps YoY increase in the rate of interest on unhedged debt (due to the movement in JIBAR); a much steeper curve impacting R2.6bn in new swaps linked to acquisitional funding; and the effect of the much longer debt and swap maturity profiles now in place. As a result, the all-in cost of funding shifted up by 50bps to 9%. Given the substantial earnings drag, net interest cover decreased to 3.7x, and is likely to register moderately above the 2.5x comfort level for highly rated funds in F17.

The hedged interest rate exposure has been managed down to IPF's prudential minimum of 75% (FYE15: 83%; FYE14: 110%). Management nonetheless still considers this optimal, given IPF's extended debt and swap maturities of 3.9 years and 3.6 years respectively. Overall, and after accounting for revaluation surpluses and other capital items amounting to R372m, net profit rose by 26% to R1.1bn. Distributions continue apace, and while the Zenprop-driven dilution is evident, the F16 dividend exceeded prior guidance to shareholders.



*F15 distributions have been stripped of the effect of IAPF's antecedent dividend.

Acquisitions underpinned the 60% increase in cash generated by operations, but cognisance is also taken of the consistent cost rigour underlying the cash earnings. The anomalous working capital release reported in F15 (due to accruals and tenant deposits) did not repeat, and a negligible change was reported for the full year. Albeit still sustainable, the much higher interest paid absorbed 28% of cash generated (F15: 19%; F14: 9%). This moderated the advance in operating cash flow to 29% YoY (R651m). After the R711m dividend paid out to shareholders (67% increase YoY), the REIT reported a modest R61m cash outflow (F15: R78m inflow).

IPF spent R6.5bn in cash on new properties and asset upgrades in F16, compared to a total outlay of R8.1bn over the five financial years to FYE15. Capex of R94m reported in F16 (F15: R82m) is modest compared to the total capital commitments of R201m at year end. These mostly related to the planned extension of Musina Mall, expected to be completed by 30 April 2017. IPF sold a third of its share in the mall to Moolman Group and will use the proceeds to pay for its portion of the R325m cost of the extension of R216m. IPF also spent another R116m on IAPF shares, from R222m in F15. Overall, spend on properties and capex in F16 was partly funded by R2.7bn in cash raised from equity, translating to a R3.8bn increase in net debt. A cumulative R8.7bn in cash has been raised from shareholders since listing, while net debt has risen by an aggregated R5.7bn.

Funding and liquidity

As the REIT has virtually doubled in value, the focal point for F16 was the R7.8bn in funds raised for new acquisitions. In this respect, IPF has continued to attract strong institutional support for various capital raising exercises. Specifically, management raised R3.9bn in equity during F16, being; R2.6bn from the Zenprop rights issue and the balance from vendor placements (that is, R0.8bn for Zenprop, and R0.5bn for the Griffin assets). After accounting for a further R434m from revaluation surpluses and other reserve movements, total equity advanced by 68% to R11.1bn.

The debt portion of funding came from the following:

- R2.5bn in facilities, 55% of which are unsecured. The facilities carry an effective average interest rate of 3M JIBAR+177bps and a mean tenor of 5.4 years;
- R1.2bn in corporate bonds (32% unsecured), at an average margin of 3M JIBAR+168bps, with a mean maturity of 4.1 years; and
- R200m from three-month commercial paper, at an average rate of 3M JIBAR+43bps.

In addition to DCM refinances/redemptions post year end, IPF also secured two facilities from Standard Bank of R300m each, one replacing an Investec bridge loan; refinanced two Standard Bank facilities (R450m) early, extending them by three to four years; and extended its Investec general banking facility by a year. IPF usually retains a fair amount of untapped facilities on hand, which gives an additional option to drawing liquidity from commercial paper issues.

Table 9: Debt funding profile (R'm)	Facility	FYE15	FYE16
Unsecured bank loans	**2,140**	**364**	**1,666**
Investec GBF	300	-	124
Nedbank: Tranche 4-9	800	200	630
Standard Bank: Tranche 3, 7A & 7B	590	150	550
Investec: Tranche 8A, 8B	350	-	281
Investec development loan	100	14	80
Unsecured DMTN	**-**	**820**	**1,615**
Commercial paper	-	200	200
Tranche 7-11, 13-16	-	620	1,415
Secured bank loans	**1,810**	**425**	**1,740**
Nedbank: Tranche 1; 6	460	200	410
Standard Bank: Tranche 2; 6	550	225	550
OM Spec Fin - Tranche 6	700	-	700
Investec - Tranche 6	100	-	80
Secured DMTN•	**-**	**450**	**791**
Tranche 1-3; 6; 12; 17-19	-	450	791
Total debt, less unamortised fees		**2,052**	**5,793**
Secured: total debt (%)		42.6	43.7
Collateral: secured bank debt (x)		3.1	2.1
Collateral: secured DMTN notes (x)		2.2	2.3
Net LTV: unadjusted (%)		23.6	34.1
Net debt: EBITDA (%)*		334.4	622.4
Untapped facilities (R'm)		877	773
Swap expiry profile (years)		3.8	3.6

*The calculations consider debt at FYE and do not take into account the earnings drag in respect of properties that made a profit contribution of less than 12 months.
•GCR rates IPF's secured bond Issues AA(ZA); Stable outlook.

Despite the higher utilisation of the DMTN programme (R2.4bn at FYE16; FYE15: R1.3bn) and increased quantum of bank debt, asset encumbrances remained very low, at 35% of the property portfolio valuation. This was because only 43% of gross debt outstanding at FYE16 was secured, contrasting global REIT trends, where bank facilities at least, are normally secured by the entire pool of assets. This trend is positively viewed with respect to the ratings, as it speaks to IPF's ability to comfortably raise debt capital by pledging more properties as collateral. It is also better positioned to sell some of its properties and to free up underutilised capital. With respect to pledged assets, comfort is drawn from the conservatism of directors' valuations. At least a third of properties are independently valued each year, in line with industry best practice. Mills Fitchet Magnus Penny conducted the F16 rotation for the base portfolio.

Despite debt nearly trebling YoY to R5.8bn at FYE16, the net LTV ratio registered comfortably below GCR's 40% limit for 'A' rated property funds. Specifically, the metric rose to 34%, in line with management's previous guidance of c.35% (FYE15: 26%). Net debt to EBITDA reflected considerable drag, closing above 600%, as the maximum contribution from the Zenprop properties was only four months. GCR expects rolling debt to EBITDA to close F17 around 400%, and that it will be managed at or below this level in the medium term.

Outlook

The dilutory impact of recent acquisitions is expected to persist until March 2017. Accordingly, management has projected that F17 distribution growth will remain at the F16 level, while the base portfolio's performance will stay in line historical trends. Looking further ahead, the REIT's much larger portfolio of well-positioned, quality assets, coupled with the strong letting activity in the past three years, should see the REIT ride out the sector downturn, barring significant market shocks.

IPF's portfolio fundamentals continue to improve in contrast to property trends, especially in the office and industrial segments. This is a factor of astute property selection and active asset management. The fund has also been able to trade out marginal properties (and vacancies) at competitive exit yields. Proceeds are reinvested into income-enhancing projects or are used to redeem debt, contributing to comfortable gearing.

GCR has a somewhat conservative view on margins, as sector prospects continue to deteriorate. Tenants across all sectors face even tougher business conditions as the economy weakens further. Amidst these challenges, heightened cost pressures are expected from escalations in utility costs and assessment rates. This is likely to drive further tenant reticence to above-inflation rental escalations and positive reversions on reletting/renewal, translating some moderation in IPF's recurring margins. That said, GCR expects IPF's management to continue to show strong execution. Its ability to sustain high quality cash flows and to outperform the market in a harsh operating climate will impact the Issuer ratings positively in the medium term.

Although Investec has progressively reduced its direct interest in the fund over the years, IPF's performance is still premised on synergies with the group. As such, the ratings continue to reflect the underpin from the strong international brand, represented by, amongst others; IP's strong industry credentials and delivery, access to liquidity, group systems and protocols, and ongoing support for share issues. These competitive advantages are accorded the same weighting as was Investec's shareholding of over 50% when the fund was listed. Other factors, such as IP's waiver of substantial management fees, affirm Investec's commitment to stabilising the much larger fund and a long term view of its relationship with IPF.

Investec Property Fund Limited

(Rand in millions except as noted)

Income statement Year end : 31 March	2012	2013	2014	2015	2016
Rental income	211.6	331.4	520.9	725.7	1,102.6
Straight line income	30.5	43.8	45.1	120.8	92.3
Total revenue	**242.1**	**375.2**	**566.0**	**846.4**	**1,194.8**
Property expenses	(38.5)	(59.7)	(90.6)	(120.6)	(177.8)
Net property income	**203.6**	**315.5**	**475.4**	**725.9**	**1,017.0**
Distributable earnings from associates and investments	0.0	0.0	7.4	33.0	46.6
Administration and other expenses	(11.9)	(20.9)	(32.1)	(42.7)	(49.3)
Operating income	**191.7**	**294.6**	**450.7**	**716.1**	**1,014.3**
Net finance income (charge)	(3.0)	(14.0)	(39.0)	(103.2)	(246.8)
Interest on derivatives	0.0	0.0	(7.6)	(23.9)	(23.9)
Fair value movements	(30.5)	(82.9)	211.6	293.1	358.3
Profit (loss) on property disposals and other	0.0	39.1	11.0	2.4	13.6
Distribution to linked debenture holders	(158.0)	(236.6)	(119.9)	0.0	0.0
NPBT	**0.2**	**0.2**	**506.7**	**884.7**	**1,115.5**
Taxation charge	(0.0)	(0.1)	0.0	0.0	(2.0)
NPAT	**0.1**	**0.2**	**506.7**	**884.7**	**1,113.5**
Cash flow statement					
Cash generated by operations	**161.2**	**248.7**	**397.6**	**567.2**	**906.5**
Utilised to increase working capital	12.3	(11.8)	(6.7)	45.9	(0.1)
Net interest paid	0.7	(9.2)	(37.7)	(108.7)	(253.6)
Taxation paid	(0.1)	(0.0)	(0.0)	0.0	(2.0)
Cash flow from operations	**174.2**	**227.8**	**353.1**	**504.4**	**650.8**
Distribution paid to linked debenture holders	(74.3)	(163.4)	(345.0)	(426.0)	(711.4)
Retained cash flow	**99.8**	**64.4**	**8.1**	**78.4**	**(60.6)**
Net expansionary capex	(1,926.2)	(1,726.2)	(1,033.5)	(1,671.4)	(6,503.7)
Investments and other	0.0	0.0	(235.5)	(197.7)	(71.2)
Proceeds on sale of assets/investments	0.0	240.6	51.4	11.5	166.8
Shares issued	1,700.0	1,496.4	594.0	456.7	2,717.8
Cash movement: (increase)/decrease	(4.6)	(394.2)	40.4	297.3	7.5
Borrowings: increase/(decrease)	130.9	319.1	575.0	1,025.1	3,743.4
Net increase/(decrease) in debt	**126.3**	**(75.1)**	**615.4**	**1,322.4**	**3,751.0**
Balance sheet					
Ordinary shareholders interest	1.7	3.2	5,112.6	6,615.8	11,097.1
Linked debentures (capital)	1,836.4	3,940.0	0.0	0.0	0.0
Total shareholders' interest	**1,838.1**	**3,943.2**	**5,112.6**	**6,615.8**	**11,097.1**
Short term debt	130.9	0.0	80.0	334.0	699.1
Long term debt	0.0	450.0	944.9	1,718.1	5,093.5
Total interest-bearing debt	**130.9**	**450.0**	**1,024.9**	**2,052.1**	**5,792.6**
Linked debenture interest payable	0.0	0.0	0.0	0.0	0.0
Interest-free liabilities	113.1	246.2	415.8	166.6	356.0
Total liabilities	**2,082.0**	**4,639.3**	**6,553.3**	**8,834.5**	**17,245.8**
Straight line rental accrual and other	30.5	71.9	120.4	240.3	371.6
Properties	**2,034.9**	**4,115.1**	**5,708.1**	**7,964.2**	**16,130.0**
Indirect investments	0.0	0.0	288.7	502.1	531.8
Loans and advances	0.0	0.0	0.0	0.0	0.0
Cash and cash equivalent	4.6	398.7	358.3	61.0	53.5
Other current assets	12.1	53.6	77.8	67.0	159.0
Total assets	**2,082.0**	**4,639.3**	**6,553.3**	**8,834.5**	**17,245.8**
Ratios					
Cash flow:					
Operating cash flow : total debt (%)	133.1	50.6	34.5	24.6	11.2
Profitability:					
Rental income growth (%)	n.a	56.6	57.2	39.3	51.9
Net property income : revenues (%)	71.5	72.4	76.0	71.5	77.4
Net cost : income (%)	18.2	18.0	17.4	16.6	16.1
Operating income : revenues (%)	76.2	75.7	77.9	82.0	83.6
Return on assets (%)	4.9	9.3	8.6	9.6	7.8
Coverage:					
Operating income : gross interest (x)	31.8	7.5	9.1	6.3	4.0
Operating income : net interest (x)	63.5	21.0	11.6	6.9	4.1
Operating income : net interest incl. charge on derivatives (x)	63.5	21.0	9.7	5.6	3.7
Activity and liquidity:					
Trading assets turnover (x)	35.1	10.1	6.7	9.3	9.8
Days receivable outstanding (days)	68.2	72.4	46.0	36.4	37.4
Current ratio (:1)	0.4	0.7	0.2	0.5	0.5
Capitalisation:					
Total debt : equity (%)	7.1	11.4	20.0	31.0	52.2
Net debt : equity (%)	6.9	1.3	13.0	30.1	51.7
Total debt : EBITDA (%)	81.2	179.4	252.7	344.7	628.2
Net debt : EBITDA (%)	78.4	20.4	164.4	334.4	622.4
Loan to value					
Total debt : properties (%)	6.4	10.9	18.0	25.8	35.9
Net debt : properties (%)	6.2	1.2	11.7	25.0	35.6
Total debt : properties & investments (%)	6.4	10.9	17.1	24.2	34.8
Net debt : properties & investments (%)	6.2	1.2	11.1	23.5	34.4

Note: Ratios based on rental revenue, op. income & EBITDA have been adjusted to exclude straight-lining rental accruals, as have loan to value calculations. LTVs have also been adjusted to exclude straight lining rental adjustments/accruals and other assets outside of the indirect investments, loans and advances (where applicable). As such, they differ slightly from calculations based on full property valuations.

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GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S CORPORATE GLOSSARY

Balance Sheet	Also known as Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
Bond	A long term debt instrument issued by either a company, institution or the government to raise funds.
Capital	The sum of money that is invested to generate proceeds.
Cash Equivalent	An asset that is easily and quickly convertible to cash such that holding it is equivalent to holding cash. A Treasury Bill is considered cash equivalent.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Cash Flow Statement	The cash flow statement shows the cash flows associated with the operating, investing and financing activities of a company, combining to explain the net movement in cash holdings.
Commitment Fee	A fee paid by a borrower for a lender's commitment to make funds available when required.
Commodity	Raw materials used in manufacturing industries or in the production of foodstuffs. These include metals, oil, grains and cereals, soft commodities such as sugar, cocoa, coffee and tea, as well as vegetable oils.
Corporate Governance	Corporate governance broadly refers to the mechanisms, processes and relations by which corporations are controlled and directed, and is used to ensure the effectiveness, accountability and transparency of an entity to its stakeholders.
Covenant	A provision that is indicative of performance. Covenants are either positive or negative. Positive covenants are activities that the borrower commits to, typically in its normal course of business. Negative covenants are certain limits and restrictions on the borrowers' activities.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Credit Rating Agency	An entity that provides credit rating services.
Credit Risk	The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and interest when due.
Current Ratio	A measure of a company's ability to meet its short-term liabilities and is calculated by dividing current assets by current liabilities. Current assets are made up of cash and cash equivalents ('near cash'), accounts receivable and inventory, while current liabilities are the sum of short-term loans and accounts payable.
Debentures	Debenture is also referred to as a Bond or Note. A bond is a legal contract in which a borrower such as a government, company or institution issues a certificate by which it promises to pay a lender a specific rate of interest for a fixed duration and then redeem the contract at face value on maturity..
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Default	Failure to meet the payment obligation of either interest or principal on a debt or bond. Technically, a borrower does not default, the initiative comes from the lender who declares that the borrower is in default.
Dividend	The portion of a company's after-tax earnings that is distributed to shareholders.
EBITDA	EBITDA is useful for comparing the income of companies with different asset structures. EBITDA is usually closely aligned to cash generated by operations.
Equity	Equity is the holding or stake that shareholders have in a company. Equity capital is raised by the issue of new shares or by retaining profit.
Exercise	To exercise an option is to use the right of the holder to buy or sell the underlying asset on which the option is based at the strike price.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding.
Fair Value	The fair value of a security, an asset or a company is the rational view of its worth. It may be different from cost or market value.
Fix	The setting of a currency or commodity price for trade at a future date.
Fixed Assets	Assets of a company that will be used or held for longer than a year. They include tangible assets, such as land and equipment, stake in subsidiaries and other investments, as well as intangible assets such as goodwill, information technology or a company's logo and brand.
Fixed Capital	Fixed capital is the part of a company's total capital that is invested in fixed assets such as land, buildings and equipment that remains on the balance sheet, usually for years, but for at least one accounting period.
Gearing	With regard to corporate analysis, gearing (or leverage) refers to the extent to which a company is funded by debt and can be calculated by dividing its debt by shareholders' funds or by EBITDA.
GLA	GLA is the portion of the total floor area of a building that is available for tenant leasing, and is usually expressed in square meters or square feet.
Goodwill	Arises upon the sale/acquisition of a business and is defined as an established entity’s reputation, which may be regarded as a quantifiable asset and calculated as the price paid for a company over and above the net value of its assets. Negative goodwill refers to a situation when the price paid for a company is lower than the value of its assets.
Hedge	A form of insurance against financial loss or other adverse circumstances.
Hedging	A financial risk management process or function to take a market position to protect against an eventuality. Taking an offsetting position in addition to an existing position. The correlation between the existing and offsetting position is negative.
Impairment	Reduction in the value of an asset because the asset is no longer expected to generate the same benefits, as determined by the company through periodic assessments.
Income Statement	A summary of all the expenditure and income of a company over a set period.
Intangible Assets	The non-physical assets of a company such as trademarks, patents, copyright, information systems and goodwill.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
Interest Cover	Interest cover is a measure of a company's interest payments relative to its profits. It is calculated by dividing a company's operating profit by its interest payments for a given period.
Interest Rate	The charge or the return on an asset or debt expressed as a percentage of the price or size of the asset or debt. It is usually expressed on an annual basis.
JIBAR	The Johannesburg Interbank Agreed Rate, or JIBAR, is the annualised interest rate at which banks obtain unsecured loans from each other. It is often used as the basis for pricing floating interest rate instruments, and is the main reference rate used in South Africa.
JSE	Johannesburg Stock Exchange.
Liabilities	All financial claims, debts or potential losses incurred by an individual or an organisation.

Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Liquidity Risk	The risk that a company may not be able to meet its financial obligations or other operational cash requirements due to an inability to timeously realise cash from its assets. Regarding securities, the risk that a financial instrument cannot be traded at its market price due to the size, structure or efficiency of the market.
Loan To Value	Principal balance of a loan divided by the value of the property that it funds. LTVs can be computed as the loan balance to most recent property market value, or relative to the original property market value.
Margin	A term whose meaning depends on the context. In the widest sense, it means the difference between two values.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
National Scale Rating	The national scale provides a relative measure of creditworthiness for rated entities only within the country concerned. Under this rating scale, a 'AAA' long term national scale rating will typically be assigned to the lowest relative risk within that country, which in most cases will be the sovereign state.
Net Asset Value	The value of an entity's assets less its liabilities. It is a reflection of the company's underlying value and is usually quoted on a per share basis.
Operating Cash Flow	A company's net cash position over a given period, i.e. money received from customers minus payments to suppliers and staff, administration expenses, interest payments and taxes.
Operating Margin	Operating margin is operating profit expressed as a percentage of a company's sales over a given period.
Operating Profit	Profits from a company's ordinary revenue-producing activities, calculated before taxes and interest costs.
Option	An option gives the buyer or holder the right, but not the obligation, to buy or sell an underlying financial asset at a pre-determined price.
Portfolio	A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value.
Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.
Rating Outlook	A Rating outlook indicates the potential direction of a rated entity's rating over the medium term, typically one to two years. An outlook may be defined as: 'Stable' (nothing to suggest that the rating will change), 'Positive' (the rating symbol may be raised), 'Negative' (the rating symbol may be lowered) or "'Evolving' (the rating symbol may be raised or lowered).
Real Estate Investment Trust	A REIT is a company that owns or finances income-producing real estate. REITs are subject to special tax considerations and generally pay out all of their taxable income as distributions to shareholders.
REIT	A Real Estate Investment Trust ("REIT") is a company that owns or finances income-producing real estate. REITs are subject to special tax considerations and generally pay out all of their taxable income as distributions to shareholders.
Repurchase Agreement	In a REPO one party sells assets or securities to another and agrees to repurchase them later at a set price on a specified date.
Revaluation	Formal upward or downward adjustment to assets such as property or plant and equipment.
Risk	The possibility that an investment or venture will make a loss or not make the returns expected. There are many different types of risk including basis risk, country risk, credit risk, currency risk, economic risk, inflation risk, liquidity risk, market or systemic risk, political risk, settlement risk and translation risk.
Risk Management	Process of identifying and monitoring business risks in a manner that offers a risk/return relationship that is acceptable to an entity's operating philosophy.
SAPOA	South African Property Owners Association.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
Stock Exchange	A market with a trading-floor or a screen-based system where members buy and sell securities.
Swap	An exchange of payment streams between two parties for their mutual benefit. Swaps can involve an exchange of debt obligations, interest payments or currencies, with a commitment to re-exchange them at a specified time.
Tenor	The time from the value date until the expiry date of an instrument, typically a loan or option.
Tranche	Used to mean an allocation or instalment of a larger loan facility. Tranches of the same debt programme may differ from each other because they pay different interest rates, mature on different dates, carry different levels of risk, or differ in some other way.
Turnover	The total value of goods or services sold by a company in a given period. Also known as revenue or sales. Turnover can also refer to the total volume of trades in a market during a given period.
Unrealised Loss	The profit or loss that would be made if a position were to be liquidated.
WALE	Weighted average lease expiry.
Working Capital	Working capital usually refers to the resources that a company uses to finance day-to-day operations. Changes in working capital are assessed to explain movements in debt and cash balances.
Yield	Percentage return on an investment or security, usually calculated at an annual rate. Also an agricultural term describing output in terms of quantity of a crop.

SALIENT POINTS OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating process was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the ratings is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

Investec Property Fund Limited participated in the rating process via face-to-face management meetings, teleconferences as well as written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit ratings have been disclosed to Investec Property Fund Limited with no contestation of the ratings.

The information received from Investec Property Fund Limited and other reliable third parties to accord the credit ratings included:

- 2016 audited financial statements (plus three years of comparative numbers);
- corporate governance and enterprise risk framework;
- profitability projections for 2017;
- SENS announcements and other information related to recent acquisitions; and
- a breakdown of facilities available and related counterparties.

The ratings above were solicited by, or on behalf of, the rated client, and therefore, GCR has been compensated for the provision of the ratings.