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Investec Property Fund Limited

South Africa Corporate Analysis **August 2017**

Rating class	Rating scale	Rating	Rating outlook	Review date
Long term	National	$A_{(ZA)}$	Positive	August 2018
Short term	National	$A1_{(ZA)}$		

Financial data:

(USD'm Comparative)

	31/03/16	31/03/17
R/USD (avg)	13.78	14.07
R/USD (close)	14.83	13.41
Total assets	1,162.9	1,423.2
Total debt	390.6	476.5
Total capital	748.3	907.4
Cash & equiv.	3.6	11.9
Rental income	80.0	117.8
Operating income	73.6	106.7
NPAT	80.8	103.7
Op. cash flow	47.2	64.5
Market cap.*	R11.2bn/USD860m	
Market share	n.a	

*As @ 31/07/17 @ R13.00/USD.

Rating history:

Initial Rating (November 2011)
Long term: $BBB+_{(ZA)}$
Short term: $A2_{(ZA)}$
Outlook: Stable

Last Rating (August 2016)
Long term: $A_{(ZA)}$
Short term: $A1_{(ZA)}$
Outlook: Stable

Related methodologies/research:

Global Master Criteria for rating corporate entities, updated February 2017

Criteria for rating property funds, updated February 2017

Investec Property Fund Limited ("IPF") Issuer rating reports, 2011-16

Investec Property Fund: Senior Secured Notes; New Issuance/Surveillance Reports, 2012-2017

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Summary rating rationale

- IPF's portfolio growth has gained significant traction over the past five years, with the most transformative acquisition being the transfer of the Zenprop and Griffin portfolios in FY16, evidenced by the value of direct properties having more than quadrupled to R16.9bn at FY17 (FY16: R16.1bn). While note is taken of the increasing investments in offshore and listed property funds, this is still modest in relative terms to add material diversification benefits.
- Key performance metrics continue to display strong characteristics, including high tenant quality, low vacancies, and above inflation escalations, even in sectors evidencing increasing weakness. That said, rental reversions are likely to be pressured for some time across all market classes. Cognisance is, however, taken of management's strong track record of execution, evidenced by consistent net income growth of the base portfolio YoY.
- The ratings continue to draw support from synergies with the greater Investec group. This is reflective of the REIT's access to liquidity, group systems and protocols, as well as potential deal flow of properties.
- Net property income rose to exceed R1.5bn in FY17 (FY16: R1bn), double the FY15 level. This was supported by the full throughput of the Zenprop assets and strong growth in rental income from existing assets. In addition, strict cost management has seen the property expense ratio decrease YoY over the review period, despite rising utility and municipal costs.
- In view of the recent substantial growth in the asset base, debt utilisation has climbed to peak at R6.4bn at FY17, from R2bn in FY15 and a low of R450m at FY13. With the net LTV remaining at 34% in FY17, and earnings based gearing having started to show correction towards the 400% threshold (and should moderate further as the portfolio stabilises), these fall within GCR's benchmarks for 'A' band rated REITs.
- IPF evidences strong liquidity characteristics, with c.R1bn in unutilised banking facilities, a high unencumbered asset base of 66%, as well as the continued positive investor sentiment enabling the REIT to raise sizeable funding through both equity and the debt capital markets.

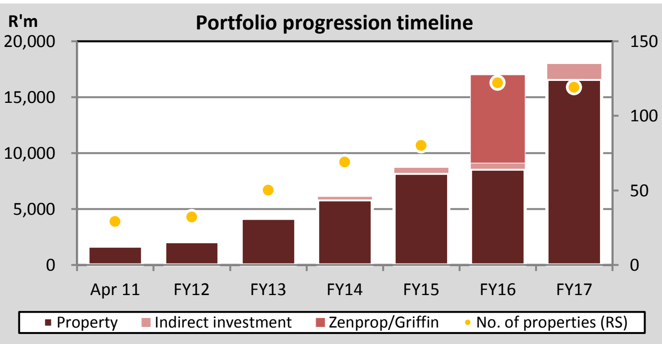
Factors that could trigger a rating action may include

Positive change: The positive outlook reflects GCR's view that IPF should remain measured in acquisition and development funding and be able to sustain a strong performance, despite the weakness in the general property sector.

Negative change: IPF's ratings could be pressured downward if occupancy rates fall materially leading to profitability declines and/or if gearing metrics rise beyond GCR's comfort levels.

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’s portfolio growth has gained significant traction YoY, with the most transformative acquisition being the transfer of the Zenprop and Griffin portfolios (of R7.1bn and R826m respectively) in FY16. This saw the direct property portfolio value effectively double in size to R16.1bn. As such, FY17 was a year consolidation as the fund effectively bedded down the enlarged asset base and took advantage of certain opportunities that were identified in the listed securities space. In terms of the latter, IPF followed Investec Australia Property Fund (“IAPF”) rights offer by investing a further R834m into the REIT (bringing its stake to 22.9%), and made an initial 8% (R75m) investment in Ingenuity Property Investments Limited (“Ingenuity”). IAPF provides exposure to the mature Australian property market and thus hard currency earnings, whilst Ingenuity’s portfolio predominance to the Western Cape area provides an attractive development pipeline. As such, the listed securities pool represented a higher 8% of IPF’s total investment assets of R18.3bn in FY17 (FY16: 3%). Looking ahead, IPF remains opportunistic in terms of potential transactional activity, while continued focus is to be applied to extracting further value from the enlarged stable portfolio in line with its strategy to build up a balanced portfolio of medium to large scale quality assets. Furthermore, the fund continues to look at progressively expanding its offshore exposure, given weak local economic fundamentals, with a 10% stake (£10m) acquired in an unlisted property entity in the UK post year-end FY17.



IPF continues to benefit from the competitive leverage derived from asset manager Investec Property (Pty) Limited[1] (“IP”), which includes its strong industry track record and execution, access to the development pipeline within the group, as well as linkages with various potential vendors that are long standing Investec clients. In June 2017, shareholders agreed to renew the existing management contract with IP for a further seven years upon its expiry on 31 March 2018. The management fee will remain unchanged at 0.5% of IPF’s enterprise value per annum, with other incentives including reduced transaction fees, with the aggregate thereof capped at R104m over the contract period. This essentially equates to the management fee waived on the Zenprop deal.

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. During FY17, IPF together with IP launched Izandla, a majority black-owned property company. IPF will hold a 35% stake in Izandla by seeding the company with a portfolio of 17 assets, valued at R590m in FY18. As IPF is facilitating the deal by taking equity and providing funding to Izandla, this transaction is not anticipated to materially impact earnings and cash flows.

IPF has continued to secure strong institutional support. Core shareholders were largely unchanged at FY17, with Investec remaining the largest shareholder, with a 27.92% stake, followed by Coronation Fund Managers with 23.28%. Investec Asset Management increased its stake to 4.27% from 0.63%, by way of a private placement.

Table 1: Major shareholders by proxy (%)	FY14	FY15	FY16	FY17
Investec	45.14	33.95	28.82	27.92
Coronation Fund Managers	8.29	22.00	24.91	23.28
Public Investment Corporation	4.12	4.44	5.48	5.63
Investec Asset Management	--	--	0.63	4.27
Fynbos Trust	--	--	4.53	4.16
Avin Lieberman Trust	5.89	2.81	3.24	2.86
Directors *	**5.31**	**4.08**	**3.64**	**3.61**

*Includes the directorate of IPF’s manager.

Corporate governance

As a listed REIT, IPF is subject to the Companies Act and JSE Listings Requirements. Compliance and governance continue to be managed in line with King III, and management is enhancing its reporting and disclosure to align with the “apply and explain” philosophies per King IV for the next reporting period. IPF’s 10-member board remains majority independent, and encompasses strong legacy real estate experience within the group.

Table 2: 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, a lead independent has been appointed.
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.

Property portfolio

From owning 80 properties at FY15, this increased to 122 at FY16, following the large Zenprop and Griffin acquisitions, which saw the total portfolio value effectively double to R16.1bn. Refinements to the enlarged portfolio are still being bedded down, which saw IPF sell off five assets and partial share of a property for a combined value of R351m in FY17, with

[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.

the disposal pipeline estimated at R770m (including the Izandla transaction) for FY18. This capital was recycled into into upgrades of certain large, strategic retail properties, as well as two small acquisitions, resulting in further value enhancement of the direct property portfolio value to R16.9bn at FY17. To this end, the average asset value rose further to R146m from R135m at FY16 (FY15: R102m).

Table 3: Overview- top 10 properties		Book value (R'm)	% contribution	
			Value	GLA
Zevenwacht Mall*	Retail	879.6	5.1	3.0
Newcastle Mall*	Retail	864.3	5.0	3.0
1 & 1A Protea Place*	Office	814.1	4.7	1.5
Design Quarter Mall*	Retail	571.9	3.3	1.9
Balfour Mall	Retail	553.7	3.2	2.5
Dihlabeng Mall	Retail	553.5	3.2	2.4
2929 on Nicol*	Office	508.8	2.9	1.2
The Firs	Office	476.9	2.5	1.0
Musina Mall	Retail	436.0	2.5	2.7
Brandhouse*	Industrial	418.7	2.4	3.1
Total^		**6,077.5**	**35.0**	**22.3**

*Properties traded into the fund as part of the Zenprop acquisition.
^Includes straight-line rental accrual adjustments.

The enlarged portfolio has become more granular since the aforementioned acquisitions, with the largest property amounting to just 5% of the total asset pool and the ten largest 35%, thereby minimising individual property risk. Geographically, there was little change in the spread of IPF's properties at FY17, with 66% of the portfolio based in Gauteng and a further 12% and 10% respectively situated in Kwa-Zulu Natal and the Western Cape.

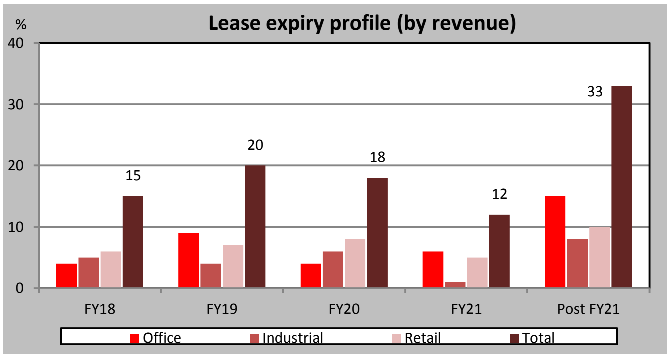
IPF continues to focus on asset selection across the traditional property classes that are deemed supportive of sound future income streams and capital growth, rather than a specific class strategy per say. As the 27 Zenprop properties brought on board reflected a fairly similar sectoral exposure to that of IPF, weightings across the classes have not materially altered, although the relative exposure to industrial has increased. In this regard, 38% of portfolio value was vested in office properties (FY15: 39%), 39% in retail (FY15: 42%) and 28% (FY15: 19%) in industrial properties at FY17.

Portfolio performance

The fund continues to display sound performance fundamentals across all sectors despite the increasingly challenging local operating climate. This shows that while IPF's assets are not immune to economic pressures, the risk is well diversified.

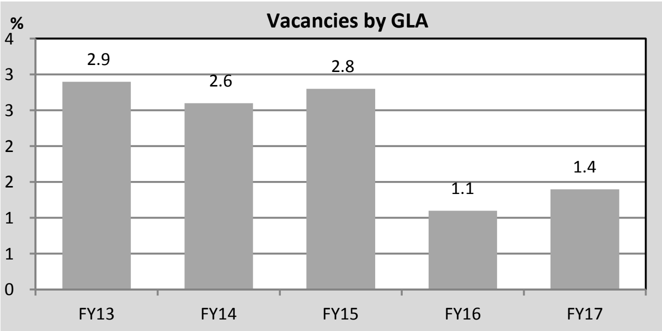
Table 4: Performance indicators by sector		FY14	FY15	FY16	FY17
Retail	YE value (R'bn)	2.1	3.5	6.1	6.9
	Vacancy by GLA (%)	2.0	1.2	1.1	1.3
	In-force escalations (%)	7.8	7.8	7.6	7.4
	% of total revenue	41	41	39	37
	WALE (years)	3.7	4.1	3.3	2.9
Office	YE value (R'bn)	2.4	3.2	6.6	6.6
	Vacancy by GLA (%)	5.1	5.2	0.6	2.2
	In-force escalations (%)	8.0	8.0	8.0	8.0
	% of total revenue	33	36	38	39
	WALE (years)	5.6	4.9	4.0	3.4
Industrial	YE value (R'bn)	1.3	1.5	3.8	3.9
	Vacancy by GLA (%)	2.0	3.0	1.4	1.0
	In-force escalations (%)	8.7	8.6	8.0	7.9
	% of total revenue	26	23	23	24
	WALE (years)	3.5	4.0	3.7	3.1

Overall tenant quality has historically been robust and a key ratings strength for IPF, given that 'A' grade lessees continue to underpin both GLA and rental income, at 69.4% and 71.8% respectively in FY17. This is considered in conjunction with lease maturities and escalations to determine the value of such leases. Weighted average contractual escalations of in-force contacts remained largely static at 7.7% (FY16: 7.8%), whilst overall average reversions remained at a positive 3% on new lets and renewals despite increased push back from tenants, particularly in the office space. In this regard, while the office portfolio reflects deliberate clustering in certain prime nodes, with some showing signs of material oversupply, IPF's largely P and A grade properties have proven to be relatively defensive, with a small positive rental reversion of 1.9% achieved in FY17 (FY16: negative 1.7%). Maintaining this will be a challenge going forward, as evidenced by the weakened office base portfolio net property income growth of 5.9% YoY, from 12% previously. Despite the retail portfolio largely comprising of niche community or small regional centres, it reflects a high proportion of national tenants, at 83%, whilst a number of dealerships that fall under the retail designation are single-tenanted. The continued strong retail reversion of 8% in FY17 (FY16: 9.4%) reflects defensive asset positioning and entrenched client relationships.



IPF has evidenced a similar lease profile over the past two years, albeit a slightly lower 33% (FY16: 35%) of in-force rental contracts expire after five years. This has seen its WALE ease slightly to 3.1 years (FY16: 3.7 years). Nonetheless, with around 15% of leases expiring in the following 12 months, this reflects the REIT's pro-active approach to renewals, where negotiations are entered into with large tenants 12-18 months in advance, with the view to agreeing new terms and thereby reducing the short term maturity concentrations. This also allows sufficient time to make any improvements to the property to meet tenants' requirements and ensure they remain in the property. To this end, 24,678m^2 of industrial space that was originally expiring in FY18 was renewed early, whilst 34% of leases due to expire in FY18 are already let, at a 6.3% positive reversion. Within property classes, retail properties report the relatively smoothest spread of lease maturities, as a result of the mix of long term anchor tenants and other tenants in shorter dated leases. Positively, office assets reflect the longest WALE out of the sectors, supported by a good mix of single tenanted (39%) and multi-tenanted (61%) properties.

The REIT's vacancy rate ticked up slightly to 1.4% (FY16: 1.1%), albeit still remaining well below industry averages. Specifically, office vacancies rose to 2.2% (FY16: 0.6%), as 1,583m of space in Bryanston became available. Nonetheless, these levels still continue to track well below national vacancy rates in key competitive nodes. Although retail vacancies rose to 1.3%, this was attributed to the acquisition of buildings with vacant retail space. On the back of strong letting activity, industrial's vacancy rate improved for the year. While vacancy rates at current levels do not appear that sustainable in the prevailing environment, the mostly medium term lease expiries across all sectors provides comfort that it will continue to be well managed.



Financial performance

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

Table 5: Property income	FY16	FY17	% Δ
Net base income	714.4	776.2	8.7
Acquisitions	178.3	614.8	244.8
Disposals	32.1	14.8	(54.0)
Net property income *	**924.8**	**1,405.8**	**52.0**

* Excludes straight line rentals

Rental income advanced to R1.7bn in FY17 (FY16: R1.1bn), whilst after accounting for direct property expenses, net property income climbed 52% to R1.4bn. As is evidenced from Table 5, growth largely stemmed from the full year consolidation of assets acquired in FY16. In addition, the standing portfolio continued to perform well despite the difficult trading conditions, reporting net income growth of 8.7% (FY16: 8.2%). This is has been supported by rigorous property management, evidenced by strong letting activity, low vacancies, as well as stable contractual escalations of 7.7% (FY16: 7.8%), but offset somewhat by lower average rental reversions on renewals.

Table 6: Portfolio statistics	FY16	FY17
Weighted avg. net rental (R/m^2)-base portfolio		
Office	149	158
Industrial	48	52
Retail	100	110
NPI growth-base portfolio (%)	**8.2**	**8.7**
Office	12.0	5.9
Industrial	3.2	10.2
Retail	7.5	10.6
Net cost: income (%)	**16.1**	**15.2**
Office	13.4	14.2
Industrial	14.3	13.7
Retail	19.8	17.2
Arrears (% of collectibles)	0.7	1.4
Interest rate exposure hedged (%)	75.0	86.0
All-in cost of funding (%)	9.0	8.9

Whilst rising costs remain a challenge for all REITs, IPF has displayed close cost control and strong recoveries. Thus, the net cost to income ratio narrowed further to 15.2% in FY17, from 16.1% in FY16 and a peak of 18% in FY13. Much of the improvement derived from the stable portfolio, with gross cost inflation (including municipal expenses) contained to just 2% YoY. Administrative expenses were also fairly well contained at R56m (FY16: R49m). IPF's operating income further benefited from R29m in earnings from IAPF, albeit lower than the R47m registered in FY16. This was as a result of an accounting adjustment that was made to record the distribution in the period in which it is received, whereas historically the anticipated income of the distribution was matched to the period to which the distribution relates. The combined operating margin remained steady at 83% in FY17 (FY16: 84%). The REIT has historically achieved recurring income margins well above the 60% threshold for highly rated funds.

IPF's gross interest charge rose markedly to R500m, from R255m in FY16, as interest on the debt relating to the Zenprop acquisition accrued for a full year and additional debt was assumed for transactions during the year. With interest income remaining modest at R12m in FY17 (FY16: R8m), the net interest charge registered at a higher R488m (FY16: R247m). Despite this, gross interest coverage remained sound at 3x and net interest coverage at 3.1x (FY16: 4.0x; 4.1x), continuing to track above the 2.5x comfort level for highly rated funds. The weighted effective cost of debt was sustained at 8.9% FY17. Management plans to continue to hedge at least 75% of its interest rate exposure (currently at 86%), with the long dated interest rate swap profile of 3.2 years (FY16: 3.6 years) reducing credit risk.

The REIT reported strong fair value gains of R446m in FY17 (FY16: R358m), raising the cumulative fair value gain to R1.2bn over the review period (inclusive of a R83m fair value loss in FY13). This boosted NPAT by 31% to R1.5bn in FY17, with R906m available for distribution to shareholders reflective of dividend growth per share of 2.4%, exceeding guidance of a flat dividend YoY (FY16: 6.1%). Distribution guidance for FY18 is expected to normalise to historic growth levels of between 7% to 8%, as the dilution from the Zenprop transaction has been fully accounted.

Cash flows

Cash generated by operations remains sound, surpassing the R1bn mark in FY17 given the enlarged asset base. However, a progressively higher percentage of this has been paid out as net interest over the years as a result of the ramp up in debt levels. From c.4% in FY13, 37% of cash generated was directed to debt service in FY17. Nevertheless, cash flow from operations registered at a higher R908m (FY16: R651m), and has generally exceeded dividend distributions in each year over the review period.

Expansionary capex moderated to R498m in FY17, compared to the R6.5bn reported in FY16, which was on the back of the substantial acquisition activity undertaken. Cumulatively, the REIT has outlaid R11bn over the last five years on new properties and asset upgrades. Spend on other investments, however, evidenced a sharp increase to R832m in FY17 (FY16: R71m), largely on the back of the increased stake in IAPF and the new Ingenuity investment. Asset disposals of R351m covered part of this amount, but the bulk of financing came from R594m in new debt (FY16: R3.7bn). In addition, IPF raised R256m in equity in FY17, which follows the large R2.7bn raised in FY16.

Funding and liquidity

IPF continues to attract strong institutional support for its capital raising exercises, which together with sizeable revaluation surpluses, saw total equity advanced by 10% to R12bn at FY17. Furthermore, GCR takes cognisance of IPF's well-diversified funding profile, with strong relationships with a range of financial institutions and active use of its DMTN programme, which has enabled the fund to secure sizeable facilities to support its growth trajectory. From a low geared position of R450m in debt at FY13, borrowings have increased to R6.4bn at FY17 (FY16: R5.8bn). Accordingly, whilst the net LTV ratio (including IAPF and Ingenuity) has trended upwards over the review period to 34% in FY17 (FY16: 34.4%), gearing remains well within the benchmarks for 'A' band rated REITs and aligns with management's internal target of 35%. Even excluding listed investment assets, the LTV ratio registered at comfortable levels. Whilst earnings based gearing metrics spiked above 600% in FY16, this has since corrected towards the 400% threshold, as the recently acquired assets contributed to profits for a full year and should moderate further as the portfolio stabilises.

Table 7: Debt funding profile (R'm)	Facility	FY16	FY17
Unsecured bank loans	**2,950**	**1,915**	**1,873**
Investec GBF	300	124	52
Nedbank	800	630	630
Standard Bank	1,400	800	830
Investec	450	361	361
Unsecured DMTN	**-**	**1,615**	**2,092**
Commercial paper	-	200	262
Tranches	-	1,415	1,830
Secured bank loans	**1,860**	**1,490**	**1,690**
Nedbank	510	410	410
Standard Bank	550	300	500
OM Spec Fin	700	700	700
Investec	100	80	80
Secured DMTN	**-**	**791**	**751**
Tranche 1-3; 6; 12; 17-19	-	791	751
Total debt, less unamortised fees		**5,793**	**6,390**
Secured: total debt (%)		39.4	38.1
Collateral: secured bank debt (x)		2.5	2.4
Collateral: secured DMTN notes (x)		2.3	2.4
Net LTV (%)		34.4	34.0
Net debt: operating income (%)*		622.4	452.2
Untapped facilities (R'm)		773	1,247
Debt expiry profile (years)		3.9	3.2
Swap expiry profile (years)		3.6	3.2

*The calculations consider debt at year-end and do not take into account the earnings drag in respect of properties that made a profit contribution of less than 12 months.

Whilst the average debt expiry lowered to 3.2 years (FY16: 3.9 years), IPF's debt profile continues to show well-staggered maturities with no material near-term concentrations, thereby mitigating refinancing risk. On this basis, post year-end FY17 IPF has already rolled R242m of three-month commercial paper, as well as repaid R276m and refinanced R150m of expiring DMTN issues.

IPF maintains ample unutilised bank facilities, which coupled with the sizeable unencumbered investments, supports a high level of funding flexibility. Undrawn facilities stood at R1.2bn at year-end FY17, and unlike most REIT's, IPF's asset encumbrances remained very low, at 34% of the property portfolio valuation. This provides ample contingent liquidity in terms pledging more properties as collateral to raise additional debt and/or as it allows the fund to sell off some of its properties more easily.

Outlook

The domestic economic environment has become increasingly difficult, although GCR expects that IPF's well positioned properties should sustain sound fundamentals through the cycle. In particular, although seemingly disparate from market trends, IPF's office and industrial assets continue to show relatively strong characteristics, including low vacancies and above inflation escalations. That said, rental reversions are likely to be increasingly pressured for some time across all market classes, but the fund's rentals should still show robust organic growth. The REIT expects to achieve 7% to 8% distribution growth in FY18, through the continued refinement of the larger portfolio, with a focus on income-enhancing projects, coupled with a strong letting track record.

Although debt has increased substantially over the review period, gearing metrics remain moderate. At 34%, the net LTV is well within GCR 40% benchmark for A-band rated property funds. This aligns with management's guidance of 30-35% and thus even with moderately sized new acquisitions, the LTV is likely to remain within management targets in view of continued strong shareholders support and profitable non-core asset disposals, as has been the trend. IPF's strong liquidity assessment continues to be underpinned by its low asset encumbrances and ample untapped facilities, with the DMTN programme adding further funding flexibility.

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Investec Property Fund Limited

(Rand in millions except as noted)

Income statement Year end : 31 March	**2013**	**2014**	**2015**	**2016**	**2017**
Rental income	331.4	520.9	725.7	1,102.6	1,657.6
Straight line income	43.8	45.1	120.8	92.3	122.7
Total revenue	**375.2**	**566.0**	**846.4**	**1,194.8**	**1,780.3**
Property expenses	(59.7)	(90.6)	(120.6)	(177.8)	(251.8)
Net property income	**315.5**	**475.4**	**725.9**	**1,017.0**	**1,528.5**
Distributable earnings from associates and investments	0.0	7.4	33.0	46.6	28.6
Administration and other expenses	(20.9)	(32.1)	(42.7)	(49.3)	(56.3)
Operating income	**294.6**	**450.7**	**716.1**	**1,014.3**	**1,500.7**
Net finance income (charge)	(14.0)	(39.0)	(103.2)	(246.8)	(488.1)
Interest on derivatives	0.0	(7.6)	(23.9)	(23.9)	(21.2)
Fair value movements	(82.9)	211.6	293.1	358.3	446.3
Profit (loss) on property disposals and other	39.1	11.0	2.4	13.6	27.1
Distribution to linked debenture holders	(236.6)	(119.9)	0.0	0.0	0.0
NPBT	**0.2**	**506.7**	**884.7**	**1,115.5**	**1,464.8**
Taxation charge	(0.1)	0.0	0.0	(2.0)	(6.1)
NPAT	**0.2**	**506.7**	**884.7**	**1,113.5**	**1,458.7**
Cash flow statement					
Cash generated by operations	**248.7**	**397.6**	**567.2**	**906.5**	**1,366.0**
Utilised to increase working capital	(11.8)	(6.7)	45.9	(0.1)	53.2
Net interest paid	(9.2)	(37.7)	(108.7)	(253.6)	(510.3)
Taxation paid	(0.0)	(0.0)	0.0	(2.0)	(0.8)
Cash flow from operations	**227.8**	**353.1**	**504.4**	**650.8**	**908.2**
Distribution paid to linked debenture holders	(163.4)	(345.0)	(426.0)	(711.4)	(673.6)
Retained cash flow	**64.4**	**8.1**	**78.4**	**(60.6)**	**234.5**
Net expansionary capex	(1,726.2)	(1,033.5)	(1,671.4)	(6,503.7)	(497.9)
Investments and other	0.0	(235.5)	(197.7)	(71.2)	(831.9)
Proceeds on sale of assets/investments	240.6	51.4	11.5	166.8	350.9
Shares issued	1,496.4	594.0	456.7	2,717.8	256.0
Cash movement: (increase)/decrease	(394.2)	40.4	297.3	7.5	(105.9)
Borrowings: increase/(decrease)	319.1	575.0	1,025.1	3,743.4	594.3
Net increase/(decrease) in debt	**(75.1)**	**615.4**	**1,322.4**	**3,751.0**	**488.3**
Balance sheet					
Ordinary shareholders interest	3.2	5,112.6	6,615.8	11,097.1	12,167.9
Linked debentures (capital)	3,940.0	0.0	0.0	0.0	0.0
Total shareholders' interest	**3,943.2**	**5,112.6**	**6,615.8**	**11,097.1**	**12,167.9**
Short term debt	0.0	80.0	334.0	699.1	759.4
Long term debt	450.0	944.9	1,718.1	5,093.5	5,630.9
Total interest-bearing debt	**450.0**	**1,024.9**	**2,052.1**	**5,792.6**	**6,390.3**
Linked debenture interest payable	0.0	0.0	0.0	0.0	0.0
Interest-free liabilities	246.2	415.8	166.6	356.0	526.5
Total liabilities	**4,639.3**	**6,553.3**	**8,834.5**	**17,245.8**	**19,084.7**
Straight line rental accrual and other	71.9	120.4	240.3	371.6	429.7
Properties	**4,115.1**	**5,708.1**	**7,964.2**	**16,130.0**	**16,946.8**
Indirect investments	0.0	288.7	502.1	531.8	1,391.6
Loans and advances	0.0	0.0	0.0	0.0	0.0
Cash and cash equivalent	398.7	358.3	61.0	53.5	159.4
Other current assets	53.6	77.8	67.0	159.0	157.3
Total assets	**4,639.3**	**6,553.3**	**8,834.5**	**17,245.8**	**19,084.7**
Ratios					
Cash flow:					
Operating cash flow : total debt (%)	50.6	34.5	24.6	11.2	14.2
Profitability:					
Rental income growth (%)	56.6	57.2	39.3	51.9	50.3
Net property income : revenues (%)	72.4	76.0	71.5	77.4	79.0
Net cost : income (%)	18.0	17.4	16.6	16.1	15.2
Operating income : revenues (%)	75.7	77.9	82.0	83.6	83.1
Return on assets (%)	9.3	8.6	9.6	7.8	8.3
Coverage:					
Operating income : gross interest (x)	7.5	9.1	6.3	4.0	3.0
Operating income : net interest (x)	21.0	11.6	6.9	4.1	3.1
Operating income : net interest incl. charge on derivatives (x)	21.0	9.7	5.6	3.7	2.9
Activity and liquidity:					
Trading assets turnover (x)	10.1	6.7	9.3	9.8	14.3
Days receivable outstanding (days)	72.4	46.0	36.4	37.4	25.5
Current ratio (:1)	0.7	0.2	0.5	0.5	0.4
Capitalisation:					
Total debt : equity (%)	11.4	20.0	31.0	52.2	52.5
Net debt : equity (%)	1.3	13.0	30.1	51.7	51.2
Total debt : operating income (%)	179.4	252.7	344.7	628.2	463.7
Net debt : operating income (%)	20.4	164.4	334.4	622.4	452.2
Loan to value					
Total debt : properties (%)	10.9	18.0	25.8	35.9	37.7
Net debt : properties (%)	1.2	11.7	25.0	35.6	36.8
Total debt : properties & investments (%)	10.9	17.1	24.2	34.8	34.8
Net debt : properties & investments (%)	1.2	11.1	23.5	34.4	34.0

Note: Ratios based on rental revenue, op. income 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.

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

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 Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Commercial Paper	Commercial paper is a negotiable instrument with a maturity of less than one year.
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.
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.
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.
Diversification	Spreading risk by constructing a portfolio that contains different investments, whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Dividend	The portion of a company's after-tax earnings that is distributed to shareholders.
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.
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.
Hedge	A form of insurance against financial loss or other adverse circumstances.
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 Swap	An interest rate swap is an agreement in which two parties make interest payments to each other for a set period based upon a notional principal.
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.
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.
Long-Term Rating	A long term rating reflects an issuer’s ability to meet its financial obligations over the following three to five year period, including interest payments and debt redemptions. This encompasses an evaluation of the organisation’s current financial position, as well as how the position may change in the future with regard to meeting longer term financial obligations.
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.
Operating Margin	Operating margin is operating profit expressed as a percentage of a company's sales over a given period.
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.
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.
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.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
Short-Term Rating	A short term rating is an opinion of an issuer’s ability to meet all financial obligations over the upcoming 12 month period, including interest payments and debt redemptions.
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.
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.

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.

Investec Property Fund Limited participated in the rating process via face-to-face management meetings, teleconferences and other 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;

- 2017 audited financial statements (plus four years of comparative audited numbers);
- Investor presentations,
- A breakdown of facilities available and related counterparties, and
- Other non-public information

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.