Life \ Pensions \ **Investments**

Quarterly Report
Q4 2021
Pension Irish Property Fund

Helping people build better futures

FUND CHARACTERISTICS

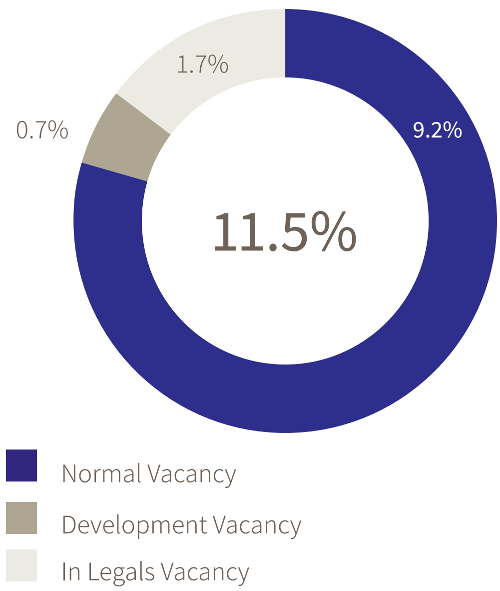
AT A GLANCE ▼

NAV	GAV	NO. OF ASSETS	GRESB ★★★★ 2021
€1.5bn	€1.8bn	72	

FLOOR AREA (SQ FT)	PASSING RENT PA	MARKET RENT PA	WAULT
3.5m	€86.1m	€93.5m	6.6 yrs

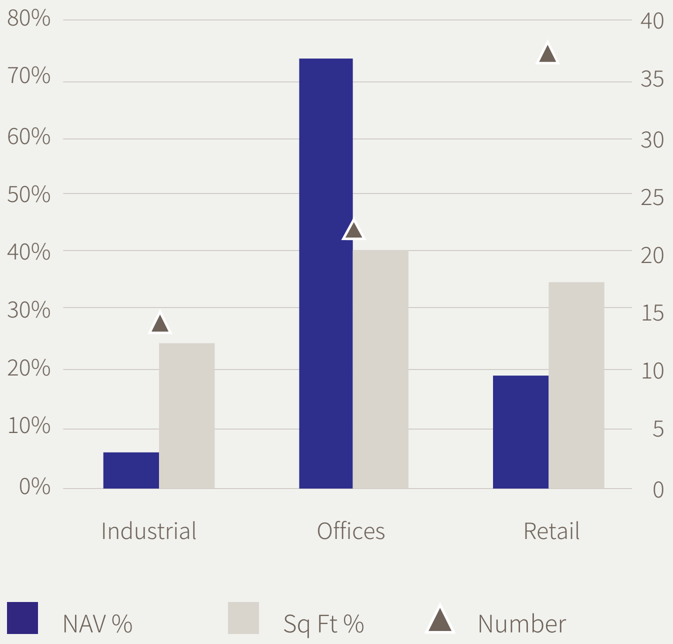
YIELD PROFILE ▼

VACANCY ▼



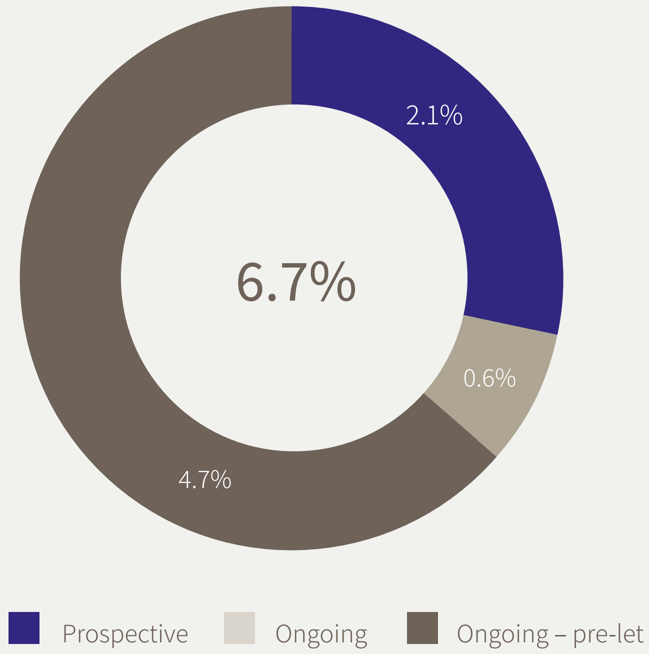
PERFORMANCE

SECTOR

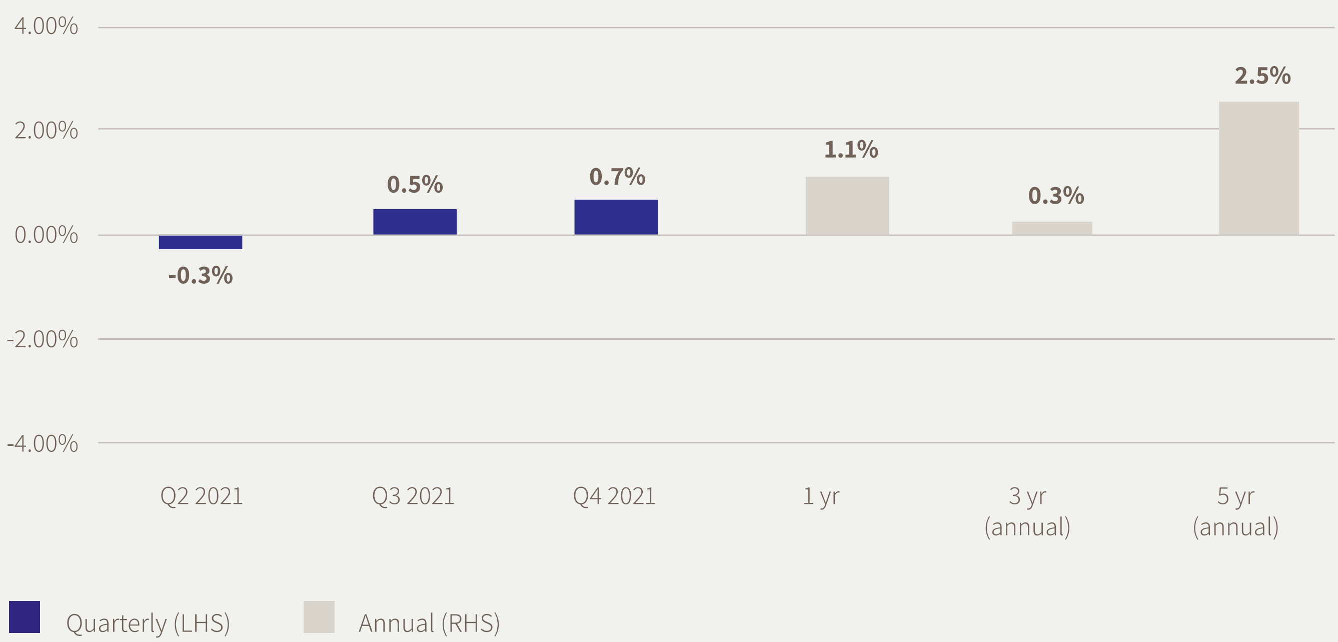


DEVELOPMENT OF ASSETS

as % of NAV



FUND PRICE PERFORMANCE

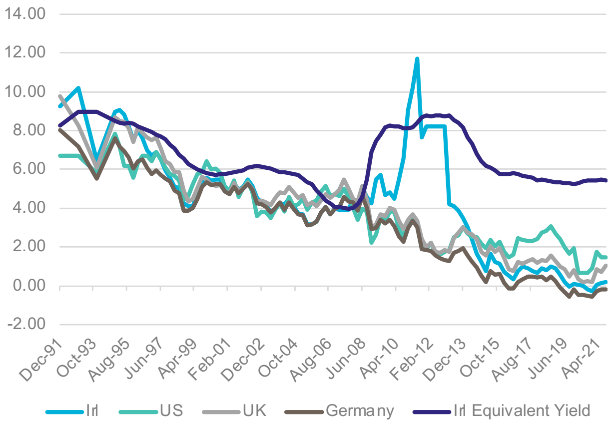


MARKET COMMENTARY

Despite the continued disruption and, indeed, uncertainty posed by the Covid-19 pandemic, inward investment into Irish property remained relatively high during 2021. Including forward purchases, €5.5 billion of turnover was recorded during the year; this makes 2021 the second highest year of trade on record. Several factors underpin this appetite, which is a global trend. However, Ireland's relative economic performance and higher-than-average property returns persist and help maintain an active market.

The 5.2% all-property equivalent yield spread over bonds for Irish property in September 2021 compares to a long-term average of 2.2% (vs. Irl 10-year).

Irish Property Yield Spreads



Source: ILIM

The 2021 Institutional Real Estate Allocations Monitor by Hodes Weill and Cornell University – a survey of 224 investors in 37 countries, holding a combined AUM of $13.4 trillion and a real estate exposure of $1.2 trillion – found that target allocations to the sector increased by 10 basis points (bps) year-on-year to 10.7%. The survey expects this to increase to 11.0% in 2022. The survey also showed that sentiment towards real estate increased to a nine-year high and that investors are seeking out opportunities in a broader pool of sectors and countries.

Ireland continues to attract a high proportion of overseas investors. German investors were responsible for 22% / €700 million of investment spend during the first three quarters of 2021, while other European investors accounted for a further 26%.

An analysis of the sectoral split of this investment indicates that, although the overall picture remains consistent, the underlying demand for different parts of the property market is fluid. The recent emergence of the Private Rented Sector (residential) in Ireland has bolstered institutional investment into property and maintained high levels of overall demand in the face of weakening appetite for retail. We have also seen a notable increase in spend on industrial/logistics assets in recent years.

Residential accounted for 39% of investment spend during 2021, offices accounted for 30%, and industrial property investment exceeded €1 billion for the first time; this accounted for 18% of trade. The largest industrial transaction was the disposal of the former Core Industrial REIT portfolio, which was acquired by Palm Capital.

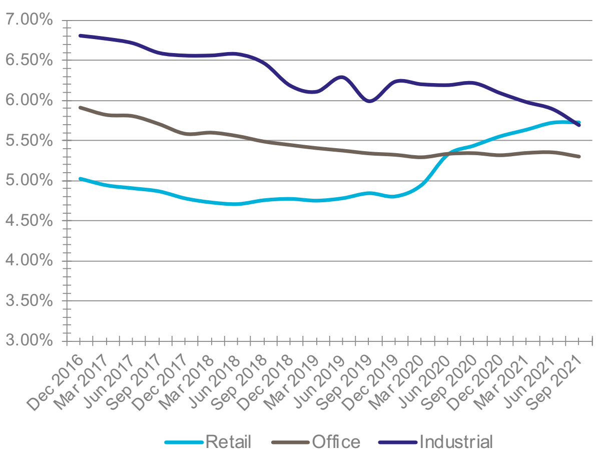
Through a number of unsuccessful sales campaigns, a marked reduction in demand for older office buildings was evident in 2020. However, investors returned to this sub-sector in 2021 and closed on several properties, such as Block 1 Ballsbridge Park (sold for €32 million in the third quarter), 76-78 Harcourt St (acquired by Sofidy for €21.2 million), and Blocks A & B Parkgate Business Centre (€24.3 million).

Demand increased for prime, modern offices – particularly those leased for longer terms to secure tenants – and yield compression pushed yields for the best assets below 4%.

Retail property attracted the attention of investors seeking higher returns in 2021, and some significant retail parks changed hands during the year. Manor West Retail Park, Tralee was reportedly acquired by Marlet for €50 million, delivering an income return of close to 9%, and The Parks Portfolio (Belgard, M1, and Poppyfield Retail Parks) was reportedly sold by Marathon for €78 million, which represents an income return in excess of 8%.

This demand dynamic has impacted underlying asset values, with retail and industrial moving in very opposite directions following the onset of the pandemic in 2020.

MSCI Sectoral Equivalent Yields 5 years to Q3 2021



Source: ILIM

MARKET COMMENTARY (CONTINUED)

Understandably, the occupational market for office property is lagging previous years. Employers dialed back their expansion plans as they get to grips with the hybrid working model of the future. The longer term impact on occupation demand remains unknown. Take-up during quarter one was the lowest on record. However, this improved quarter-on-quarter during the year and culminated in over 1 million square feet leased in the fourth quarter, which gives a total of approximately 1.7 million square feet leased for the year across 155 buildings. This is closely aligned to performance during 2020 and is the lowest annual take-up of office space since 2012, representing a reduction of approximately 30% on the annual average since then.

Despite this, a number of positive themes are playing out in the sector, including the type of occupiers that are taking space. The technology industry continues to expand and accounted for 34% of the 2021 total. This is positive as it was achieved in the face of international tax changes, which will see them paying a higher rate of tax on profits earned through Irish-based vehicles. The professional services sector leased the largest proportion of space during the year (37%) and was just ahead of technology (34%).

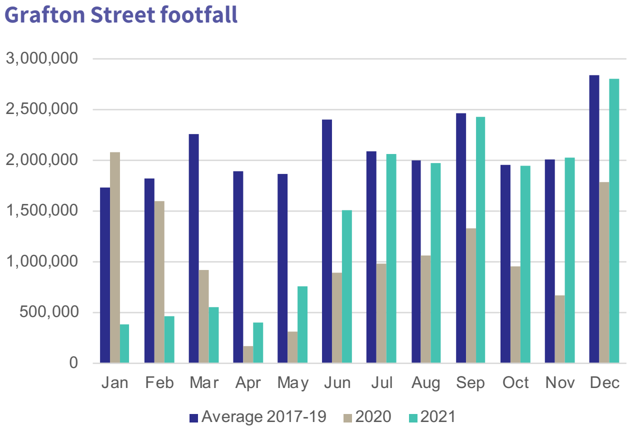
Rental values for modern office space have maintained close to the pre-pandemic peak and range from €50-€60 per square foot. Meanwhile, older offices are beginning to see discounts as occupiers seek out higher quality buildings for their staff and to bolster their own environmental credentials into the future. To help counter the disruptions caused by the pandemic in respect of return to work and fit-out timelines, we are seeing enhanced rent-free packages being agreed.

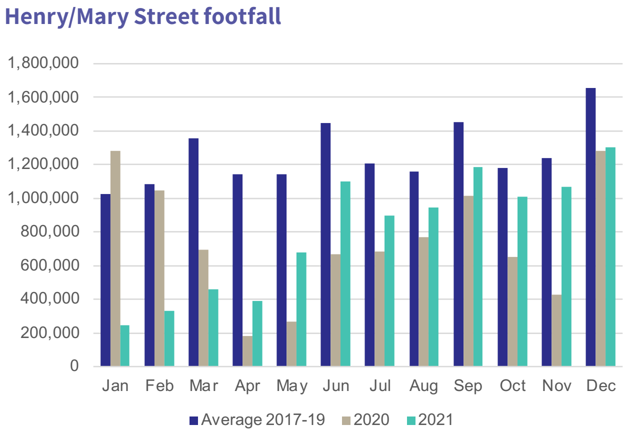
The industrial/logistics sector reaped bumper returns over 2021, which aligned with wider European trends. An assortment of ingredients is contributing to the Irish market's good fortune at present, including an undersupply of existing stock following a prolonged period of inactivity, increased demand from online retail operations and data centre operators, continued demand from the life sciences sector, and BREXIT-related relocations.

Take-up for the year exceeded 2.8 million square feet across 154 deals, the majority of which was through leasing. This is slightly lower than the annual average since 2016. However, agents report that this is a factor of supply rather than demand. Rental growth was experienced across all sub-sectors of the industrial landscape during the year, including for older stock with poor specification, such is the mismatch of supply and demand. Prime rents now command in excess €10 per square foot, with a number of leases agreed at a 20-30% premium to this for built-to-suit facilities.

The fortunes of bricks and mortar retail have ebbed and flowed in tandem with the progress of the pandemic, which continued to impact during 2021 through lockdowns, reduced tourism levels, and widescale working from home. In addition, a significant volume of trade has been diverted from city centre outlets to well-located suburban schemes and the internet.

A limited amount of new leasing activity has taken place since 2020, providing scant evidence for valuers to rely on. However, based on deals that have transacted, rental values are estimated to have fallen by approximately 30% on the high street. Suburban schemes are holding up far better, with little or no impact on rents offered on new leases. Footfall trends in Dublin city centre demonstrate the extent of the decline in activity there. However, the general trend is positive, particularly for Grafton Street where the latter half of 2022 was on par with pre-pandemic levels.





Source: Dublin Town

FUND ACTIVITY

Cadenza Office Development

Cadenza is a new office development located in Earlsfort Terrace, Dublin 2. When completed later in 2022, the building will form a grade A office of approx. 113,000 square foot. A lease has been entered into with Intercom.

Progress continued during the fourth quarter. Significantly, the structural frame was completed, and the entire mass of the new building has been established. A large proportion of the glazing was also installed, as well as brackets fitted to accommodate the stone veil that will frame the façade. Mechanical and electrical contractors are on site and are progressing with first and second fixes to various elements, including the elevators and a car lift to the basement car park.

2 George's Dock, IFSC

2 George's Dock is an office building of 43,500 square foot located in the IFSC. It is strategically positioned within Ireland's prime financial district and benefits from excellent transport links and a variety of local amenities for staff.

During the fourth quarter, the Fund entered into a new lease with Arista for approximately 17,000 square foot across the third and fourth floors. This lease will contribute €740,000 per annum to the Fund's rental income.

In addition, a new lease was contracted with Fisher Investments for the first floor of 9,100 square foot, where they will pay a rent in excess of €500,000 per annum.

Units 1-3 Burton Hall Road, Sandyford

A review of existing rents on this property was agreed during quarter four. High activity in the industrial market, which has resulted in significant rental growth in recent years, contributed to an increase in rent of 21% to €315,780 per annum from July 2020. This rent will be payable until the next scheduled review in 2025.

The Fund holds two properties on Burton Hall Road, known as Phase 1 & 2, located close to the southern boundary of Sandyford Business Park. Each unit extends to approximately 33,000 square foot.

Limerick ONE Shopping Park

LIMERICK ONE SHOPPING PARK - CHILDERS ROAD -

Limerick One is the principal retail destination in Limerick and provides over 200,000 square feet of retail space that is anchored by Dunnes Stores and The Range. The scheme benefits from 'open-use' planning permission with a mix of bulky goods and standard retail offerings, as well as food and beverage outlets.

The 2020 rent review with Boots was determined by arbitration during the fourth quarter at €175,000 per annum. This represents a 21% increase on the previous rent, which dated from 2015.

The Fund submitted a planning application during the quarter to construct a new restaurant unit on the park.

ENVIRONMENT, SOCIAL AND CORPORATE GOVERNANCE

ILIM Property is defining a Net Zero Pathway which will provide a framework for the reduction of greenhouse gas emissions, energy use, energy intensity targets, renewable energy use, and the use of circular economy principles in new developments. The Net Zero Pathway is ongoing.

Across the real estate Funds, ILIM reviews key environmental impacts on a quarterly basis, including:

> **Energy Consumption:** reducing like for like energy use where ILIM is directly responsible by 15% by December 2024 (based on a 2019 baseline);

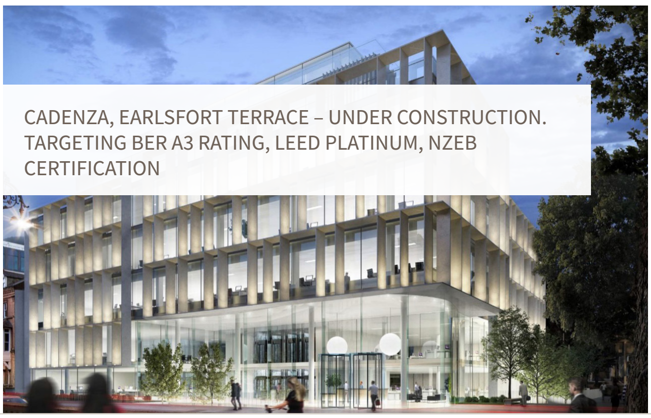
> **Renewable Energy:** procuring 100% of electricity from renewable sources, where economically or operationally feasible;

> **Greenhouse Gas Emissions:** reduce like for like Scope 1 and 2 emissions by 25% by December 2024 (based on a 2019 baseline), and define and measure Scope 3 emissions in line with best practice by December 2024;

> **Water use:** reduce like for like water usage by 10% by December 2023 (based on a 2019 baseline); and

> **Production of Waste:** divert 100% of waste from landfill.

1 GEORGE'S QUAY, DUBLIN 2 – REDEVELOPED IN 2017. BER A3 RATED, LEED PLATINUM



CADENZA, EARLSFORT TERRACE – UNDER CONSTRUCTION. TARGETING BER A3 RATING, LEED PLATINUM, NZEB CERTIFICATION

As a responsible investor, ILIM adopts an active ownership approach across its real estate assets, which aims to maximise the medium to long-term value for its clients. ILIM uses its ownership to constructively engage with property managers, encouraging better standards and management processes covering financially material ESG risks.

At asset level, ILIM has developed an Environmental Management System (EMS) to manage sustainability impacts, risk, and opportunities across its real estate portfolios. The EMS also aims to improve resilience and performance in ILIM's portfolios and assets. The EMS was established to deliver commitments set out in the ILIM ESG policy and covers all aspects of the direct real estate investment management life cycle for all real estate operations.

The Pension Fund has continued to improve and deliver on ESG and has been awarded 4 Stars in the 2021 GRESB Real Estate Assessment for both its standing stock and developments with a score of 85 for standing stock. In defining a net zero pathway for the reduction of greenhouse emissions, a particular focus has been placed on data collection over the past 12 months. Analysing this data provides the Fund with a transparent, science-based decarbonisation pathway to identify and measure greenhouse gas (GHG) reduction targets aligned with the Paris Agreement. This has involved working closely with occupiers to share operational GHG emissions and develop practical solutions to achieve reductions. ILIM is also working to understand the footprint of embodied carbon in its developments and targeting net zero for these projects.

GRESB 2021

During the third quarter, ILIM Property undertook a materiality assessment covering key areas including environmental, social, and economic issues. A broad range of Internal and external stakeholders, including investors, were contacted to gain a better understanding of the key issues to their business and what steps ILIM Property should be making to enhance ESG performance. The materiality assessment recognised that ESG targets are becoming critical to investment value as potential EU legislation will mean more stringent measures being imposed on the built environment.

The Fund is classified as an 'Article 8 Fund' under the Sustainable Finance Disclosure Regulation (SFDR).

This document is intended as a general review of investment market conditions. It does not constitute investment advice and has not been prepared based on the financial needs or objectives of any particular person, and does not take account of the specific needs or circumstances of any person.

The author cannot make a personal recommendation for any person and you should seek personal investment advice as to the suitability of any investment decision or strategy to your own needs and circumstances. Any comments on specific stocks are intended as an objective, independent view in relation to that stock generally, and not in relation to its suitability to any specific person.

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