Custodian REIT PLC

23 June 2020

Custodian REIT plc

(“Custodian REIT” or “the Company”)

Final Results

Custodian REIT (LSE: CREI), the UK commercial real estate investment company, today reports its final results for the year ended 31 March 2020.

Financial highlights and performance summary

- Significant impact of the COVID-19 pandemic, with a £12.5m (2.2% of property portfolio) valuation decrease in the final quarter of the year and 70% of rent collected relating to the quarter ending 30 June 2020[1,*] both largely attributable to the pandemic
- NAV total return per share[2,*] of 1.1% (2019: 5.9%) comprising 6.2% dividends (2019: 6.1%) and a 5.1% capital decrease (2019: 0.2% capital decrease)
- EPRA[3] earnings per share[4,*] of 7.0p (2019: 7.3p)
- Basic and diluted earnings per share[5] of 0.5p (2019: 6.0p)
- Profit before tax down 91% to £2.1m (2019: £23.6m) primarily due to a £25.8m aggregate property valuation decrease[6]
- £25.3m[7] of new equity raised at average premium of 11% to dividend adjusted NAV*
- Target dividends per share* for the first half of the year ending 31 March 2021 of no less than an aggregate 1.5p (2020: 3.325p)
- Property value of £559.8m (2019: £572.7m) subject to a ‘material uncertainty’ clause in line with prevailing RICS guidance:
  - £25.8m aggregate valuation decrease (4.7% of property portfolio value) comprising a £6.1m property valuation uplift from successful asset management initiatives and £31.9m of valuation decreases, primarily due to decreases in the estimated rental value (“ERV”) of high street retail properties, negative market sentiment for retail assets and the impact of the COVID-19 pandemic

1 Rent receipts relating to 25 March to 24 June 2020 English rent quarter invoicing, April-June 2020 monthly invoicing and a pro-rata allocation of the 28 February – 28 August 2020 Scottish quarterly invoicing.

2 Net Asset Value (“NAV”) movement including dividends paid and approved for the year on shares in issue at 31 March 2019.

3 The European Public Real Estate Association (“EPRA”).

4 Profit after tax excluding net gains or losses on investment property and one-off costs divided by weighted average number of shares in issue.

5 Profit after tax divided by weighted average number of shares in issue.

6 Comprising £6.1m of valuation uplift from successful asset management initiatives less £31.9m of other valuation decreases and £0.6m of acquisition costs.

7 Before costs and expenses of £0.3m.

- Disposal of two properties at valuation[8] for aggregate headline consideration of £15.7m[9]
- £24.6m[10] invested in eight property acquisitions
- £2.8m capital expenditure incurred primarily on three significant refurbishments

	2020	*2019*	*change*
Return			
NAV per share total return*	1.1%	5.9%	(4.8%)
Share price total return[11,*]	(5.0%)	4.2%	(9.2%)
Dividend cover[12,*]	104.4%	110.4%	(6.0%)
Dividends per share[13] (p)	6.65	6.55	1.5%
Capital values			
NAV (£m)	426.7	426.6	0.0%
NAV per share* (p)	101.6	107.1	(5.1%)
Share price* (p)	99.0	111.2	(11.0%)
Property portfolio value (£m)	559.8	572.7	(2.3%)
Market capitalisation* (£m)	415.9	442.8	(6.1%)
(Discount)/premium of share price to NAV per share*	(2.6%)	3.8%	(6.4%)
Net gearing[14,*]	22.4%	24.1%	(1.7%)
Costs			
Ongoing charges ratio[15,*] ("OCR")	1.55%	1.53%	0.2%
OCR excluding direct property expenses[16,*]	1.12%	1.12%	0.0%
*EPRA performance measures**			
EPRA EPS (p)	7.0	7.3	(4.1%)
EPRA NAV per share (p)	101.6	107.1	(5.1%)
EPRA net initial yield ("NIY")	6.2%	6.2%	0.0%
EPRA 'topped up' NIY	6.6%	6.4%	0.2%
EPRA vacancy rate	4.1%	4.1%	0.0%
EPRA cost ratio (including direct vacancy costs)	16.6%	16.1%	0.5%
EPRA cost ratio (excluding direct vacancy costs)	14.5%	14.5%	0.0%
EPRA capital expenditure (£m)	2.80	2.53	10.7%
EPRA like-for-like rental growth (£m)	40.0	39.1	2.3%

**Alternative performance measures*

8 Before disposal costs of £0.2m.

9 Before rental top-ups and cost guarantees of c. £0.3m.

10 Before acquisition costs of £0.6m.

11 Share price movement including dividends paid and approved for the year.

12 Profit after tax, excluding net gains or losses on investment property and one-off costs, divided by dividends paid and approved for the year.

13 Dividends paid and approved for the year.

14 Gross borrowings less cash (excluding rent deposits), divided by property portfolio value.

15 Expenses (excluding operating expenses of rental property recharged to tenants) divided by average quarterly NAV.

16 Expenses (excluding operating expenses of rental property) divided by average quarterly NAV.

The Company reports the following alternative performance measures ("APMs") to assist stakeholders in assessing performance alongside the Company's results on a statutory basis: quarterly rent collection, NAV per share total return, new equity raised, target dividend per share, share price total return, dividend cover, NAV per share, share price, market capitalisation, discount/premium to NAV per share, net gearing, ongoing charges ratios and EPRA Best Practice Recommendations. APMs are among the key performance indicators used by the Board to assess the Company's performance and are used by research analysts covering the Company. EPRA Best Practice Recommendations have been disclosed to facilitate comparison with the Company's peers through consistent reporting of key real estate specific performance measures. Certain other APMs may not be directly comparable with other companies' adjusted measures, and APMs are not intended to be a substitute for, or superior to, any IFRS measures of performance. Supporting calculations for APMs and reconciliations between APMs and their IFRS equivalents are set out in Note 21.

Commenting on the final results, David Hunter, Chairman of Custodian REIT, said:

"Until the outbreak of the COVID-19 pandemic, Custodian REIT had delivered on its objectives for the financial year, despite a struggling retail sector which contributed the majority of the property valuation decreases in the first three quarters of the financial year. However, the COVID-19 pandemic is taking effect, leading to a £12.5m property valuation decrease in the final quarter of the financial year, giving a total fall for the year of £25.8m after asset management gains of £6.1m.

"The recent turmoil in markets has emphasised the importance of having a well-diversified, income focused property portfolio. In the year ended 31 March 2020 Custodian REIT delivered a NAV per share total return of 1.1% (2019: 5.9%) with dividends of 6.65p per share supporting a positive NAV total return despite the impact of the COVID-19 pandemic on valuations in the final quarter.

"The outlook for real estate investment is likely to become clearer and potentially more positive as lockdown eases and most sectors of the economy have the opportunity to re-open. Real estate is likely to remain a key asset for investors looking for income and as rent collection stabilises and deferred rents are recovered, the ability to pay dividends at more meaningful levels will return.

"Property yields are currently showing a circa 6% margin over UK 10 year gilts, which is the widest margin on record. In expectation of continued low gilt rates this margin is likely to support real estate pricing despite a recent decline in capital values. The combination of resilient capital values and an anticipated return to relatively high dividends should lend support to Custodian REIT's objective to be the REIT of choice for private and institutional investors seeking high and stable dividends from well-diversified UK real estate."

Further information

Further information regarding the Company can be found at the Company's website www.custodianreit.com or please contact:

Custodian Capital Limited
Richard Shepherd-Cross / Ed Moore / Ian Mattioli MBE
Tel: +44 (0)116 240 8740
www.custodiancapital.com

Numis Securities Limited
Hugh Jonathan / Nathan Brown
Tel: +44 (0)20 7260 1000
www.numiscorp.com

Camarco
Hazel Stevenson/ Emily Hall
Tel: +44 (0)20 3757 4989
www.camarco.co.uk

Analyst presentation

There will be an analyst presentation to discuss the results at 9.30am today.

Those analysts wishing to take part are asked to register at:

https://numiscorp.zoom.us/webinar/register/WN_ybM1V6rvRvijt5Rdmz1Z7Q

After registering, you will receive a confirmation email containing information about joining the webinar.

If you have any questions please contact Justin Bell on +44 (0) 20 7260 1380 or at j.bell@numis.com.

Chairman's statement

Until the outbreak of the COVID-19 pandemic, Custodian REIT had delivered on its objectives for the financial year, despite a struggling retail sector which contributed the majority of £13.3m of property valuation decreases for the first three quarters of the financial year. However, the COVID-19 pandemic is taking effect, leading to a £12.5m property valuation decrease in the final quarter of the financial year, giving a total fall for the year of £25.8m after asset management gains of £6.1m.

The health and safety of colleagues, tenants and our wider stakeholders remains the Company's top priority. Our current operational focus is on managing liquidity to mitigate the risks associated with the uncertainty created by the global health emergency, working with our tenants to optimise rental income and maintaining a level of distributions to investors broadly linked to net rental receipts.

These have been testing times which have necessitated an exceptional effort from the Investment Manager, both in pursuing rents and in operating remotely as a team, and I would like to acknowledge the positive tangible results of that. I should also thank my fellow Board members who have been flexible and supportive during a period which has required numerous formal and informal additional Board meetings.

During the year £25.3m was raised from the issue of new shares and £15.7m[17] was raised from property disposals. These sums funded property acquisitions and capital expenditure of £27.4m, primarily the £24.6m acquisition of eight distribution units ("the Menzies Portfolio") through a sale and leaseback to Menzies Distribution Limited. This transaction was effected by a corporate acquisition which reduced purchase costs such that the agreed price of £24.6m reflected a net initial yield[18] ("NIY") of 6.4%, supporting our objective to deliver strong income returns from a property portfolio principally of smaller lots in strong, regional markets.

Financial and operational resilience

The Company remains in a strong financial position to address the extraordinary circumstances imposed by COVID-19, having:

- A diverse and high-quality asset and tenant base comprising 161 assets valued at £559.8m, with over 200 typically 'institutional grade' tenants across all commercial sectors with an occupancy rate[19] of more than 95%;
- Low levels of net debt, with £25m of cash and gross borrowings of £150m at 31 March 2020 resulting in low net gearing, with no short-term refinancing risk and a weighted average debt facility maturity of seven years;

17 Before rental top-ups, cost guarantees and disposal costs of £0.5m

18 Passing rent divided by property valuation plus purchaser's costs.

19 Passing rent of let property divided by passing rent of let property plus estimated rental value of vacant property.

- Significant headroom on lender covenants at 31 March 2020, with the maximum 35% loan to value ("LTV") and minimum 250% interest cover[20] covenants comparing to net gearing of 22.4% LTV and aggregate three-month interest cover on borrowings of more than 600% for the three months ended 31 March 2020. With further reductions in rent collections expected in the first quarter of the new financial year we have put pre-emptive interest cover covenant waivers in place for at least the June 2020 and September 2020 quarter-ends with all our lenders, recognising that covenants on individual facilities may come under some short-term pressure; and
- An annual contractual rent roll of £40.7m, with interest costs on drawn loan facilities of only c.£4.7m per annum.

Borrowings

The Company operates four loan facilities, each of which has a discrete allocation of the Company's individual properties over which the relevant lender has security. Each loan has covenants over the LTV and interest cover related to each discrete security pool. In the expectation that interest cover covenants on some individual loans at 30 June 2020 may come under short-term pressure, the Company has agreed waivers of certain covenants for the next two quarters in return for depositing cash amounts equivalent to the interest payable for that period into charged accounts.

LTV covenants are not currently a concern. The Company has approximately £184.8m (33% of the property portfolio) of unencumbered assets which could be charged to the security pools to enhance the LTV on individual loans to cure any potential covenant breaches.

The weighted average cost of the Company's agreed debt facilities at 31 March 2020 was 3.0% (2019: 3.2%) with a Weighted Average Maturity ("WAM") of 7.8 years (2019: 7.9 years) and 77% (2019: 84%) of the Company's drawn debt facilities are now at fixed rates. This high proportion of fixed rate debt significantly mitigates long-term interest rate risk for the Company and provides shareholders with a beneficial margin between the fixed cost of debt and income returns from the property portfolio.

Returns

The recent turmoil in markets has emphasised the importance of having a well-diversified, income focused property portfolio.

In the year ended 31 March 2020 Custodian REIT delivered a NAV per share total return of 1.1% (2019: 5.9%) with dividends of 6.65p per share supporting a positive, if low, NAV total return despite the negative valuation impact of the COVID-19 pandemic in the final quarter.

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20 Historical rental income received and projected contractual rental income receivable less certain property expenses divided by interest and fees payable to its lenders.

The Company paid one of the highest fully covered dividends amongst its peer group of listed property investment companies[21] for the year ended 31 March 2020, while minimising 'cash drag' on the issue of new shares by taking advantage of the flexibility offered by the Company's revolving credit facility ("RCF"). During the year the Company increased the total funds available under the RCF to £50m, agreeing a new three year term and a reduction in margin above three month LIBOR from 2.45% to between 1.5% and 1.8%, determined by reference to the prevailing LTV ratio of a discrete security pool. The revised facility has reduced finance costs and will provide additional capacity to exploit acquisition opportunities whilst maintaining the flexibility to minimise cash drag from equity issuance once markets stabilise.

In common with our peers and many commercial property landlords, we are experiencing an inevitable disruption to cash collection in the quarter ending 30 June 2020 as a number of tenants seek to defer rental payments to protect their own cash flows due to the effect of the COVID-19 pandemic on their business. Acknowledging the importance of income for shareholders, the Company intends to pay the next two quarterly dividends at a minimum of 0.75p per share regardless of rent collection rates, with support from prior years' undistributed reserves if required. Should rent collections in the June and September quarters allow, more generous dividends may be possible. Over the course of the financial year, as deferred rents are collected, the Board hopes it will be possible to restore the dividend to a sustainable long-term level akin to previous years.

The Company's relatively stable share price performance in a volatile market during the first 11 months of the year ended 31 March 2020 allowed the Board to issue equity at an average premium of 11% above dividend adjusted NAV, more than covering the costs of issue and deployment.

Net asset value

The NAV of the Company at 31 March 2020 was £426.7m, approximately 101.6p per share, a decrease of 5.5p (5.1%) since 31 March 2019:

	Pence per share	£m
NAV at 31 March 2019	107.1	426.6
Issue of equity in the year (net of costs)	0.4	25.0
	107.5	451.6
Valuation movements relating to:		
- Asset management activity	1.5	6.1
- Other valuation movements	(7.7)	(31.9)
Valuation decrease before acquisition costs	(6.2)	(25.8)
Impact of acquisition costs	(0.1)	(0.6)
Valuation decrease including acquisition costs	(6.3)	(26.4)
Loss on disposal of investment property	-	(0.1)
Net valuation movement	(6.3)	(26.5)
Revenue	9.7	40.9

21 Source: Numis Securities Limited.

Expenses and net finance costs	(2.9)	(12.3)
Dividends paid[22]	(6.4)	(27.0)
NAV at 31 March 2020	**101.6**	**426.7**

The net valuation decrease of £25.8m was primarily driven by high street retail, retail warehouse and 'other' sector valuations falling by £14.4m, £15.3m and £7.8m respectively, further detailed in the Investment Manager's report, due to:

- The impact of COVID-19, with the Company's valuers assuming a three-month rent deferral and overall increase in yield to all assets let to tenants which have ceased or significantly curtailed trading, in line with current RICS advice to valuers;
- A reduction in retail ERVs;
- A worsening of investment market sentiment towards retail; and
- Two Company Voluntary Arrangements ("CVAs") and two company Administrations impacting the valuation of assets in Shrewsbury, Grantham and Colchester.

However, the retail valuation declines were partially offset by industrial asset valuations increasing due to latent rental growth and continued investor demand, again demonstrating the benefit of a diversified property portfolio. Custodian REIT's investment strategy continues to be weighted towards regional industrial and logistics assets, which has stood the Company in good stead again this year, with valuation gains of £12.5m (5.6%) in this sector.

Since the year end the proposed CVAs of Travelodge, The Restaurant Group, Poundstretcher and JTF Wholesale have impacted the Company's assets in Portishead, Perth, Grantham, Evesham and Warrington, which if passed could reduce the Company's rent roll by c. 2.5%.

The market

During the first eleven months of the year ended 31 March 2020 Custodian REIT's shares traded consistently at a premium to NAV while much of the property sector had moved to a discount and since the start of the COVID-19 pandemic, the Company's shares have experienced lower volatility and traded at a lower discount to NAV than most in the sector. However, we believe the Company's shareholders share our view that NAV-related metrics alone are not sufficient to assess a property investment company's prospects. We believe that the Company's share price performance reflects investors' awareness of the merits of diversification of tenant, lease expiry profile, spread of asset type, net gearing level, debt profile, property location and the ability of the management team to generate future income from the assets.

22 Dividends totalling 6.625p per share (1.6375p relating to the prior year and 4.9875p relating to the year) were paid on shares in issue throughout the year. Dividends paid on shares in issue at the year end averaged 6.4p per share due to new shares being issued after the first ex-dividend date.

The Company enjoys the support of a wide range of shareholders with the majority classified as private client or discretionary wealth management investors. The Company's investment and dividend strategy is well suited to investors looking for a close proxy to direct real estate investment but in a managed and liquid structure. The structure of our shareholder base has, in turn, helped to reduce volatility as our shareholders are typically long-term holders looking for relatively stable income-driven returns.

As a long-term investment, any measure of performance from real estate should be considered over a period greater than 12 months. Over the last five years, shareholder have benefitted from positive share price total return, with lower volatility relative to the Company's peer group. This has been particularly noticeable at times of market stress, such as the impact of the EU referendum in June 2016 and more recently with the COVID-19 pandemic.

We believe a large part of the Company's positive absolute return and lower volatility is due to our unremitting focus on income, supporting the relatively high dividend.

Another key metric, alongside price and volatility, is liquidity of the stock and I am pleased to report that Custodian REIT recorded an average daily trading volume of over £0.5m throughout the last 12 months[23].

Investment Manager

Custodian Capital Limited ("the Investment Manager") is appointed under an investment management agreement ("IMA") to provide property management and administrative services to the Company. The performance of the Investment Manager is reviewed each year by the Management Engagement Committee ("MEC"). During the year the Investment Manager charged the Company £4.0m (2019: £4.0m) in respect of annual management, administrative and marketing fees. Further details of fees payable to the Investment Manager are set out in Note 18.

The Board is pleased with the performance of the Investment Manager, particularly the timely deployment of the proceeds from property disposals and new equity on high quality assets. The Board also welcomes the Investment Manager's continuing successful asset management which has contributed to both capital values and income.

The MEC has reviewed, in detail, the arrangements with the Investment Manager following expiry of the three year term of the current Investment Management Agreement ("IMA") on 31 May 2020. In light of the positive performance of the Company the Board and the Investment Manager have agreed a further three year term to the Investment Manager's ongoing engagement, from 1 June 2020, with fees payable to the Investment Manager under the IMA amended to include:

23 Source: Numis Securities Limited.

- A step down in the annual management fees[24] from 0.65% to 0.55% of NAV applied to NAV in excess of £750m; and
- A step down in the administrative fee from 0.05% to 0.03% of NAV applied to NAV in excess of £750m.

All other key terms of the IMA remain unchanged. The Board considers these amendments to the IMA to be in the best interests of the Company's shareholders because:

- Further growth in NAV, particularly above £500m, will further reduce the Company's OCR and increase dividend capacity; and
- Another three year term provides the Investment Manager with security of tenure and allows further investment in the dedicated systems and people providing its services under the IMA.

Dividends

Income is a major component of total return. The Company paid aggregate dividends of 6.625p per share during the year, comprising the fourth interim dividend of 1.6375p per share relating to the year ended 31 March 2019 and three interim dividends of 1.6625p per share relating to the year ended 31 March 2020.

The Company paid a fourth interim dividend of 1.6625p per share for the quarter ended 31 March 2020 on 29 May 2020 totalling £7.0m, meeting the Company's target of paying a total dividend relating to the year of 6.65p per share (2019: 6.55p), totalling £27.5m (2019: £25.8m). Dividends relating to the year ended 31 March 2020 were 104.4% covered by net recurring income of £28.7m, as calculated in Note 21.

Board expansion

Reflecting the growth of the Company since inception we were delighted to welcome Hazel Adam to the Board as our fifth Non-Executive Director on 12 December 2019. Hazel brings a range of experience including buy side and sell side investment experience, strategies and markets. These skills and experience complement those of the existing Directors and offer scope to add value for the benefit of the Company.

Environmental policy

The majority of the Company's investment properties are let on full repairing and insuring leases, meaning its day-to-day environmental responsibilities are limited because properties are controlled by their tenants. However, the Board adopts sustainable principles and actively seeks opportunities to make environmentally beneficial improvements to its property portfolio where possible. The Company recently engaged Carbon Intelligence, specialist environmental consultants, to review the Company's

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24 Annual management fees comprise property management services fees and investment management services fees.

environmental, social and governance ("ESG") policy, identify and prioritise opportunities for environmental improvements and recommend how best to manage risks. As a result we have committed to:

- Seek to minimise pollution and comply with all relevant environmental legislation;
- Gather and analyse data on our environmental performance across our property portfolio; and
- Set targets of environmental performance for our properties and monitor achievements as a commitment to continuous improvement.

The Company is reporting sustainability indicators for the first time using the EPRA sustainability best practice indicators, set out in the Sustainability disclosures section of the Annual Report, and in accordance with the Mandatory Greenhouse Gas ("GHG") Reporting Regulations, detailed in the Directors' report. The Company will also make its first Global Real Estate Sustainability Benchmark ("GRESB") submission in 2020, which is one of the most widely used sustainability benchmarks in the real estate sector. The Board expects the results of this submission to provide a valuable insight into the Company's current sustainability performance and identify areas for improvement in the next financial year.

Details of the Company's environmental policy are contained within the Business model and strategy section of the Strategic report.

Outlook

The outlook for real estate investment and more particularly for Custodian REIT is likely to become clearer and potentially more positive as lockdown eases and most sectors of the economy have the opportunity to re-open. At the time of writing the country is at the start of becoming 'unlocked'.

Real estate is likely to remain a key asset for investors looking for income and as rent collection stabilises and deferred rents are recovered, the ability to pay dividends at more meaningful levels will return.

Property yields are currently showing a circa 6% margin over UK 10 year gilts, which is the widest margin on record. In expectation of continued low gilt rates this margin is likely to support real estate pricing despite a recent decline in capital values.

The combination of resilient capital values and an anticipated return to relatively high dividends should lend support to Custodian REIT's objective to be the REIT of choice for private and institutional investors seeking high and stable dividends from well-diversified UK real estate.

David Hunter
Chairman
22 June 2020

Investment Manager's report

The UK property market

The financial year ended 31 March 2020 was dominated by two significant headwinds: retail malaise and political uncertainty. The fourth quarter started with increased confidence in commercial property investment following the General Election and reduced uncertainty around Brexit. Sadly, all talk of confidence has been eclipsed by the COVID-19 pandemic and the widespread impact on the UK and global economies.

Our response has been to prioritise protecting cash flow and to secure the balance sheet. As a result the Company withdrew from two regional office acquisitions on which terms had been agreed. In addition, to address the current difficulty of collecting rents in a timely manner, exacerbated by the statutory protections for commercial tenants introduced by the UK Government, the Company has put in place pre-emptive waivers on interest cover covenants for at least the June 2020 and September 2020 quarter-ends to provide the flexibility to collect rent in the most advantageous way for medium/long-term income security while supporting tenants and minimising vacancies.

It is too early to assess the long-term impact of COVID-19 on the commercial property market but we believe it may accelerate pre-existing trends in the use of, and investment in, commercial property. We expect to see a further deterioration in occupational demand and investment appetite for secondary retail, an increase in occupational demand for flexible office space (both traditional offices, fitted out and leased flexibly, as well as serviced offices) and a continuation of the growth of logistics and distribution.

The country has been in lockdown since the Company's financial year end and hence transactional activity has been much reduced. Many transactions have been renegotiated and in some cases pricing has reflected forced, or at least unwilling, sellers. While these transactions have led to a decline in valuations, the lockdown period does not represent a normal market.

Looking back across the year, we saw retailers resorting to CVAs to reduce their liability for rent and property related costs, at the expense of their landlords. While there has been gathering resistance from landlords, we expect further CVAs while they remain legitimate practice. The impact of the COVID-19 pandemic may lead to yet more CVAs if the Government's support package proves insufficient, particularly for retailers.

We believe that in core retail locations the key impact of the COVID-19 pandemic and CVAs will be to hasten a fall in rental values coupled with some inevitable vacancies. However, retailers are likely to want to retain a presence in prime destination locations where retail and leisure combine to create an attractive environment. Such an environment is most likely to be found in major regional city centres or tourist 'hot spots'.

Recent experience has demonstrated the importance of multi-channel retailing where those retailers with a more developed online presence and the associated infrastructure to deal with deliveries and returns have continued to trade. In more normal times, research shows that where retailers have a physical store, they are likely to see higher levels of online sales through a higher profile, click and collect or the ability of shoppers to make returns more conveniently. Online sales alone do not appear to be a panacea for retailers. There are significant costs associated with home delivery and returns, therefore retailers prefer click and collect. This puts location of the store into sharp focus for retailers who are likely to favour core destinations in the centre of large, affluent populations or the ease and convenience of an out of town retail park.

In the out of town retail market there is an important distinction to make between DIY, homewares and value retailers (such as B&M) and the fashion focused out of town parks. Fashion-focused parks have enjoyed rental growth for a number of years but the contraction in sales and the competition from online is now making many fashion-focused park rents potentially unaffordable. Meanwhile DIY, homewares and value retailers that see online sales as complementary to their stores pay much lower rents, which are likely to remain affordable, and in turn should support occupancy levels.

In key regional office markets rental growth potential has been a principal determinant of capital value growth. This growth has been a function of a number of variables: modest levels of speculative development limiting new supply; conversion of secondary offices to alternative uses reducing existing supply; high levels of employment and some decentralisation from London and the South East which has boosted demand. The jury is out on the future of offices, especially with the number of people now working from home, but we expect that offices will continue to be an important real estate investment asset.

Industrial and logistic assets have performed well during the year. While the focus of the market has been on large format logistics properties, where pricing is at its keenest, asset management across the smaller assets in the Custodian REIT portfolio has secured high levels of occupancy, rental growth and capital value growth. Accordingly, this sector was the focus of acquisitions for the Company during the year.

The competing pressures of declining sentiment towards retail and improving prospects for industrial and logistics set in an economic environment driven by Brexit, the General Election and more recently the COVID-19 pandemic has had a net negative impact on commercial property values.

Of more importance than the NAV derived from current valuations in the near-term is the absolute focus on rent collection, future cash flow, ongoing asset management and the affordability of future dividends which are all underpinned by the Company's low ongoing charges ratio (excluding direct property expenses) of 1.12% and low cost of debt of 3.0% (£4.7m interest per annum in aggregate).

Rent collection

As Investment Manager Custodian Capital invoices and collects rent directly allowing it to hold conversations promptly with most tenants regarding the payment of rent through the early stages of the COVID-19 pandemic. Some of these conversations have led to positive asset management outcomes, including the extension of leases in return for rent concessions, providing short-term cash flow relief for occupiers and longer-term income security for the Company. Importantly, at this stage, the Company has not waived or cancelled any contractual rent thus all contractual rent remains due over time.

The Company's rent invoicing profile comprises quarterly in advance (on both English and Scottish quarter days) and monthly in advance. Following negotiations regarding the April – June 2020 quarter rent, the Company has agreed that a number of tenants move from quarterly in advance to monthly in advance rent payments, or a deferral of the April – June 2020 quarter's rent with a full recovery over the next 12-18 months. Some tenants have yet to agree a payment profile but we remain in active discussions with these tenants to agree payment plans for the balance of outstanding rent.

Given the varied profile of the Company's rental invoicing, reporting quarterly rent receipts best reflects the prevailing level of income generation from the Company's property portfolio. To date, 70% of rent due relating to invoicing for the quarter ending 30 June 2020 has been collected, 12% has been deferred by agreement (and is therefore no longer due in the quarter) to be paid either monthly in arrears or to be recovered through a payment plan within existing lease terms over the next 12-18 months and 18% remains the subject of discussion with tenants.

Investment objective

The Company’s key objective is to provide shareholders with an attractive relative level of income by paying dividends fully covered by net rental receipts with a conservative level of net gearing. We are pleased to have continued to achieve these objectives with earnings providing 104.4% cover of the total dividend payable relating to the year of 6.65p per share and a net gearing ratio of 22.4% at the year end.

The Board remains committed to a strategy principally focused on regional properties with individual values of less than £10m at acquisition with a weighting towards regional industrial and logistics. Diversification of property type, tenant, location and lease expiry profile continues to be at the centre of the strategy together with maximising cash flow by taking a flexible approach to tenants’ requirements and retaining tenants wherever possible.

Property portfolio balance

The property portfolio is split between the main commercial property sectors in line with the Company’s objective to maintain a suitably balanced investment portfolio. The Company has a relatively low exposure to office and high street retail combined with a relatively high exposure to industrial and to

alternative sectors, often referred to as 'other' in property market analysis. The current sector weightings are:

Sector	Valuation 31 March 2020 £m	Weighting by income[25] 31 March 2020	Valuation 31 March 2019 £m	Weighting by income 31 March 2019	Valuation movement before acquisition costs £m	Valuation movement including acquisition costs £m	Weighting by value 31 March 2020	Weighting by value 31 March 2019
Industrial	257.3	40%	224.3	38%	12.5	12.0	46%	39%
Retail warehouse	109.7	22%	123.4	22%	(15.3)	(15.3)	20%	21%
Other[26]	87.4	17%	95.7	17%	(7.8)	(7.9)	16%	17%
High street retail	52.8	11%	68.6	12%	(14.4)	(14.4)	9%	12%
Office	52.6	10%	60.7	11%	(0.8)	(0.8)	9%	11%
Total	559.8	100%	572.7	100%	(25.8)	(26.4)	100%	100%

During the year we have experienced a net decline in the portfolio valuation that broadly reflects the market trends in the differing sectors. Industrial and logistics values have strengthened by 5.6% while office values have been broadly flat. Amongst its far-reaching impacts, the pandemic has deepened the challenges facing the retail sector causing further declines in retail values, although with a greater percentage decline in high street locations (-21.0%) compared to out of town retail warehousing (-12.4%). This lower decline for out of town is perhaps a reflection of the stock selection in the Custodian REIT portfolio where retail warehouse occupiers are predominantly value retailers and homewares/DIY, many of whom have remained open for trading during the COVID-19 pandemic lockdown, even if at restricted levels. Furthermore, the average rent across the retail warehouse portfolio is only £14.31 per sq ft which represents an affordable rent for most occupiers.

The 31 March 2020 valuation is reported on the basis of 'material valuation uncertainty' in accordance with the current RICS valuation standards. This basis does not invalidate the valuation but, in the current extraordinary circumstances, implies that less certainty can be attached to the valuation than otherwise would be the case. There is a body of market evidence to support the valuations in the usual way but, in addition, the valuers have reflected market sentiment in their reported numbers. From 12 June 2020, RICS approved removal of the 'material valuation uncertainty' clause for all industrial assets and standalone supermarkets.

Industrial and logistics property remains a very good fit with the Company's strategy where it is possible to acquire modern, 'fit-for-purpose' buildings. One of the advantages of smaller lot-size industrial has been the relative lack of development in recent years. Such industrial development has been focused on large format 'big box' logistics units, where returns have been highest and occupier demand has supported development. The demand for smaller lot-sized units is very broad, from manufacturing, urban logistics, online traders and owner occupiers. This demand supports high residual values (where the vacant possession value is closer to the investment value than in other sectors) and drives rental growth.

25 Current passing rent plus ERV of vacant properties.

26 Includes car showrooms, petrol filling stations, children's day nurseries, restaurants, health and fitness units, hotels and healthcare centres.

Despite the challenges in retail highlighted above, we believe that retail warehousing remains an important asset class for the Company. We expect that well-located retail warehouse units, let off low rents, located on retail parks which are considered dominant in their area will continue to be in demand from retailers. The importance of convenience, free parking, the capacity to support click and collect and the relatively low cost compared to the high street should continue to support occupational demand for the Company's retail warehouse assets. In addition, the out of town retail warehouse market benefits from a restricted supply.

Regional offices will remain an interesting sector for the Company but the focus will be on dominant regional centres, high environmental standards and accessibility to a skilled workforce. There is latent rental growth in many regional offices so value enhancing opportunities still exist.

For details of all properties in the portfolio please see custodianreit.com/property/portfolio.

WAULT

At 31 March 2020 the property portfolio's weighted average unexpired lease term to first break or expiry ("WAULT") was 5.3 years (2019: 5.6 years) with the completion of asset management initiatives during the year substantially offsetting the natural one year decline due to the passage of time.

We have recommended to the Board that shareholders' approval should be sought for an amendment to the Company's investment objectives at the Annual General Meeting ("AGM") on 1 September 2020 to remove the Company's existing WAULT objective which states:

'The Company will seek to minimise rental voids and enhance the WAULT of the portfolio by managing lease expiries and targeting property acquisitions which will in aggregate be accretive to WAULT at the point of acquisition, on a rolling 12-month basis.'

While much-quoted and often considered a proxy for risk, we no longer consider WAULT is a key measure of risk. The increasing demand for flexible leases and the pressures imposed on tenants from the new International Financial Reporting Standard requiring all lease liabilities to be recognised on balance sheet (IFRS 16), is driving tenants to seek shorter leases. Real security comes from the quality of building and location which will ensure that properties are re-let and voids are minimised. Shorter leases, where a greater proportion of the purchase price is in the underlying real estate rather than the lease, should also reduce valuation volatility.

Disposals

Owning the right properties at the right time is one key element of effective property portfolio management, which necessarily involves periodically selling some properties to balance the property portfolio. Custodian REIT is not a trading company, but identifying opportunities to dispose of assets significantly ahead of valuation or that no longer fit within the Company's investment strategy is important.

After focused pre-sale asset management the following two properties were sold at valuation[27] during the year for a headline consideration of £15.7m:

- In Wolverhampton a 119,600 sq ft industrial unit was sold for £6.6m, in line with the 30 June 2019 valuation. The property was purchased in June 2016 for £4.5m as part of a three-property portfolio; and
- In Edinburgh a 39,279 sq ft city centre office and retail unit in Edinburgh sold for £9.1m, in line with the 30 June 2019 valuation, having been acquired as part of a portfolio in January 2016 for £9.0m.

We used the proceeds from these disposals to help fund the Menzies Portfolio acquisition which was considered better aligned to the Company's long-term investment strategy.

Since the year-end we disposed on an industrial unit in Westerham for £2.8m, £0.5m (23%) ahead of the 31 March 2020 valuation, representing a net initial yield of 4.50%.

Acquisitions

On 1 October 2019 we acquired the Menzies Portfolio for £24.6m through a sale and leaseback transaction with Menzies Distribution Limited ("MDL"). MDL is one of the UK's leading print media logistics companies servicing 1,700 routes per day from over 50 sites across the UK and Ireland. The Menzies Portfolio comprises eight logistics/distribution units spread across the UK with a current passing rent of £1.6m reflecting a NIY of 6.4%.

The Company acquired the Menzies Portfolio by purchasing the issued share capital of Custodian Real Estate (JMP4) Limited (formerly John Menzies Property 4 Limited), the trade and assets of which were subsequently hived up into Custodian REIT plc. All eight properties are let on new 10 year leases with one unit having a second-year break option. The leases provide for a 13% fixed rental uplift at year five.

The Menzies Portfolio is strongly aligned to Custodian REIT's investment strategy and complementary to the Company's existing property portfolio. The pricing benefits of pursuing a smaller lot-size regional strategy is evident when compared with pricing in the highly competitive market for logistics assets. The acquisition of the Menzies Portfolio enhanced the Company's lease expiry profile, supplemented regional diversification and provides secure contractual revenues with fixed rental uplifts in 2024.

Following this transaction, MDL became Custodian REIT's largest tenant, but still represents only 3.8% of the Company's rent roll. No one property from the Menzies portfolio accounts for more than 0.7% of the Company's rent roll supporting the continued drive to mitigate risk through diversification and stock selection. We are very pleased to enter into a long-term relationship with MDL which offers a strong covenant.

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27 Before disposal costs of £0.2m.

The corporate transaction offered compelling economic benefits to both the Company and the vendor compared to acquiring the properties directly.

Asset Management

Our continued focus on asset management including rent reviews, new lettings, lease extensions and the retention of tenants beyond their contractual break clauses resulted in a £6.1m valuation increase in the year. Key asset management initiatives completed during the year include:

- Completing a new five year lease with Ascott Transport Limited in Burton upon Trent with annual passing rent of £500k following the surrender of the incumbent tenant's lease due to its Administration, increasing valuation by £1.1m;
- An outstanding rent review with JTF Wholesale on a trade counter in Warrington, increasing passing rent by 20% to £586k and increasing valuation by £0.9m;
- A 10 year reversionary lease with five year break option with VP Packaging on an industrial unit at Venture Park, Kettering, with fixed rental increases which over time will increase passing rent by more than 20%, increasing valuation by £0.5m;
- Re-gearing a lease with H&M in Winsford by moving the 2020 break option to 2022 and increasing rent from £400k to £625k, increasing valuation by £0.4m;
- Re-gearing a lease with JB Global (t/a Oak Furniture Land) in Plymouth, extending the term by five years and increasing rent from £235k to £250k, increasing valuation by £0.4m;
- A five year reversionary lease with Vertiv Infrastructure on an industrial unit at Priory Business Park, Bedford, extending the lease to August 2027 and increasing valuation by £0.4m;
- Agreeing a five year extension to a lease with Turpin Distribution at an industrial unit in Biggleswade, increasing annual rent by 10% to £330k and increasing valuation by £0.4m;
- Completing a lease renewal with H Samuel in Colchester where the tenant has taken a five year lease, with annual passing rent falling from £77k to £70k, increasing valuation by £0.3m;
- A new 10 year reversionary lease with Arkote on an industrial unit in Sheffield, extending the lease to February 2034 and increasing valuation by £0.2m;
- A five year lease renewal with Wienerberger on offices at Cheadle Royal Business Park with expiry now in March 2025 and rent increasing by 10%, increasing valuation by £0.2m;
- A five year lease renewal with a 2.5 year tenant only break option with Poundland on a high street retail unit in Portsmouth, with rent decreasing by 50% to match the ERV, increasing valuation by £0.2m;
- Completed a 10 year lease extension, subject to a fifth year tenant only break option, with Equinox Aromas in Kettering with no change to annual passing rent, increasing valuation by £0.2m;
- A five year lease renewal with a 2.5 year tenant only break option with DHL on an industrial unit at Glasgow Airport, with rent increasing by 17% and valuation increasing by £0.2m;
- A 10 year lease with five year break to Raven Valley on an industrial unit at Metro Riverside in Gateshead at a passing rent of £52k per annum in line with ERV, increasing valuation by £0.2m;

- A five year lease renewal with Holland & Barrett on a high street retail unit in Shrewsbury with passing rent decreasing by 25% to £75k per annum in line with ERV, increasing valuation by £0.1m.
- Completing a new lease with Brooks Taverner at Cirencester where the tenant has taken a 10 year lease with an annual passing rent of £37k, increasing valuation by £0.1m;
- Completing a new lease with Mtor Limited (t/a Trugym) at Gateshead where the tenant has taken a 10 year lease with annual passing rent of £125k, increasing valuation by £0.1m;
- Completing a lease renewal with Specsavers in Norwich which has taken a 10 year lease with a fifth year tenant only break option at £126k against an ERV of £125k, increasing valuation by £0.1m;
- Retained Waterstones in Scarborough beyond its contractual lease expiry on a flexible lease arrangement whilst the unit is re-marketed, with annual passing rent falling from £93k to £45k, increasing valuation by £0.1m;
- Completing a 5.5 year lease to Systra Limited at Lancaster House, Birmingham at a rent of £100k per annum, with no increase in valuation; and
- Completing 16 electric vehicle charging point leases to Instavolt across a number of retail warehouse sites within the property portfolio, generating an additional £24k in annual contracted rent on 15 year leases.

Growth in rents and positive asset management outcomes have been tempered by business failures in the retail and other sectors of the property portfolio during the year and since the year end, with Cotswold Outdoor, Paperchase, Travelodge, The Restaurant Group, Poundstretcher and JTF Wholesale entering into or proposing CVAs and Laura Ashley, Thomas Cook and JB Global (t/a Oak Furniture Land) entering Administration, potentially affecting tenancies representing 5.3% of the rent roll.

Since the year-end we have completed a surrender of a lease to Hydro Extrusions UK Limited at Ravensbank Drive, Redditch where the tenant was not in occupation of the property. Rent has been received to the 30 April 2020 contractual lease expiry date and a £95k dilapidations settlement was also agreed. Due to the strong demand in the West Midlands for good quality industrial/warehouse units with vacant possession, we expect to pursue a freehold sale of this property.

Property portfolio risk

We have managed the property portfolio's income expiry profile through successful asset management activities with only 51% of aggregate income expiring within five years at 31 March 2020 (2019: 50%). Short-term income at risk is a relatively low proportion of the property portfolio's income, with only 32% expiring in the next three years (2019: also 32%) and our experience suggests that even in the current uncertain climate, the majority of tenants do not exit at break or expiry.

Aggregate income expiry	31 March 2020	31 March 2019
0-1 years	9%	10%
1-3 years	23%	22%
3-5 years	19%	18%
5-10 years	37%	38%
10+ years	12%	12%
	100%	100%

Outlook

A simple return to pre-COVID-19 pandemic normality by early 2021 appears unlikely. Nevertheless, we still regard commercial real estate as an important and necessary asset for occupiers.

Our experience pre-lockdown was that retailers wanted to continue trading from their core destination locations, albeit at lower rents, and we expect this to remain the case. Rent reductions will support occupancy levels as stores remain affordable. Through this difficult market we have focused on maintaining occupancy whilst securing cash flow. We have worked with tenants to retain them in occupation following CVAs, at lease expiry or at break opportunities and also in response to the pressing challenges of the COVID-19 pandemic, resulting in c.96% occupancy across our high street retail assets.

Over the course of the next 12 months there may be opportunities in retail warehousing if market sentiment continues to weaken and pricing over-compensates. Strong locations should still see demand from retailers and retail warehouse parks could yet make for a compelling investment, benefiting from large sites close to town centres with free car parking for customers and easy loading and servicing for retailers. These factors should make the stores complementary to on-line shopping and suitable for use as urban logistics hubs for the retailers.

Good quality offices in regional markets that can offer flexible accommodation, especially on flexible lease terms, are likely to be attractive to occupiers. The COVID-19 pandemic lockdown has shown a real benefit to employees, both commercially and socially, of an office providing collaborative space and a hub for doing business. However, the increased ability to work from home, with enhanced connectivity from video conferencing and document sharing, has opened up the possibility of more remote working. It is too early to tell which of these trends will have more impact but going forward we expect in-demand offices to fall into two categories, much the same as retail: prime, town centre offices offering meeting rooms,

collaborative spaces and flexible hot desking combined with widespread remote working; or out of town, conveniently located, well-connected, lower cost space. We are conscious that obsolescence can be a real cost of office ownership, which can negatively impact cash flow and be at odds with the Company's relatively high target dividend. The need to provide either good value out of town space or flexible town centre space could be a cost to landlords and this will need to be reflected in either price or rent.

Industrial and logistics properties have been the best performers in real estate markets and the Company’s weighting of 46%, by value, to the sector has supported returns during the year. We expect this sector to remain in sharp focus and believe there is still some rental growth potential and refurbishment opportunities, such as those carried out on our Warrington asset during the year, that can enhance value.

The COVID-19 pandemic has shone a light on the everyday rent collection and asset management of the Custodian REIT property portfolio. In ordinary times rent collection and asset management are rightly taken for granted by shareholders but the importance of the close relationships between manager and tenant and the manager’s ability to influence the outcome of negotiations has come to the fore.

Once rent collections return to normal and the free cash and undrawn debt of the Company can be deployed, we expect to take advantage of the re-pricing that is likely to be a feature of the market and deliver positive returns to shareholders.

Richard Shepherd-Cross
for and on behalf of Custodian Capital Limited
Investment Manager
22 June 2020

Property portfolio

	31 March 2020	31 March 2019
Property portfolio value	**£559.8m**	£572.7m
Separate tenancies	**280**	269
EPRA occupancy rate	**95.8%**	95.9%
Assets	**161**	155
WAULT	**5.3 years**	5.6 years
NIY	**6.8%**	6.6%

Industrial

Tenant	**Location**	**% portfolio income**
Menzies Distribution	Various	**3.8%**
JTF Wholesale	Warrington	**1.4%**
Teleperformance	Ashby	**1.3%**
ATL Transport	Burton	**1.2%**
Restore	Salford	**1.1%**
Daher Aerospace	Hilton	**0.9%**
H&M	Winsford	**0.9%**
Revlon International	Stone	**0.9%**
Next	Eurocentral	**0.9%**
ICT Express	Tamworth	**0.8%**
Silgan Closures	Doncaster	**0.8%**
Amco Services (International)	Redditch	**0.8%**
Yesss Electrical	Normanton	**0.8%**
Turpin Distribution Services	Biggleswade	**0.8%**
Royal Mail Group	Coventry/Kilmarnock	**0.8%**
Cummins	Daventry	**0.7%**
Hydro Extrusions	Redditch	**0.7%**
HellermannTyton	Cannock	**0.7%**
Massmould	Milton Keynes	**0.6%**
OyezStraker	West Bromwich	**0.6%**
Worthington Armstrong	Gateshead - Team Valley	**0.6%**
Yodel	Bellshill	**0.6%**
DX	Nuneaton	**0.6%**
Saint-Gobain	Milton Keynes	**0.6%**

Sherwin Williams	Plymouth	**0.6%**
Superdrug	Avonmouth	**0.6%**
Heywood Williams Components	Bedford	**0.6%**
BSS Group	Bristol	**0.6%**
Elma Electronics	Bedford	**0.5%**
Ichor Systems	Hamilton	**0.5%**
Morrison Utility Services	Stevenage	**0.5%**
A Share & Sons (t/a SCS)	Livingston	**0.5%**
Unilin Distribution	Manchester	**0.5%**
Sytner	Oldbury	**0.5%**
Vertiv Infrastructure	Bedford	**0.5%**
DHL Supply Chain	Aberdeen	**0.5%**
Interserve Project Services	Christchurch	**0.5%**
Brenntag	Cambuslang	**0.5%**
Procurri Europe	Warrington	**0.5%**
Dinex Exhausts	Warrington 1	**0.4%**
Semcon	Warwick	**0.4%**
MTS Logistics	Coalville	**0.4%**
West Midlands Ambulance Service	Erdington	**0.4%**
Warburton	Langley Mill	**0.4%**
Northern Commercials (Mirfield)	Irlam	**0.4%**
VP Packaging	Kettering	**0.4%**
Bunzl	Castleford	**0.3%**
Synergy Health	Sheffield Parkway	**0.3%**
Powder Systems	Liverpool, Speke	**0.3%**
WH Partnership	Gateshead	**0.3%**
Aqualisa Products	Westerham	**0.3%**
Arkote	Sheffield	**0.3%**
Sealed Air	Kettering	**0.3%**
North Warwickshire Borough Council	Atherstone	**0.3%**
DHL International	Liverpool, Speke	**0.3%**
PHS	Huntingdon	**0.3%**
Synertec	Warrington	**0.3%**

DHL Global Forwarding (UK)	Glasgow - air cargo	**0.3%**
Acorn Web Offset	Normanton	**0.3%**
ITM Power	Sheffield	**0.2%**
Tricel Composites (GB)	Leeds	**0.2%**
Sovereign Air Movement	Leeds	**0.2%**
Boots	Gateshead	**0.2%**
Rapid Vehicle Repairs	Kettering	**0.1%**
Rexel	Gateshead	**0.1%**
The Human Office	Gateshead	**0.1%**
Equinox Aromas	Kettering	**0.1%**
Nital Training Academy	Kettering	**0.1%**
River Island	Sheffield	**0.1%**
Other smaller tenants		**0.1%**
VACANT		**1.3%**
		40.3%

Office

Regus (Maidstone West Malling)	West Malling	**1.5%**
First Title (t/a Enact Conveyancing)	Leeds	**1.5%**
National Grid	Castle Donnington	**0.8%**
Wienerberger	Cheadle	**0.8%**
Home Office	Sheffield	**0.7%**
Edwards Geldards	Derby	**0.6%**
Countryside Properties	Leicester	**0.5%**
Lyons Davidson	Solihull	**0.4%**
Regus (Leicester Grove Park)	Leicester	**0.4%**
Systra	Birmingham	**0.3%**
Cognizant Technology	Glasgow	**0.2%**
Dakeyne Emms Gilmore Liberson	Birmingham	**0.2%**
Health & Safety Executive	Sheffield	**0.2%**
Erskine Murray	Leicester	**0.2%**
Copeland Wedge Associates	Birmingham	**0.1%**
Workers Educational Association	Birmingham	**0.1%**
Reward Gateway	Birmingham	**0.1%**
Quantem Consulting	Birmingham	**0.1%**
Bell Cornwall Associates	Birmingham	**0.1%**

Bradley & Cuthbertson LLP	Birmingham	**0.1%**
Safe Deposits	Glasgow	**0.1%**
KWB Property Management	Birmingham	**0.1%**
ENSCO 1078	Birmingham	**0.1%**
Other smaller tenants		**0.1%**
VACANT		**1.0%**
		10.3%

Other

VW Group	Derby/Shrewsbury/Stafford	**2.0%**
Benham (Specialist Cars)	Stockport	**1.7%**
Total Fitness Health Clubs	Lincoln - Total Fitness	**0.9%**
Nuffield Health	Stoke	**0.8%**
MKM Buildings Supplies	Castleford/Lincoln	**0.7%**
Co-Operative	Gillingham	**0.6%**
Pizza Hut	Crewe/Leicester/Watford	**0.6%**
Tai Pan Buffet Restaurants	Liverpool	**0.6%**
Bannatyne Fitness	Perth	**0.6%**
Pendragon Property	York	**0.6%**
Travelodge	Portishead	**0.5%**
Liverpool Community Health NHS Trust	Liverpool	**0.5%**
Parkwood Health & Fitness	Salisbury	**0.5%**
Listers Group	Loughborough	**0.4%**
Mecca Bingo	Crewe	**0.3%**
Honda Motor Europe	Redhill	**0.3%**
Chokdee (t/a Giggling Squid)	Bath	**0.3%**
MTOR	Gateshead	**0.3%**
Stonegate Pub Co	High Wycombe	**0.3%**
Bright Horizons Family Solutions	Basingstoke/Chesham	**0.3%**
Starbucks Coffee Company (UK)	Maypole	**0.3%**
TJ Vickers & Sons	Shrewsbury - TJ Vickers	**0.3%**
Loungers	Kings Lynn/Torquay	**0.3%**
Mecca Bingo (sublet to Odeon Cinemas)	Crewe	**0.3%**
The Gym Group	Carlisle	**0.3%**
Las Iguanas	Torquay	**0.2%**
The Restaurant Group (t/a Frankie & Bennies)	Perth	**0.2%**
Azzuri Restaurants (t/a ASK)	Shrewsbury	**0.2%**
Le Bistrot Pierre	Torquay	**0.2%**
McDonald's	Plymouth	**0.2%**
Scotco Eastern (t/a KFC)	Perth	**0.2%**
JD Wetherspoons	Portishead	**0.2%**
Multi Tile (t/a Tile Giant)	Crewe	**0.2%**
The Incorporated Trustees of the Universal Church of the Kingdom of God	Stratford	**0.1%**
Raven Valley	Gateshead	**0.1%**
Knutsford Day Nursery	Knutsford	**0.1%**
F1 Autocentres	Crewe	**0.1%**

Sam's Club (t/a House of the Rising Sun)	Shrewsbury	**0.1%**
Edmundson Electrical	Crewe	**0.1%**
Jurassic Coast (t/a Costa Coffee)	Torquay	**0.1%**
Other smaller tenants		**0.1%**
VACANT		**0.5%**
		17.2%

High street retail

Superdrug Stores PLC	Southsea/Weston-super-Mare/Worcester	**1.3%**
Specsavers Optical Superstores	Cardiff/Norwich	**0.8%**
URBN UK	Southampton	**0.5%**
Sportswift	Cardiff/Portsmouth	**0.5%**
Reiss	Guildford	**0.5%**
The Works Stores	Bury St Edmunds/Portsmouth	**0.5%**
WH Smith	Llandudno	**0.4%**
The White Company	Nottingham	**0.3%**
Phase Eight	Edinburgh	**0.3%**
Poundland	Portsmouth	**0.3%**
Laura Ashley	Colchester	**0.2%**
Portsmouth City Council	Southsea	**0.2%**
Game Retail	Portsmouth	**0.2%**
Foxtons	Stratford	**0.2%**
The Edinburgh Woollen Mill	Shrewsbury	**0.2%**
Wilko Retail	Taunton	**0.2%**
Signet Trading (t/a Ernest Jones)	Chester	**0.2%**
Waterstones	Bedford/Scarborough	**0.2%**
Tesco Stores	Birmingham	**0.2%**
Paperchase Products	Shrewsbury	**0.2%**
Greggs Plc	Birmingham/Shrewsbury	**0.2%**
TCCT Retail (t/a Thomas Cook) / Hay's Travel	Shrewsbury	**0.2%**
Holland & Barrett	Shrewsbury	**0.2%**
Kruidvat Real Estate UK	Colchester	**0.2%**
Crepeaffaire	St Albans	**0.2%**
Lush	Colchester	**0.2%**
H Samuel	Colchester	**0.2%**
Der Touristik	Chester	**0.2%**
Lloyds TSB	Chester	**0.1%**

Savers Health & Beauty	Bury St Edmunds	**0.1%**
Your Phone Care	Portsmouth	**0.1%**
Feldale Retail t/s Lakeland	Chester	**0.1%**
Ciel (Concessions) (t/a Chesca)	Chester	**0.1%**
Aslan Jewellery	Chester	**0.1%**
Done Brothers (t/a Betfred)	Cheltenham	**0.1%**
Brook Tavener	Cirencester	**0.1%**
Leeds Building Society	Colchester	**0.1%**
The Danish Wardrobe (t/a Noa Noa)	Cirencester	**0.1%**
Coral	Birmingham	**0.1%**
Other smaller tenants		**0.1%**
VACANT		**0.5%**
		10.7%

Retail Warehouse

B&Q	Banbury/Galashiels/Weymouth	**3.2%**
B&M	Ashton-under-Lyne/Plymouth/Carlisle	**2.9%**
Wickes	Burton/Winnersh	**1.9%**
Matalan	Leicester	**1.2%**
Magnet	Gloucester/Leicester/Plymouth	**1.1%**
JB Global (t/a Oak Furniture Land)	Carlisle/Plymouth	**0.9%**
Halfords	Carlisle/Sheldon/Weymouth	**0.8%**
Homebase	Leighton Buzzard	**0.8%**
Go Outdoors	Swindon	**0.8%**
Smyths Toys	Gloucester	**0.6%**
A Share & Sons (t/a SCS)	Plymouth	**0.5%**
M&S	Evesham	**0.5%**
Poundstretcher	Evesham/Grantham	**0.5%**
Sainsburys	Torpoint	**0.5%**
Pets at Home	Sheldon/Winnersh	**0.5%**
Boots	Evesham	**0.5%**
CDS	Burton	**0.5%**
Argos	Evesham	**0.4%**
Next	Evesham	**0.4%**
Dreams	Sheldon	**0.4%**
TJ Morris (t/a Home Bargains)	Portishead	**0.3%**
Laura Ashley	Grantham	**0.3%**
Iceland	Carlisle	**0.3%**

Sports Direct	Weymouth	**0.3%**
Poundland	Carlisle	**0.2%**
Carpetright	Grantham	**0.2%**
Majestic Wine Warehouse	Portishead	**0.1%**
InstaVolt	Various	**0.1%**
VACANT		**0.8%**
		21.5%

Principal risks and uncertainties

COVID-19 pandemic response

The impact of the COVID-19 pandemic has been pervasive across the globe, and the Board believes it will have a significant impact on rental receipts, tenant stability, property valuations, government legislation, availability of finance and compliance with financial covenants, and will cause significant operational interruption to the Company for at least the financial year ending 31 March 2021. This expected impact has been reflected in the table below and is considered further in the Going concern and longer-term viability section of the Strategic report, although the Board believes it is still too early to fully comprehend the short-term impact and longer-term ramifications of the COVID-19 pandemic.

The business resilience and risk planning of the Company's key service providers has been tested in recent months and in all cases has responded very well to the challenges presented by the crisis, with all key teams able to work from home and continue to offer high levels of service to the Company.

The Board has met at least fortnightly via video-conference since March to ensure the Company reacts promptly to a dynamic situation, including guiding and challenging the Investment Manager's response and approving decisions quickly when required.

The COVID-19 pandemic has resulted in almost all principal risk areas increasing in overall impact since last year.

Risk assessment

The Board has overall responsibility for reviewing the effectiveness of the system of risk management and internal control which is operated by the Investment Manager. The Company's risk management process is designed to identify, evaluate and mitigate the significant risks the Company faces. At least annually, the Board undertakes a risk review, with the assistance of the Audit and Risk Committee, to assess the effectiveness of the Investment Manager's risk management and internal control systems. During this review, no significant failings or weaknesses were identified in respect of risk management, internal control and related financial and business reporting.

The Company holds a portfolio of high quality property let to institutional grade tenants and is primarily financed by fixed rate debt with no short-term refinancing risk. It does not undertake speculative development.

There are a number of potential risks and uncertainties which could have a material impact on the Company's performance over the forthcoming financial year and could cause actual results to differ materially from expected and historical results. The Directors have assessed the risks facing the Company, including risks that would threaten the business model, future performance, solvency or liquidity. The table below outlines the principal risks identified, but does not purport to be exhaustive as

there may be additional risks that materialise over time that the Company has not yet identified or has deemed not likely to have a potentially material adverse effect on the business.

Risk	Assessment	Mitigating factors
Loss of revenue		
• Tenant default due to a cessation or curtailment of trade due to the COVID-19 pandemic • An increasing number of tenants exercising contractual breaks or not renewing at lease expiry • Enforced reduction in contractual rents through a CVA or legislative changes due to the COVID-19 pandemic. • Decreases in ERVs resulting in decreases in passing rent to secure long-term occupancy • Expiries or breaks concentrated in a specific year. • Unable to re-let void units. • Low UK economic growth impacting the commercial property market.	Likelihood: High. Impact: High. Overall change in risk from last year: Increased	• Diverse property portfolio covering all key sectors and geographical areas • The Company has 280 individual tenancies with the largest tenant accounting for 3.8% of the rent roll. • Investment policy limits the Company's rent roll to no more than 10% from a single tenant and 50% from a single sector. • Primarily institutional grade tenants. • Focused on established business locations for investment. • Active management of lease expiry profile considered in forming acquisition decisions. • Building specifications typically not tailored to one user. • Strong tenant relationships have meant short-term rent deferrals have been agreed where necessary to address arrears caused by COVID-19 pandemic interruption.
Decreases in property portfolio valuation		
• Decreases in sector-specific ERVs • Loss of contractual revenue • Tenants exercising contractual breaks or not renewing at lease expiry • Market pricing affecting value. • Change in demand for space. • Properties concentrated in a specific geographical location or sector. • Reduced property market sentiment and investor demand • Lack of transactional evidence	Likelihood: High. Impact: High. Overall change in risk from last year: Increased	• Active property portfolio diversification between office, industrial (distribution, manufacturing and warehousing), retail warehousing, high street retail and other. • Investment policy limits the Company's property portfolio to no more than 50% in any specific sector or geographical region. • Small lot-size business model limits exposure to individual asset values • High quality assets in good locations should remain popular with investors

Risk	Assessment	Mitigating factors
Financial		
• Reduced availability or increased cost of arranging or servicing debt. • Breach of borrowing covenants. • Significant increases in interest rates.	Likelihood: High. Impact: High. Overall change in risk from last year: Increased	• The Company has three lenders • Interest cover covenant waivers in place covering at least the June 2020 and September 2020 quarter-ends. • Target net gearing of 25% LTV on property portfolio. • 90% of drawn debt facilities at a fixed rate of interest. • Significant unencumbered properties available to cure any potential breaches of LTV covenants. • Existing facilities sufficient for current spending commitments and agreed until at least 2022. • Ongoing monitoring and management of the forecast liquidity and covenant position.
Operational		
• Inadequate performance, controls or systems operated by the Investment Manager.	Likelihood: Low. Impact: High. Overall change in risk from last year: No change	• Ongoing review of performance by independent Board of Directors. • Outsourced internal audit function reporting directly to the Audit and Risk Committee. • External depositary with responsibility for safeguarding assets and performing cash monitoring.
Regulatory and legal		
• Adverse impact of new or revised legislation or regulations, or by changes in the interpretation or enforcement of existing government policy, laws and regulations. • Non-compliance with the REIT regime[28] or changes to the Company's tax status.	Likelihood: High. Impact: High. Overall change in risk from last year: Increased	• Strong compliance culture. • External professional advisers are engaged to review and advise upon control environment, ensure regulatory compliance and advise on the impact of changes due to the COVID-19 pandemic. • Business model and culture embraces FCA principles. • REIT regime compliance is considered by the Board in assessing the Company's financial position and setting dividends and by the Investment Manager in making operational decisions.

28 As defined by the Corporation Tax Act 2010.

Risk	Assessment	Mitigating factors
Business interruption		
• Cyber-attack results in the Investment Manager being unable to use its IT systems and/or losing data. • Terrorism or pandemics interrupt the Company's operations through impact on either the Investment Manager or the Company's assets or tenants.	Likelihood: High. Impact: High. Overall change in risk from last year: Increased	• Investment Manager staff are all capable of working from home for an extended period • Data is regularly backed up and replicated and the Investment Manager's IT systems are protected by anti-virus software and firewalls that are regularly updated. • Fire protection and access/security procedures are in place at all of the Company's managed properties. • Comprehensive property damage and business interruption insurance is held, including three years' lost rent and terrorism. • At least annually, a fire risk assessment and health and safety inspection is performed for each property in the Company's managed portfolio.
Acquisitions		
• Unidentified liabilities associated with the acquisition of new properties (whether acquired directly or via a corporate structure).	Likelihood: Low. Impact: High. Overall change in risk from last year: No change	• Comprehensive due diligence is undertaken in conjunction with professional advisors and the provision of insured warranties and indemnities are sought from vendors where appropriate.

Emerging risks

The COVID-19 pandemic represents a principal risk and has significantly impacted the Company in the current financial year, but its medium and long-term impacts on the global economy are yet to be fully understood. The Board has also considered the following emerging risks and their potential impact on the Company:

Brexit

The Board is continuing to monitor the potential risks associated with Brexit. Discussions are ongoing and the final outcome regarding the UK's future trading relationship with the EU remains unclear, making it too early to understand fully the impact Brexit will have on our business and our sector. The main potential negative impact of Brexit is a deterioration of the macro-economic environment, potentially leading to further political uncertainty and volatility in interest rates, but it could also impact our investment and occupier market, our ability to execute our investment strategy and our income sustainability in the long term. However, the Board believes the Company is well placed to weather any short-term impact of Brexit because the Company has a diverse portfolio by sector and location with an institutional grade tenant base and low gearing.

Environmental

The Board is aware of the increasing focus from external stakeholders on its environmental credentials and the increasing level of disclosure requirements regarding the Company's environmental impact. The Board believes that the risk of negative stakeholder sentiment towards the Company because of a below peer group environmental footprint and non-compliance with environmental disclosure requirements has increased during the year. The Company has complied with the recently implemented Energy Savings Opportunity Scheme and Carbon Reporting requirements and expects further, more onerous requirements in the near future including the Task Force on Climate-related Financial Disclosures. The Board has recently engaged Carbon Intelligence, specialist environmental consultants, to assist it with ensuring compliance with new requirements.

No other emerging risks have been added to the Company's Risk Register during the year.

Going concern and longer-term viability

In accordance with Provision 31 of the UK Corporate Governance Code 2018 issued by the Financial Reporting Council ("the Code"), the Directors have assessed the prospects of the Company over a period longer than 12 months. The Board resolved to conduct this review for a period of three years, because:

- The Company's forecasts cover a three-year period; and
- The Board believes a three-year horizon maintains a reasonable level of accuracy regarding projected rental income and costs, allowing robust sensitivity analysis to be conducted.

The Directors have assessed the following factors, in particular relating to the impact of the COVID-19 pandemic, in assessing the Company's status as a going concern and its longer-term viability, including events up to the date of authorisation of the financial statements:

- The extent of any operational disruption;
- Potential curtailment of rental receipts;
- Diminished demand for leasing the Company's assets going forwards;
- Contractual obligations due or anticipated within one year;
- Potential liquidity and working capital shortfalls;
- Access to funding and compliance with banking covenants; and
- Ongoing compliance with regulatory requirements including the REIT regime.

Mitigating actions

In order to preserve cash the Company, as a result of the disruption caused by the COVID-19 pandemic, has:

- Put pipeline acquisitions on hold; and
- In the expectation that interest cover covenants on some individual loans at 30 June 2020 may come under short-term pressure, put in place covenant waivers with each of its lenders for at least the June 2020 and September 2020 quarter-ends and expects further covenant waivers to be made available if needed based on discussions with each lender.

The Company is in discussion with its lenders regarding charging additional properties and reallocating properties between individual security pools to alleviate short-term covenant compliance pressure.

Results of the assessment

Based on prudent assumptions within the Company's forecasts regarding rent deferrals, tenant default, void rates and property valuation movements, the Directors expect that over the three-year period of their assessment:

- The Company has surplus cash to continue in operation and meet its liabilities as they fall due;
- Interest cover covenants on borrowings for periods not covered by covenant waivers are complied with;
- LTV covenants aren't breached; and
- REIT tests are complied with.

Sensitivities

These assessments are subject to sensitivity analysis, which involves flexing a number of key assumptions and judgements included in the financial projections:

- The anticipated level of rents deferred due to the impact of the COVID-19 pandemic;
- Tenant default;
- Length of potential void period following lease break or expiry;
- Acquisition NIY, disposals, anticipated capital expenditure and the timing of deployment of cash;
- Interest rate changes; and
- Property portfolio valuation movements.

This sensitivity analysis also evaluates the potential impact of the principal risks and uncertainties should they occur which, together with the steps taken to mitigate them, are highlighted above and in the Audit and Risk Committee report. The Board seeks to ensure that risks are mitigated appropriately and managed within its risk appetite all times.

Sensitivity analysis considered the following areas:

Covenant compliance

The Company operates four loan facilities which are summarised in Note 15. At 31 March 2020 the Company has:

- Significant headroom on lender covenants at a portfolio level, with Company net gearing of 22.4% compared to a maximum LTV covenant of 35% and £184.8m (33% of the property portfolio) unencumbered by the Company's borrowings;
- Put in place covenant waivers with each of its lenders for at least the June 2020 and September 2020 quarter-ends and expects further covenant waivers to be made available if needed based on discussions with each lender.

Reverse stress testing has been undertaken to understand what circumstances would result in potential breaches of financial covenants. While the assumptions applied in these scenarios are possible, they do

not represent the Board's view of the likely outturn, but the results help inform the Directors' assessment of the viability of the Company. The testing indicated that:

- At a portfolio level, following expiry of interest cover covenant waivers, the rate of loss or deferral of contractual rent would need to deteriorate by a further 25% from the levels included in the Company's prudent forecasts to breach interest cover covenants; and
- Property valuations would have to decrease by 35% from the 31 March 2020 position to risk breaching the overall 35% LTV covenant.

The Board notes that the May 2020 IPF Forecasts for UK Commercial Property Investment survey suggests an average 6.3% reduction in rents during 2020 with capital value decreases of between 4.0% and 19.5%. The Board believes that the valuation of the Company's property portfolio will prove resilient due to its higher weighting to industrial assets and overall diverse and high-quality asset and tenant base comprising 161 assets and over 200 typically 'institutional grade' tenants across all commercial sectors.

Liquidity

At 31 March 2020 the Company has:

- £25m of cash-in-hand with gross borrowings of £150m resulting in low net gearing, with no short-term refinancing risk and a weighted average debt facility maturity of seven years;
- An annual contractual rent roll of £40.7m, with interest costs on drawn loan facilities of only c. £4.7m per annum; and
- Received 70% of rents due relating to the month of April – June 2020 quarter.

The Company has sufficient cash to settle its stated minimum target dividends relating the first half of the financial year ending 31 March 2021 of 1.5p per share and its expense and interest liabilities for a period of at least 12 months, even assuming no further rent is collected. Liquidity is therefore not considered a key area of sensitivity for the going concern assessment.

The Board has considered the scenario used in covenant compliance reverse stress testing, where the rate of loss or deferral of contractual rent deteriorates by a further 25% from the levels included in the Company's prudent three-year forecasts, with dividends paid at the minimum required by the REIT regime. In this scenario, over the three year longer-term viability assessment horizon, all financial covenants and the REIT tests are complied with and the Company has surplus cash to settle its liabilities.

As detailed in Note 15, the Company's £35m RCF expires in September 2022 but can be extended by a further two years at the lender's discretion. The Board anticipates lender support in agreeing to the available extensions, and would seek to refinance the RCF with another lender or dispose of sufficient properties to repay it in September 2022 in the unlikely event of lender support being withdrawn.

REIT regime compliance

The key area of sensitivity in the Company's forecasts to the REIT regime is the requirement to distribute 90% of property rental business profits, calculated on an IFRS basis rather than a cash receipts basis, within 12 months of the financial year end. The Company's prevailing dividend policy, set out in the Business model and strategy section of the Strategic report, aligns itself to the REIT regime by seeking to distribute net rental receipts over the period of disruption caused by the COVID-19 pandemic. All rent deferrals agreed with tenants result in rents being repayable within the year ending 31 March 2021, therefore the Board do not consider this a key sensitivity for the going concern assessment.

Section 172 statement and stakeholder relationships

The Directors consider that in conducting the business of the Company over the course of the year they have complied with Section 172(1) of the Companies Act 2006 ("the Act") by fulfilling their duty to promote the success of the Company and act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole.

Issues, factors and stakeholders

The Board has direct engagement with the Company's shareholders and seeks a rounded and balanced understanding of the broader impact of its decisions through regular engagement with its stakeholder groups (detailed below) to understand their views, typically through feedback from the Investment Manager and the Company's broker, which is regularly communicated to the Board via quarterly meetings. Stakeholder engagement also ensures the Board is kept aware of any significant changes in the market, including the identification of emerging trends and risks, which in turn can be factored into its strategy discussions.

Management of the Company's day-to-day operations has been delegated to the Investment Manager, Custodian Capital Limited, and the Company has no employees. This externally managed structure allows the Board and the Investment Manager to have due regard to the impact of decisions on the following matters specified in Section 172 (1) of the Act:

Section 172(1) factor	Approach taken
a) Likely consequences of any decision in the long term	The business model and strategy of the Company is set out within the Strategic Report. Any deviation from or amendment to that strategy is subject to Board and, if necessary, shareholder approval, including the current proposed change to the Company's WAULT policy set out in the Investment Manger's report. The Company's Management Engagement Committee ensures that the Investment Manager is operating within the scope of the Company's investment objectives. At least annually, the Board considers a budget for the delivery of its strategic objectives based on a three year forecast model. The Investment Manager reports non-financial and financial key performance indicators to the Board, set out in detail in the Business model and strategy section of the Strategic report, at least quarterly which are used to assess the outcome of decisions made. The Board's commitment to keeping in mind the long-term consequences of its decisions underlies its focus on risk, including risks to the long-term success of the business, leading to the conclusion that during the current period of heightened political and market uncertainty both in the UK and globally, cash resources should be retained such that dividends are broadly paid from net rental income. The investment strategy of the Company is focussed on medium to long-term returns and minimising the Company's impact on communities and the environment and as such the long-term is firmly within the sights of the Board when all material decisions are made. The board gains an understanding of the views of the Company's key stakeholders from the Investment Manager, broker and Management Engagement Committee,

		and considers those stakeholders' interests and views in board discussions and long-term decision-making.
b)	The interests of the Company's employees	The Company has no employees as a result of its external management structure, but the Directors have regard to the interests of the individuals responsible for delivery of the property management and administration services to the Company to the extent that they are able to. The Company's Nominations Committee is responsible for applying the diversity policy set out in the Nominations Committee Report to Board recruitment.
c)	The need to foster the Company's business relationships with suppliers, customers and others	Business relationships with suppliers, tenants and other counterparties are managed by the Investment Manager. Suppliers and other counterparties are typically professional firms such as lenders, property agents and other property professionals, accounting firms and legal firms and tenants with which the Investment Manager often has a longstanding relationship. Where material counterparties are new to the business, checks, including anti money laundering checks are conducted prior to transacting any business to ensure that no reputational or legal issues would arise from engaging with that counterparty. The Company also periodically reviews the compliance of all material counterparties with relevant laws and regulations such as the Modern Slavery Act 2015. The Company pays suppliers in accordance with pre-agreed terms. The Management Engagement Committee engages directly with the Company's key service providers providing a direct line of communication for receiving feedback and resolving issues. Because the Investment Manager directly invoices most tenants and collects rent without using managing agents, it has open lines of communication with tenants and can understand and resolve any issues promptly.
d)	The impact of the Company's operations on the community and the environment	The Board recognises the importance of supporting local communities where the Company's assets are located and seeks to invest in properties which will be fit for future purpose and which align with ESG targets. The Company also seeks to benefit local communities by creating social value through employment, viewing its properties as a key part of the fabric of the local economy. The Board takes overall responsibility for the Company's impact on the community and the environment and its ESG policies are set out in the Business model and strategy section of the Strategic report. The Company's approach to preventing bribery, money laundering, slavery and human trafficking is disclosed in the Governance report.
e)	The desirability of the Company maintaining a reputation for high standards of business conduct	The Board believes that the ability of the Company to conduct its investment business and finance its activities depends in part on the reputation of the Board and Investment Manager's team. The risk of falling short of the high standards expected and thereby risking its business reputation is included in the Board's review of the Company's risk register, which is conducted periodically. The principal risks and uncertainties facing the business are set out in that section of the Strategic report. The Company's requirements for a high standard of conduct and business ethics are set out in the Governance report.

f)	The need to act fairly as between members of the Company	The Company's shareholders are a very important stakeholder group. The Board oversees the Investment Manager's formal investor relations programme which involves the Investment Manager engaging routinely with the Company's shareholders. The programme is managed by the Company's broker and the Board receives prompt feedback from both the Investment Manager and broker on the outcomes of meetings. The Board and Investment Manager aim to be open with shareholders and available to them, subject to compliance with relevant securities laws. The Chairman of the Company and other Non-Executive Directors make themselves available for meetings as appropriate and all attend the Company's AGM. The investor relations programme is designed to promote formal engagement with investors and is typically conducted after each half-yearly results announcement. The Investment Manager also engages with existing investors who may request meetings and with potential new investors on an ad hoc basis throughout the year, including where prompted by Company announcements. Shareholder presentations are made available on the Company's website. The Company has a single class of share in issue with all members of the Company having equal rights.

Methods used by the Board

The main methods used by the Directors to perform their duties include:

- Board Strategy Days held at least annually to review all aspects of the Company's business model and strategy and assess the long-term sustainable success of the Company and its impact on key stakeholders;
- The Management Engagement Committee engages with the Company's key service providers and reports on their performance to the Board. The responsibilities of the Management Engagement Committee are detailed in the Management Engagement Committee report;
- The Board is responsible for the Company's ESG activities set out in the Business model and strategy section of the Strategic report, which it believes are a key part of benefitting the local communities where the Company's assets are located;
- The Board's risk management procedures set out in the Governance report identify the potential consequences of decisions in the short, medium and long-term so that mitigation plans can be put in place to prevent, reduce or eliminate risks to the Company and wider stakeholders;
- The Board sets the Company's purpose, values and strategy, detailed in the Business model and strategy section of the Strategic report, and the Investment Manager ensures they align with its culture;
- The Board carries out direct shareholder engagement via the AGM and Directors attend shareholder meetings on an ad hoc basis;
- External assurance is received through internal and external audits and reports from brokers and advisers; and
- Specific training for existing Directors and induction for new Directors as set out in the Governance report.

Principal decisions in the year

The Board has delegated operational functions to the Investment Manager and other key service providers. In particular, responsibility for management of the Company's property portfolio has been delegated to the Investment Manager. The Board retains responsibility for reviewing the engagement of the Investment Manager and exercising overall control of the Company, reserving certain key matters as set out in the Governance report.

The principal non-routine decisions taken by the Board during the year were:

- Purchasing the Menzies Portfolio for £24.6m. The acquisition improved the Company's lease expiry profile, supplemented regional diversification and provided secure cash flow with the benefit of fixed rental uplifts in 2024. The corporate transaction offered compelling economic benefits to the Company compared to acquiring the properties directly. The acquisition is further detailed in the Investment Manager's report;
- Increasing total funds available under the RCF from £35m to £50m, subject to lender approval, for a term of three years with an option to extend the term by a further two years, and a reduction in the rate of annual interest to between 1.5% and 1.8% above three-month LIBOR. These changes reduce finance costs and provide additional capacity to exploit new acquisition opportunities whilst maintaining the flexibility to minimise cash drag from equity issuance; and
- Committing to continuing to pay quarterly dividends at a level broadly linked to net rental receipts due to the disruption to cash collection caused by the COVID-19 pandemic, with support from prior years' undistributed reserves if required, of no less than an aggregate 0.75p per share per quarter for the first two quarters of the financial year ending 31 March 2021, until deferred rents can be collected and the dividend can return towards the target level. This decision was taken to manage cash resources and maintain liquidity to mitigate the risks associated with a period of uncertainty created by the COVID-19 pandemic.

Due to the nature of these decisions, a variety of stakeholders had to be factored into the Board's discussions. Each decision was announced at the time, so that all stakeholders were aware of the decisions.

Stakeholders

The Board recognises the importance of stakeholder engagement to deliver its strategic objectives and believes its stakeholders are vital to the continued success of the Company. The Board is mindful of stakeholder interests and keeps these at the forefront of business and strategic decisions. Regular engagement with stakeholders is fundamental to understanding their views. The below section highlights how the Company engages with its key stakeholders, why they are important and the impact they have on the Company and therefore its long-term success, which the Board believes helps demonstrate the successful discharge of its duties under s172(1) of the Act.

Stakeholder	Stakeholder interests	Stakeholder engagement
Tenants The Investment Manager understands the businesses occupying the Company's assets and seeks to create long-term partnerships and understand their needs to deliver fit for purpose real estate and develop asset management opportunities to underpin long-term sustainable income growth and maximise occupier satisfaction.	• High quality assets • Profitability • Efficient operations • Knowledgeable and committed landlord • Flexibility to adapt to the changing UK commercial landscape • Buildings with strong environmental credentials	• Regular dialogue through rent collection process. • Review published data, such as accounts, trading updates and analysts' reports. • Ensured buildings comply with the necessary safety regulations and insurance. • All tenants have been directly contacted to understand the impact of the COVID-19 pandemic on their businesses. • Occupancy has remained at over 95% during the year.
The Investment Manager and its employees As an externally managed fund the Company's key service provider is the Investment Manager and its employees are a key stakeholder. The Investment Manager's culture aligns with that of the Company and its long-standing reputation of operating in the small lot-size market is key when representing the Company.	• Long-term viability of the Company • Long-term relationship with the Company • Wellbeing of the Investment Manager's employees • Being able to attract and retain high-calibre staff • Maintaining a positive and transparent relationship with the Board	• Board and Committee meetings • Face-to-face and video-conference meetings with the Chairman and other Board Directors • Monthly and quarterly KPI reporting to the Board • External Board evaluation, including feedback from key Investment Manager personnel • Informal meetings and calls
Suppliers A collaborative relationship with our suppliers, including those to whom key services are outsourced, ensures that we receive high quality services to help deliver strategic and investment objectives.	• Collaborative and transparent working relationships • Responsive communication • Being able to deliver service level agreements	• Board and Committee meetings • One-to-one meetings • Annual review of key service providers by the Management Engagement Committee
Shareholders Building a strong investor base through clear and transparent communication is vital to building a successful and sustainable business and generating long-term growth.	• Sustainable growth • Attractive level of income returns • Strong Corporate Governance and environmental credentials • Transparent reporting framework	• Annual and half year presentations • AGM • Market announcements and corporate website • Regular investor feedback received from the Company's broker • On-going dialogue with analysts

Stakeholder	Stakeholder interests	Stakeholder engagement
Lenders Our lenders play an important role in our business. The Investment Manager maintains close and supportive relationships with this group of long-term stakeholders, characterised by openness, transparency and mutual understanding	• Stable cash flows • Stronger covenants • Being able to meet interest payments • Maintaining agreed gearing ratios • Regular financial reporting • Proactive notification of issues or changes	• Regular covenant reporting • Face-to-face meetings
Government, local authorities and communities As a responsible corporate citizen the Company is committed to engaging constructively with central and local government and ensuring we support the wider community	• Openness and transparency • Proactive compliance with new legislation • Proactive engagement • Support for local economic and environmental plans and strategies • Playing its part in providing the real estate fabric of the economy, giving employers a place of business.	• Engagement with local authorities where we operate • Two way dialogue with regulators and HMRC

Business model and strategy

Investment objective and policy

The Company's investment objective is to provide Shareholders with an attractive level of income together with the potential for capital growth from investing in a diversified portfolio of commercial real estate properties in the UK.

The Company's investment policy is:

(a) To invest in a portfolio of UK commercial real estate properties, principally characterised by individual values of less than £10m at acquisition.

(b) The property portfolio should be diversified by sector, location, tenant and lease term, but not exceed a maximum weighting to any one property sector, or to any geographic region, of greater than 50%.

(c) To focus on areas with high residual values, strong local economies and an imbalance between supply and demand. Within these locations the objective is to acquire modern buildings or those that are considered fit for purpose by occupiers.

(d) No one tenant or property should account for more than 10% of the total rent roll of the Company's property portfolio at the time of purchase, except:

(i) In the case of a single tenant which is a governmental body or department for which no percentage limit to proportion of the total rent roll shall apply; or

(ii) In the case of a single tenant rated by Dun & Bradstreet as having a credit risk score higher than two, where the exposure to such single tenant may not exceed 5% of the total rent roll (a risk score of two represents "lower than average risk").

(e) To seek to minimise rental voids and enhance the WAULT of the property portfolio by managing lease expiries and targeting property acquisitions which will in aggregate be accretive to WAULT at the point of acquisition, on a rolling 12-month basis.

(f) The Company will not undertake speculative development (that is, development of property which has not been leased or pre-leased), save for refurbishment of existing holdings, but may invest in forward funding agreements or forward commitments (these being, arrangements by which the Company may acquire pre-development land under a structure designed to provide the Company with investment rather than development risk) of pre-let developments where the Company intends to own the completed development.

(g) The Company may use gearing, including to fund the acquisition of property and cash flow requirements, provided that the maximum LTV shall not exceed 35%. Over the medium-term the Company is expected to target net gearing of 25% LTV.

(h) The Company reserves the right to use efficient property portfolio management techniques, such as interest rate hedging and credit default swaps, to mitigate market volatility.

(i) Uninvested cash or surplus capital or assets may be invested on a temporary basis in:

(i) cash or cash equivalents, money market instruments, bonds, commercial paper or other debt obligations with banks or other counterparties having a single-A (or equivalent) or higher credit rating as determined by an internationally recognised rating agency; or

(ii) any “government and public securities” as defined for the purposes of the rules of the Financial Conduct Authority (“FCA”).

The Board reviews the Company’s investment objectives at least annually to ensure they remain appropriate to the market in which the Company operates and in the best interests of shareholders.

The Board proposes removing the Company’s WAULT investment objective at the AGM as explained in the Investment Manager’s report.

Key performance indicators

The Board meets at least four times per year and reviews the Company’s quarterly performance against a number of key measures:

- NAV per share total return – reflects both the NAV growth of the Company and dividends payable to shareholders. The Board regards this as the best overall measure of value delivered to shareholders. The Board assesses NAV per share total return over various time periods and compares the Company's returns to those of its peer group of listed, closed-ended property investment funds;
- EPS and EPRA EPS – reflect the Company’s ability to generate recurring earnings from the property portfolio which underpin dividends;
- Profit before tax – shareholder value generated in the year including unrealised property gains and losses;
- Dividends per share and dividend cover - to provide an attractive, sustainable level of income to shareholders, fully covered from net rental income. The Board reviews target dividends in conjunction with detailed financial forecasts to ensure that target dividends are being met and are sustainable;
- Premium or discount of the share price to NAV – the Board closely monitors the premium or discount of the share price to the NAV and believes a key driver of this is the Company's long-term investment performance. However, there can be short-term volatility in the premium or discount and the Board therefore seeks limited authority at each AGM to issue or buy back shares with a view to trying to manage this volatility;
- Net gearing – measures the Company’s borrowings as a proportion of its investment property, balancing the additional returns available from utilising debt with the need to effectively manage risk;
- OCR – measures the annual running costs of the Company and indicates the Board’s ability to operate the Company efficiently, keeping costs low to maximise earnings from which to pay fully covered dividends; and
- EPRA vacancy rate – the Board reviews the level of property voids within the Company's property portfolio on a quarterly basis and compares this to its peer group average.

The Board considers the key performance measures over various time periods and against similar funds. A record of these measures is disclosed in the Financial highlights and performance summary, the Chairman's statement and the Investment Manager's report.

Alternative performance measures

Alternative performance measures, including EPRA Best Practice Recommendations, assist stakeholders in assessing performance and are used by research analysts covering the Company in addition to the key performance indicators and comprise:

- New equity raised – a measure of growth of the Company;
- Target dividend per share – an expectation of the Company's ability to deliver an income stream to shareholders for the forthcoming year;
- Share price total return – reflects the movement in share price and dividends payable to shareholders;
- NAV per share, share price and market capitalisation – reflect various measures of shareholder value at a point in time;
- EPRA NAV per share – a measure of NAV excluding any adjustments to IFRS NAV not expected to crystallise in normal circumstances such as fair value adjustments to borrowings, giving a better indication of NAV of a real estate investment company with a long-term investment strategy;
- EPRA NIY and 'topped up' NIY – alternative measures of property portfolio valuation based on cash passing rents at the reporting date and once lease incentive periods have expired, net of ongoing property costs;
- EPRA cost ratios – alternative measures of ongoing charges based on expenses (excluding operating expenses of rental property recharged to tenants) compared to gross rental income;
- EPRA capital expenditure - capital expenditure incurred on the Company's property portfolio during the year; and
- EPRA like-for-like rental growth - a measure of rental growth of the property portfolio by sector, excluding acquisitions and disposals.

This year the Company has also disclosed EPRA Sustainability Best Practice Recommendations Guidelines.

Financing

The Company operates with a conservative level of net gearing, with target borrowings over the medium-term of 25% of the aggregate market value of all properties at the time of drawdown.

Debt

The Company has the following facilities available:

- A £50m RCF with Lloyds Bank plc ("Lloyds") with interest of between 1.5% and 1.8% above three-month LIBOR, determined by reference to the prevailing LTV ratio of a discrete security pool of assets, and expiring on 17 September 2022;

- A £20m term loan facility with Scottish Widows Limited ("SWIP") repayable in August 2025, with fixed annual interest of 3.935%;
- A £45m term loan facility with SWIP repayable in June 2028, with fixed annual interest of 2.987%; and
- A £50m term loan facility with Aviva Real Estate Investors ("Aviva") comprising:
  a) A £35m tranche repayable on 6 April 2032, with fixed annual interest of 3.02%; and
  b) A £15m tranche repayable on 3 November 2032 with fixed annual interest of 3.26%.

Equity

During the year the Company raised £25.3m (before costs and expenses) through the placing of 21,850,000 new ordinary shares.

Dividends

The Company paid dividends totalling 6.625p per share during the year, comprising the fourth interim dividend of 1.6375p per share relating to the year ended 31 March 2019 and three interim dividends of 1.6625p per share relating to the year ended 31 March 2020.

The Company paid an interim dividend of 1.6625p per share for the quarter ended 31 March 2020 on 29 May 2020, meeting its target of paying an annual dividend per share for the financial year of 6.65p (2019: 6.55p).

The Board's objective is to pay dividends on a sustainable basis at a rate which is fully covered by net rental income and does not inhibit the flexibility of the Company's investment strategy.

Due to the disruption to cash collection caused by the COVID-19 pandemic the current level of dividend is not expected to be fully supported by net rental receipts going forward. The Company intends to continue to pay quarterly dividends at a level broadly linked to net rental receipts, with support from prior years' undistributed reserves if required, of no less than an aggregate 1.5p per share for the first half of the financial year ending 31 March 2021. Should rent collections in the June and September quarters allow, more generous dividends may be possible. Over the course of the financial year, as deferred rents are collected, the Board hopes it will be possible to restore the dividend to a sustainable long-term level akin to previous years.

Directors and employees

During the year Hazel Adam was appointed as a non-executive director of the Company. The Company has five non-executive directors and no employees. Non-executive directors are paid fixed fees set by the Remuneration Committee and participate in the performance of the Company through their shareholdings. Four non-executive directors are white males and one is a white female.

The Board is conscious of the increased focus on diversity and recognises the value and importance of diversity in the boardroom. The Board supports the recommendations of the Hampton-Alexander and Parker Reports but does not consider it appropriate or in the interests of the Company and its shareholders to set prescriptive diversity targets for the Board.

Corporate social responsibility

The Company is committed to delivering its strategic objectives in an ethical and responsible manner and meeting its corporate responsibilities towards society, human rights and the environment. The Board acknowledges its responsibility to society is broader than simply generating financial returns for shareholders. The Company's environmental and social policies address the importance of these issues in the day-to-day running of the business, as detailed below.

Environmental and social policy

The Board encourages the Investment Manager to act responsibly in the areas it can influence as a landlord, for example by working with tenants to improve the environmental performance of the Company's properties and minimise their impact on climate change. The Board believes that following this strategy will ultimately be to the benefit of shareholders through enhanced rent and asset values.

The majority of the Company's investment properties are let on full repairing and insuring leases, meaning its day-to-day environmental responsibilities are limited as properties are controlled by the tenants. However, the Board wishes to apply sustainable principles and actively seeks opportunities to make environmentally beneficial improvements to its property portfolio where possible.

Properties are visited periodically by the Investment Manager and any obvious environmental issues are reported to the Board.

The Company recently engaged Carbon Intelligence, specialist environmental consultants, to review the Company's environmental policy, identify and prioritise opportunities for improvements and recommend how best risks might be managed. As a result, during the year the Board approved an updated environmental policy which commits the Company to:

- Seek to reduce pollution and comply with all relevant environmental legislation;
- Gather and analyse data on the environmental performance of our properties; and

- Set targets for the environmental performance of our properties and monitor achievements as a commitment to continuous improvement.

To achieve these aims, we intend to carry out the following initiatives.

Energy consumption & management

- Comply with all applicable, relevant energy-related legislation and other requirements;
- Monitor energy consumption across our properties and tenant consumption, where possible;
- Undertake thorough environmental due diligence including obtaining an Energy Performance Certificate ('EPC') for all new property acquisitions;
- Identify and, where possible, upgrade high energy-consuming properties within our property portfolio assets to achieve higher energy efficiency levels and improved EPC ratings;
- Review our energy objectives and targets on an annual basis;
- Promote energy efficiency and management to our tenants; and
- Where possible, build in green lease[29] clauses into our tenant leases.

Building materials

- When we have the opportunity to develop new property or refurbish current assets, we commit to reviewing building materials which have a lower environmental impact and to select these materials, if appropriate; and
- Select greener building materials, in line with our vision to increase the sustainability certifications of our property portfolio.

GHG emissions and management

- Quantify our Scope 1 and 2 (landlord controlled) emissions on an annual basis in line with reporting requirements;
- Gather tenant energy consumption data, where possible, to quantify our properties' emissions;
- Comply with, and make representations to, industry standard ESG frameworks including the EPRA Annual Sustainability Report and the Global Real Estate Sustainability Benchmark ("GRESB"); and
- Continue to expand our carbon reporting in line with industry expectations and relevant legislation.

Waste management

- Monitor waste levels across our properties and monitor tenant consumption, where possible;
- Implement landfill diversion waste streams such as recycling in our properties, where possible; and
- Promote waste management to our tenants.

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29 A 'green lease' incorporates clauses where the owner and occupier undertake specific responsibilities/obligations regarding the sustainable operation/occupation of a property, for example: energy efficiency measures, waste reduction/ management and water efficiency.

Water consumption and management

- Monitor water consumption across our properties and monitor tenant consumption, where possible;
- Identify and implement water reduction technologies and opportunities within our property portfolio, where possible; and
- Promote water management to our tenants.

Climate change adaptation and resilience

- Through our risk management processes, identify climate-related risks, both physical and financial;
- Perform environmental risk assessments of our property portfolio on an on-going basis; and
- Design mitigation and management strategies for climate and environmental risks.

Biodiversity

In the circumstances where we are developing new assets, the biodiversity of the development area will be considered and maintained to the highest level possible.

Asset level safety, health and well-being

We wish to manage and develop buildings which are comfortable, safe and high-quality spaces. As such, our aim is that the safety and wellbeing of the occupants of our buildings is maximised. We will implement a property portfolio approach to wellbeing which encourages engagement with tenants, ensures maximum building safety and optimises the comfort and quality of occupancy.

Stakeholder engagement

We engage regularly with the following internal and external stakeholders on environmental and social matters:

- Board – the Board meets at least quarterly and monitors ESG performance and progress towards our objectives;
- Investment Manager – as part of the Investment Manager's training and staff roles and responsibilities, ESG progress is discussed and embedded across the work it does;
- Managing agents – we receive quarterly reports on our asset performance and engage directly on property portfolio optimisation; and
- Tenants – we attempt to engage with tenants on a quarterly basis both to understand consumption trends and data and understand where we can upgrade and optimise buildings for tenant well-being and environmental impact reductions.

To monitor energy consumption across the property portfolio, as well as identify opportunities to make energy reductions, the Company has engaged with specialist consultants Carbon Intelligence to provide strategic advice on the process. This collaboration promotes the ethos of investing responsibly and has ensured statutory compliance with the Energy Savings Opportunity Scheme (ESOS) Regulations 2014 and The Companies (Director's report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, and has facilitated inclusion of EPRA Sustainability Best Practice Recommendations in the Annual Report.

Case study – Warrington

In line with our policy commitment to use building materials which have a lower environmental impact and ultimately result in improved Energy Performance Certificate ("EPC") ratings across our property portfolio, during the year the Company undertook the refurbishment of a 66,000 sq ft industrial property at Unit 4 Kingsland Grange, Warrington at a cost of £1.6m. The refurbishment primarily consisted of the replacement of the original asbestos roof with modern, new insulated roof sheets, removal of curtain walling, replacement of shutters and dock level doors and an overhaul of the mechanical and electrical services.

Following the refurbishment the property is now significantly more energy efficient and as a result its EPC rating has improved from an 'E' to a 'B'. Tenant demand for energy efficient property is becoming ever more apparent and as a result we have seen the ERV for this property increase from £309k (£4.68 per sq ft) to £368k (5.60 per sq ft) and the valuation of the property has increased from £2.7m at 31 March 2019 to £4.5m at 31 March 2020. The property now meets the requirements of the modern occupier and we anticipate further valuation increases for the property once a new letting has been completed.

Case study – Instavolt

Instavolt has helped create a reliable network of electrical vehicle ("EV") charging stations on a number of the Company's retail parks to reduce the carbon footprint and improve sustainability. Air pollution has reached critical levels in cities across the UK and the government is introducing legislation to ban the sale of all petrol and diesel cars by 2040. We will see an increase of EVs on the roads over the next 10 years and introducing EV charging points will futureproof our sites. The service benefits EV drivers, landlords that house the charging units and, ultimately, the UK's environment by supporting use of less polluting EVs.

As the number of EVs on the roads increase, our retail parks should see increased footfall as EV charging station use increases. This should prove attractive when securing new tenants. Introducing the EV charging points to our retail parks makes commercial sense as we can cater for the demand and keep on the right track for the future.

We have installed a total of 16 EV charging points across eight of our retail parks with two chargers per site with the potential to increase the number of chargers on some of our larger sites when demand

increases. The charge points are classed as rapid vehicle chargers and are a minimum 50kW and can be upgraded to 350kW, offering the fastest rates of charge. As charging units can be upgraded up to 350kW, they would not need to be replaced as battery technology develops.

With the benefit of an established relationship with Instavolt we are looking to introduce this technology for the benefit of our tenants on our non-retail park sites.

Approval of Strategic report

The Strategic report, (incorporating the Chairman's statement, Investment Manager's report, Property portfolio, Principal risks and uncertainties, Section 172 statement and stakeholder relationships and Business model and strategy) was approved by the Board of Directors and signed on its behalf by:

David Hunter
Chairman
22 June 2020

Consolidated statement of comprehensive income
For the year ended 31 March 2020

	Note	**Year ended 31 March 2020 £000**	Year ended 31 March 2019 £000
Revenue	4	**40,903**	39,974
Investment management		**(3,517)**	(3,486)
Operating expenses of rental property			
- rechargeable to tenants		**(880)**	(866)
- directly incurred		**(1,883)**	(1,530)
Professional fees		**(445)**	(624)
Directors' fees		**(200)**	(183)
Administrative expenses		**(620)**	(626)
Expenses		**(7,545)**	(7,315)
Operating profit before financing and revaluation of investment property		**33,358**	32,659
Unrealised losses on revaluation of investment property:			
- relating to property revaluations	10	**(25,850)**	(5,499)
- relating to costs of acquisition	10	**(599)**	(3,391)
Valuation decrease		**(26,449)**	(8,890)
(Loss)/profit on disposal of investment property		**(101)**	4,250
Net loss on investment property		**(26,550)**	(4,640)
Operating profit before financing		**6,808**	28,019
Finance income	6	**36**	27
Finance costs	7	**(4,721)**	(4,400)
Net finance costs		**(4,685)**	(4,373)
Profit before tax		**2,123**	23,646
Income tax expense	8	**-**	-
Profit for the year and total comprehensive income for the year, net of tax		**2,123**	23,646
Attributable to:			
Owners of the Company		**2,123**	23,646
Earnings per ordinary share:			
Basic and diluted (p per share)	3	**0.5**	6.0
EPRA (p per share)	3	**7.0**	7.3

The profit for the year arises from the Company's continuing operations.

Consolidated and Company statements of financial position
As at 31 March 2020
Registered number: 08863271

	Note	Group		Company	
		31 March 2020 £000	31 March 2019 £000	**31 March 2020 £000**	31 March 2019 £000
Non–current assets					
Investment property	10	**559,817**	572,745	**559,817**	572,745
Investments	11	**-**	-	**3,405**	501
Total non-current assets		**559,817**	572,745	**563,222**	573,246
Current assets					
Trade and other receivables	12	**5,297**	3,674	**5,297**	3,674
Cash and cash equivalents	14	**25,399**	2,472	**25,399**	2,472
Total current assets		**30,696**	6,146	**30,696**	6,146
Total assets		**590,513**	578,891	**593,918**	579,392
Equity					
Issued capital	16	**4,201**	3,982	**4,201**	3,982
Share premium	16	**250,469**	225,680	**250,469**	225,680
Retained earnings	16	**172,082**	196,961	**172,082**	196,961
Total equity attributable to equity holders of the Company		**426,752**	426,623	**426,752**	426,623
Non-current liabilities					
Borrowings	15	**148,323**	137,532	**148,323**	137,532
Other payables		**576**	576	**576**	576
Total non-current liabilities		**148,899**	138,108	**148,899**	138,108
Current liabilities					
Trade and other payables	13	**7,794**	6,851	**11,199**	7,352
Deferred income		**7,068**	7,309	**7,068**	7,309
Total current liabilities		**14,862**	14,160	**18,267**	14,661
Total liabilities		**163,761**	152,268	**167,166**	152,769
Total equity and liabilities		**590,513**	578,891	**593,918**	579,392

As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account is presented in respect of the parent company. The profit for the financial year dealt with in the financial statements of the parent company was £2,123,000 (2019: £23,646,000).

These consolidated and Company financial statements of Custodian REIT plc were approved and authorised for issue by the Board of Directors on 22 June 2020 and are signed on its behalf by:

David Hunter
Chairman

Consolidated and Company statements of cash flows

For the year ended 31 March 2020

Group and Company	Note	**Year ended 31 March 2020 £000**	Year ended 31 March 2019 £000
Operating activities			
Profit for the year		**2,123**	23,646
Net finance costs		**4,685**	4,373
Valuation decrease of investment property	10	**26,449**	8,890
Impact of rent free	10	**(1,402)**	(2,237)
Amortisation of right-of-use asset		**7**	-
Loss/(profit) on disposal of investment property		**101**	(4,250)
Cash flows from operating activities before changes in working capital and provisions		**31,963**	30,422
(Increase)/decrease in trade and other receivables		**(1,623)**	4,209
Increase in trade and other payables and deferred income		**702**	1,404
Cash generated from operations		**31,042**	36,035
Interest and other finance charges		**(4,435)**	(4,225)
Net cash flows from operating activities		**26,607**	31,810
Investing activities			
Purchase of investment property		**(24,048)**	(55,523)
Capital expenditure and development		**(2,804)**	(2,530)
Acquisition costs		**(599)**	(3,391)
Disposal of investment property		**15,383**	15,375
Costs of disposal of investment property		**(159)**	(130)
Interest received	6	**36**	27
Net cash used in investing activities		**(12,191)**	(46,172)
Financing activities			
Proceeds from the issue of share capital	16	**25,300**	13,420
Costs of share issue		**(292)**	(161)
New borrowings net of origination costs	15	**10,505**	24,000
Dividends paid	9	**(27,002)**	(25,484)
Net cash from financing activities		**8,511**	11,775
Net increase/(decrease) in cash and cash equivalents		**22,927**	(2,587)
Cash and cash equivalents at start of the year		**2,472**	5,059
Cash and cash equivalents at end of the year		**25,399**	2,472

Consolidated and Company statements of changes in equity
For the year ended 31 March 2020

	Note	Issued capital £000	Share premium £000	Retained earnings £000	Total equity £000
As at 31 March 2018		**3,869**	**212,534**	**198,799**	**415,202**
Profit for the year		-	-	23,646	23,646
Total comprehensive income for year		-	-	23,646	23,646
Transactions with owners of the Company, recognised directly in equity					
Dividends	9	-	-	(25,484)	(25,484)
Issue of share capital	16	113	13,146	-	13,259
As at 31 March 2019		**3,982**	**225,680**	**196,961**	**426,623**
Profit for the year		-	-	2,123	2,123
Total comprehensive income for year		-	-	2,123	2,123
Transactions with owners of the Company, recognised directly in equity					
Dividends	9	-	-	(27,002)	(27,002)
Issue of share capital	16	219	24,789	-	25,008
As at 31 March 2020		**4,201**	**250,469**	**172,082**	**426,752**

Notes to the financial statements for the year ended 31 March 2020

1 Corporate information

The Company is a public limited company incorporated and domiciled in England and Wales, whose shares are publicly traded on the London Stock Exchange plc's main market for listed securities. The consolidated financial statements have been prepared on a historical cost basis, except for the revaluation of investment property, and are presented in pounds sterling with all values rounded to the nearest thousand pounds (£000), except when otherwise indicated. The consolidated financial statements were authorised for issue in accordance with a resolution of the Directors on 22 June 2020.

2 Basis of preparation and accounting policies

2.1. Basis of preparation

The consolidated financial statements and the separate financial statements of the parent company have been prepared in accordance with International Financial Reporting Standards adopted by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB (together "IFRS") as adopted by the European Union, and in accordance with the requirements of the Companies Act applicable to companies reporting under IFRS, and therefore they comply with Article 4 of the EU IAS Regulation.

Certain statements in this report are forward looking statements. By their nature, forward looking statements involve a number of risks, uncertainties or assumptions that could cause actual results or events to differ materially from those expressed or implied by those statements. Forward looking statements regarding past trends or activities should not be taken as representation that such trends or activities will continue in the future. Accordingly, undue reliance should not be placed on forward looking statements.

2.2. Basis of consolidation

The consolidated financial statements consolidate those of the parent company and its subsidiaries. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Custodian Real Estate Limited has a reporting date in line with the Company. Other subsidiaries have December accounting reference dates which have not been amended since their acquisition as those companies are expected to be liquidated during the next financial year. All transactions and balances between group companies are eliminated on consolidation, including unrealised gains and losses on transactions between group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of the subsidiary are adjusted where necessary to ensure consistency with the accounting policies adopted by the Group. Profit or loss and other comprehensive income of

subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

2.3. Application of new and revised International Financial Reporting Standards

IFRS 16

The Company adopted IFRS 16 'Leases' on 1 April 2019. The impact of adoption of this standard is shown below:

IFRS 16 removes the distinction between operating and finance leases for lessees and replaces them with the concept of 'right-of-use' assets and associated financial liabilities which will result in almost all leases being recognised on the balance sheet. A leasee's rent expense under IAS 17 for operating leases is removed and replaced with depreciation and finance costs.

Additional disclosure requirements include presenting:

- Depreciation expense;
- Carrying value of right-of-use assets;
- Additions to right-of-use assets;
- Interest expense on lease liabilities;
- Variable lease payments not included in the lease liability; and
- Total cash outflow for leases.

The Company's right of use assets meet the IAS 40 'Investment Property' definition of investment property. The impact of the adoption of IFRS 16 'Leases' during the year has been:

- A £38k impact on income statement categorisation of headlease costs from directly incurred operating expenses of rental property to finance charges; and
- A £7k increase in finance charges and decrease in profit after tax.

These amendments have been recognised in the year as the Company has elected not to restate comparatives on initial application of IFRS 16.

The Company has adopted the amendments included in the Annual Improvements to IFRS Standards 2015–2017 Cycle for the first time in the current year, which have had no impact on reported results, and which includes amendments to the following Standards:

- IAS 12 Income Taxes - the amendments clarify that the Company should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where

the Company originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

- IAS 23 Borrowing Costs - the amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.
- IFRS 3 Business Combinations - the amendments clarify that when the Company obtains control of a business that is a joint operation, the Group applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest ("PHI") in the joint operation at fair value. The PHI to be remeasured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.
- IFRS 11 Joint Arrangements - the amendments clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the Company does not remeasure its PHI in the joint operation.

At the date of authorisation of these financial statements, the following new and revised IFRSs which have not been applied in these financial statements were in issue but not yet effective:

IFRS 17 - 'Insurance Contracts'.

IFRS 17 was published in May 2017 and is effective for periods commencing on or after 1 January 2021. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts. The Company has not completed its review of the impact of this new standard but does not anticipate it having a significant impact.

2.4. Significant accounting policies

The principal accounting policies adopted by the Group and Company and applied to these financial statements are set out below.

Going concern

The Directors believe the Company is well placed to manage its business risks successfully despite the impact of the COVID-19 pandemic on rent deferrals and tenant default. The Company's projections show that the Company should be able to operate within the level of its current financing arrangements for at least the next 12 months, set out in more detail in the Directors' report and Principal risks and uncertainties section of the Strategic report. Accordingly, the Directors continue to adopt the going concern basis for the preparation of the financial statements.

Income recognition

Contractual revenues are allocated to each performance obligation of a contract and revenue is recognised on a basis consistent with the transfer of control of goods or services. Revenue is measured

at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duties.

Rental income from operating leases on properties owned by the Company is accounted for on a straight line basis over the term of the lease. Rental income excludes service charges and other costs directly recoverable from tenants.

Lease incentives are recognised on a straight-line basis over the lease term.

Revenue and profits on the sale of properties are recognised on the completion of contracts. The amount of profit recognised is the difference between the sale proceeds and the carrying amount.

Finance income relates to bank interest receivable and amounts receivable on ongoing development funding contracts.

Taxation

The Group operates as a REIT and hence profits and gains from the property rental business are normally expected to be exempt from corporation tax. The tax expense represents the sum of the tax currently payable and deferred tax relating to the residual (non-property rental) business. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Investment property

Investment property is held to earn rentals and/or for capital appreciation and is initially recognised at cost including direct transaction costs. Investment property is subsequently valued externally on a market basis at the reporting date and recorded at valuation. Any surplus or deficit arising on revaluing investment property is recognised in profit or loss in the year in which it arises. Dilapidations receipts are held in the statement of financial position and offset against subsequent associated expenditure. Any ultimate gains or shortfalls are measured by reference to previously published valuations and recognised in profit or loss, offset against any directly corresponding movement in fair value of the investment properties to which they relate.

Group undertakings

Investments are included in the Company only statement of financial position at cost less any provision for impairment.

Financial assets

The Company's financial assets include cash and cash equivalents and trade and other receivables. Interest resulting from holding financial assets is recognised in profit or loss on an accruals basis.

Loans and receivables are measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment. Provision for impairment of trade and other receivables is made when objective evidence is received that the Company will not be able to collect all amounts due to it in accordance with the original terms of the receivable. The amount of the impairment is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective rate computed at initial recognition. Any change in value through impairment or reversal of impairment is recognised in profit or loss.

A financial asset is de-recognised only where the contractual rights to the cash flows from the asset expire or the financial asset is transferred and that transfer qualifies for de-recognition. A financial asset is transferred if the contractual rights to receive the cash flows of the asset have been transferred or the Company retains the contractual rights to receive the cash flows of the asset but assumes a contractual obligation to pay the cash flows to one or more recipients. A financial asset that is transferred qualifies for de-recognition if the Company transfers substantially all the risks and rewards of ownership of the asset.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and on-demand deposits, and other short-term highly liquid investments that are readily convertible into a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Share capital represents the nominal value of equity shares issued. Share premium represents the excess over nominal value of the fair value of the consideration received for equity shares, net of direct issue costs.

Retained earnings include all current and prior year results as disclosed in profit or loss. Retained earnings include realised and unrealised profits. Profits are considered unrealised where they arise from movements in the fair value of investment properties that are considered to be temporary rather than permanent.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the fair value of proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlements or redemption and direct issue costs, are accounted for on an accruals basis in profit or loss using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

Leases

Where an investment property is held under a leasehold interest, the headlease is initially recognised as an asset at cost plus the present value of minimum ground rent payments. The corresponding rental liability to the head leaseholder is included in the balance sheet as a liability. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining lease liability.

Segmental reporting

An operating segment is a distinguishable component of the Company that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Company's chief operating decision maker (the Board) to make decisions about the allocation of resources and assessment of performance and about which discrete financial information is available. As the chief operating decision maker reviews financial information for, and makes decisions about the Company's investment properties as a portfolio, the Directors have identified a single operating segment, that of investment in commercial properties.

2.5. *Key sources of judgements and estimation uncertainty*

The preparation of the financial statements requires the Company to make estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities. If in the future such estimates and assumptions, which are based on the Directors' best judgement at the date of preparation of the financial statements, deviate from actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change.

Judgements

The areas where a higher degree of judgement or complexity arises are discussed below.

- *Valuation of investment property* - Investment property is valued at the reporting date at fair value. Where an investment property is being redeveloped the property continues to be treated as an investment property. Surpluses and deficits attributable to the Company arising from revaluation are recognised in profit or loss. Valuation surpluses reflected in retained earnings are not distributable until realised on sale. In making its judgement over the valuation of properties, the Company considers valuations performed by the independent valuers in determining the fair value of its investment properties. The valuers makes reference to market evidence of transaction prices for similar properties. The valuations are based upon assumptions including future rental income, anticipated maintenance costs and appropriate discount rates. In response to the COVID-19 pandemic, 31 March 2020 valuations are subject to a 'material uncertainty' clause in line with prevailing RICS guidance. Valuation assumptions also include, for all assets occupied by tenants currently not trading or with trade significantly curtailed, a three-month rental void and a yield increase of 10-75bps.

Estimates

There are no areas where accounting estimates are significant to the financial statements.

3 Earnings per ordinary share

Basic EPS amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS amounts are calculated by dividing the net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. There are no dilutive instruments in issue. Shares issued after the year end are disclosed in Note 20.

The Company is a FTSE EPRA/NAREIT index series constituent and EPRA performance measures have been disclosed to facilitate comparability with the Company's peers through consistent reporting of key performance measures. EPRA has issued recommended bases for the calculation of EPS which the Directors consider are better indicators of performance.

	Year ended 31 March 2020	Year ended 31 March 2019
Net profit and diluted net profit attributable to equity holders of the Company (£000)	**2,123**	23,646

Net loss on investment property (£000)	**26,550**	4,640
One-off costs	**-**	170
EPRA net profit attributable to equity holders of the Company (£000)	**28,673**	28,456
Weighted average number of ordinary shares:		
Issued ordinary shares at start of the year (thousands)	**398,203**	386,853
Effect of shares issued during the year (thousands)	**11,508**	5,015
Basic and diluted weighted average number of shares (thousands)	**409,711**	391,868
Basic and diluted EPS (p)	**0.5**	6.0
EPRA EPS (p)	**7.0**	7.3

4 Revenue

	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Gross rental income from investment property	**40,022**	39,108
Income from recharges to tenants	**881**	866
	40,903	39,974

5 Operating profit

Operating profit is stated after charging/(crediting):

	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Loss/(profit) on disposal of investment property	**101**	(4,250)
Investment property valuation decrease/(increase)	**26,449**	8,890
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	**95**	85
Fees payable to the Company's auditor and its associates for other services	**23**	17
Administrative fee payable to the Investment Manager	**434**	427
Directly incurred operating expenses of vacant rental property	**910**	630
Directly incurred operating expenses of let rental property	**966**	862
Amortisation of right-of-use asset	**7**	-
Lease and sublease expenses	**-**	38

Fees payable to the Company's auditor, Deloitte LLP, are further detailed in the Audit and Risk Committee report.

6 Finance income

	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Bank interest	**36**	**27**
Finance income	**-**	**-**
	36	**27**

7 Finance costs

	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Amortisation of arrangement fees on debt facilities	**286**	175
Other finance costs	**200**	141
Bank interest	**4,235**	4,084
	4,721	4,400

8 Income tax

The tax charge assessed for the year is lower than the standard rate of corporation tax in the UK during the year of 19.0%. The differences are explained below:

	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Profit before income tax	**2,123**	23,646
Tax charge on profit at a standard rate of 19.0% (2019: 19.0%)	**403**	4,493
Effects of:		
REIT tax exempt rental profits and gains	**(403)**	(4,493)
Income tax expense	**-**	-
Effective income tax rate	**0.0%**	0.0%

The Company operates as a REIT and hence profits and gains from the property investment business are normally exempt from corporation tax.

9 Dividends

Group and Company	**Year ended 31 March 2020 £000**	Year ended 31 March 2019 £000
Interim dividends paid on ordinary shares relating to the quarter ended:		
Prior year		
- 31 March 2019: 1.6375p (2018: 1.6125p)	**6,521**	**6,238**
Current year		
- 30 June 2019: 1.6625p (2018: 1.6375p)	**6,786**	**6,335**
- 30 September 2019: 1.6625p (2018: 1.6375p)	**6,828**	**6,449**
- 31 December 2019: 1.6625p (2018: 1.6375p)	**6,867**	**6,462**
	27,002	**25,484**

The Company paid a fourth interim dividend relating to the quarter ended 31 March 2020 of 1.6625p per ordinary share (totalling £7.0m) on 29 May 2020 to shareholders on the register at the close of business on 24 April 2020. This dividend has not been included as a liability in these financial statements.

10 Investment property

Group and Company	£000
At 31 March 2018	528,943
Impact of lease incentives	2,237
Additions	58,914
Increase in headlease liabilities	6
Capital expenditure and development	2,530
Disposals	(10,995)
Valuation decrease before acquisition costs	(5,499)
Acquisition costs	(3,391)
Valuation decrease including acquisition costs	(8,890)
At 31 March 2019	**572,745**
Impact of lease incentives	1,402
Additions	24,647
Amortisation of right-of-use asset	(7)
Capital expenditure and development	2,804
Disposals	(15,325)
Valuation decrease before acquisition costs	(25,850)
Acquisition costs	(599)
Valuation decrease including acquisition costs	(26,449)
At 31 March 2020	**559,817**

£375.1m (2019: £371.4m) of investment property has been charged as security against the Company's borrowings. £0.6m (2019: £nil) of investment property comprises right-of-use assets.

The carrying value of investment property at 31 March 2020 comprises £447.9m freehold (2019: £462.3m) and £111.9m leasehold property (2019: £110.4m).

Investment property is stated at the Directors' estimate of its 31 March 2020 fair value. Lambert Smith Hampton Group Limited ("LSH") and Knight Frank LLP ("KF"), professionally qualified independent valuers, each valued approximately half of the property portfolio as at 31 March 2020 in accordance with the Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors ("RICS"). LSH and KF have recent experience in the relevant locations and categories of the property being valued. 31 March 2020 valuations are subject to a 'material uncertainty' clause in line with prevailing RICS guidance.

Investment property has been valued using the investment method which involves applying a yield to rental income streams. Inputs include yield, current rent and ERV. For the year end valuation, the equivalent yields used ranged from 4.7% to 10.1%. Valuation reports are based on both information provided by the Company e.g. current rents and lease terms, which are derived from the Company's financial and property management systems and are subject to the Company's overall control environment, and assumptions applied by the valuers e.g. ERVs and yields. These assumptions are based on market observation and the valuers' professional judgement. In estimating the fair value of each property, the highest and best use of the properties is their current use. In response to the COVID-19 pandemic, for all assets occupied by tenants currently not trading or with trade significantly curtailed, the Company's valuers assumed a three-month rental void and applied a yield increase of 25-75bps to valuations. It is not possible to estimate sensitivity to these assumptions.

All other factors being equal, a higher equivalent yield would lead to a decrease in the valuation of investment property, and an increase in the current or estimated future rental stream would have the effect of increasing capital value, and vice versa. However, there are interrelationships between unobservable inputs which are partially determined by market conditions, which could impact on these changes.

11 Investments

Shares in subsidiaries

Company Name	Company number	Country of registration and incorporation	Principal activity	Ordinary shares held	**31 March 2020 £000**	31 March 2019 £000
Custodian Real Estate Limited	08882372	England and Wales	Non-trading	100%	**-**	-
Custodian Real Estate BL Limited	09270501	England and Wales	Non-trading – in liquidation	100%	**-**	-
Custodian Real Estate (Beaumont Leys) Limited*	04364589	England and Wales	Non-trading – in liquidation	100%	**4**	4
Custodian Real Estate (Leicester) Limited*	04312180	England and Wales	Non-trading – in liquidation	100%	**497**	497
Custodian Real Estate (JMP4) Limited (formerly John Menzies Property 4 Limited)	11187952	England and Wales	Non-trading	100%	**2,904**	-
					3,405	501

* Held indirectly

On 1 October 2019 the Company acquired entire issued share capital of Custodian Real Estate (JMP4) Limited (formerly John Menzies Property 4 Limited) for £24.6m which owned the Menzies Portfolio.

The Company's non-trading UK subsidiaries have claimed the audit exemption available under Section 479A of the Companies Act 2006. The Company's registered office is also the registered office of each UK subsidiary.

12 Trade and other receivables

Group and Company	**31 March 2020 £000**	31 March 2019 £000
Falling due in less than one year:		
Trade receivables	**4,359**	2,447
Other receivables	**217**	708
Prepayments and accrued income	**721**	519
	5,297	3,674

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increases in credit risk before amounts become past due.

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- When there is a breach of financial covenants by the debtor; or
- Available information indicates the debtor is unlikely to pay its creditors.

Irrespective of the above analysis the Company considers that default has occurred when a financial asset is past due, based on the current uncertainty around rental receipts due to the COVID-19 pandemic, unless the Company has reasonable and supportable information to demonstrate an alternative criteria is more appropriate.

Trade receivables include £nil (2019: £0.2m) which are past due as at 31 March 2020 for which no provision has been made because the amounts are considered recoverable.

The provision for doubtful debts at the year end was £0.3m (2019: £0.0m).

Tenant rent deposits of £0.7m (2019: £1.2m) are held as collateral against certain trade receivable balances.

13 Trade and other payables

	Group		**Company**	
	31 March 2020 £000	31 March 2019 £000	**31 March 2020 £000**	31 March 2019 £000
Falling due in less than one year:				
Trade and other payables	**2,091**	1,231	**2,091**	1,231
Social security and other taxes	**2,462**	1,464	**2,462**	1,464
Accruals	**2,563**	2,911	**2,563**	2,911
Rental deposits	**678**	1,245	**678**	1,245
Amounts due to subsidiary undertakings	**-**	-	**3,405**	501
	7,794	6,851	**11,199**	7,352

The Directors consider that the carrying amount of trade and other payables approximates to their fair value. Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. For most suppliers interest is charged if payment is not made within the required terms. Thereafter, interest is chargeable on the outstanding balances at various rates. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timescale.

Amounts payable to subsidiary undertakings are due on demand.

14 Cash and cash equivalents

Group and Company	**31 March 2020 £000**	31 March 2019 £000
Cash and cash equivalents	**25,399**	2,472

Cash and cash equivalents include £0.9m (2019: £1.4m) of restricted cash comprising £0.7m (2019: £1.2m) of rental deposits held on behalf of tenants and £0.2m (2019: £0.1m) of retentions held in respect of development fundings and capital expenditure.

15 Borrowings

Group and Company	Bank borrowings £000	Costs incurred in the arrangement of bank borrowings £000	Total £000
Falling due in more than one year:			
At 31 March 2019	139,000	(1,468)	137,532
New borrowings	11,000	(495)	10,505
Amortisation of arrangement fees	-	286	286
At 31 March 2020	**150,000**	**(1,677)**	**148,323**

On 17 September 2019 the Company and Lloyds agreed to increase the total funds available under the RCF from £35m to £50m for a term of three years, with an option to extend the term by a further two years, and a reduction in the rate of annual interest to between 1.5% and 1.8% above three-month LIBOR, determined by reference to the prevailing LTV ratio of a discrete portfolio of properties. The RCF includes an 'accordion' option with the year end facility limit set at £35m, which can be increased to £50m subject to Lloyds' agreement.

The Company has the following facilities available:

- A £50m RCF with Lloyds with interest of between 1.5% and 1.8% above three-month LIBOR, determined by reference to the prevailing LTV ratio and expiring on 17 September 2022. At 31 March 2020, the RCF was drawn at £35m (2019: £24m);
- A £20m term loan with Scottish Widows plc with interest fixed at 3.935% and is repayable on 13 August 2025;
- A £45m term loan with Scottish Widows plc with interest fixed at 2.987% and is repayable on 5 June 2028; and
- A £50m term loan with Aviva comprising:
  a) £35m Tranche 1 repayable on 6 April 2032 attracting fixed annual interest of 3.02%; and
  b) £15m Tranche 2 repayable on 3 November 2032 attracting fixed annual interest of 3.26%.

Each facility has a discrete security pool, comprising a number of the Company's individual properties, over which the relevant lender has security and covenants:

- The maximum LTV of the discrete security pool is between 45% and 50%, with an overarching covenant on the Company's property portfolio of a maximum 35% LTV; and
- Historical interest cover, requiring net rental receipts from each discrete security pool, over the preceding three months, to exceed 250% of the facility's quarterly interest liability.

The Company's debt facilities contain market-standard cross-guarantees such that a default on an individual facility will result in all facilities falling into default.

16 Share capital

Group and Company Issued share capital	Ordinary shares of 1p	£000
At 31 March 2018	386,853,344	3,869
Issue of share capital	11,350,000	113
At 31 March 2019	**398,203,344**	**3,982**
Issue of share capital	21,850,000	219
At 31 March 2020	**420,053,344**	**4,201**

During the year, the Company raised £25.3m (before costs and expenses) through the placing of 21,850,000 new ordinary shares.

Rights, preferences and restrictions on shares

All ordinary shares carry equal rights and no privileges are attached to any shares in the Company. All the shares are freely transferable, except as otherwise provided by law. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

At the AGM of the Company held on 31 July 2019, the Board was given authority to issue up to 135,734,448 shares, pursuant to section 551 of the Companies Act 2006 ("the Authority"). The Authority is intended to satisfy market demand for the ordinary shares and raise further monies for investment in accordance with the Company's investment policy. 11,850,000 ordinary shares have been issued under the Authority since 31 July 2019, leaving an unissued balance of 123,884,448 at 31 March 2020. The Authority expires on the earlier of 15 months from 31 July 2019 and the subsequent AGM, due to take place on 1 September 2020.

In addition, the Company was granted authority to make market purchases of up to 40,720,334 ordinary shares under section 701 of the Companies Act 2006. No market purchases of ordinary shares have been made.

Group and Company *Other reserves*	Share premium account £000	Retained earnings £000
At 31 March 2018	212,534	198,799
Shares issued during the year	13,307	-
Costs of share issue	(161)	-
Profit for the year	-	23,646
Dividends paid	-	(25,484)
At 31 March 2019	225,680	196,961
Shares issued during the year	25,081	-
Costs of share issue	(292)	-
Profit for the year	-	2,123
Dividends paid	-	(27,002)
At 31 March 2020	**250,469**	**172,082**

The nature and purpose of each reserve within equity are:

- Share premium - Amounts subscribed for share capital in excess of nominal value less any associated issue costs that have been capitalised.
- Retained earnings - All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

17 Commitments and contingencies

Company as lessor

Operating leases, in which the Company is the lessor, relate to investment property owned by the Company with lease terms of between 0 to 15 years. The aggregated future minimum rentals receivable under all non-cancellable operating leases are:

Group and Company	**31 March 2020 £000**	31 March 2019 £000
Not later than one year	**37,519**	37,632
Year 2	**34,941**	32,513
Year 3	**29,335**	28,728
Year 4	**25,810**	24,473
Year 5	**22,403**	20,981
Later than five years	**75,893**	83,367
	225,901	227,694

The following table presents amounts reported in revenue

Group and Company	**31 March 2020 £000**	31 March 2019 £000
Lease income on operating leases	**39,833**	38,923
Therein lease income relating to variable lease payments that do not depend on an index or rate	**189**	185
	40,022	39,108

18 Related party transactions

Save for transactions described below, the Company is not a party to, nor had any interest in, any other related party transaction during the year.

Transactions with directors

Each of the directors is engaged under a letter of appointment with the Company and does not have a service contract with the Company. Under the terms of their appointment, each director is required to retire by rotation and seek re-election at least every three years. Each director's appointment under their respective letter of appointment is terminable immediately by either party (the Company or the director) giving written notice and no compensation or benefits are payable upon termination of office as a director of the Company becoming effective.

Ian Mattioli is Chief Executive of Mattioli Woods, the parent company of the Investment Manager, and is a director of the Investment Manager. As a result, Ian Mattioli is not independent. The Company Secretary, Ed Moore, is also a director of the Investment Manager.

Investment Management Agreement

The Investment Manager is engaged as AIFM under an IMA with responsibility for the management of the Company's assets, subject to the overall supervision of the Directors. The Investment Manager manages the Company's investments in accordance with the policies laid down by the Board and the investment restrictions referred to in the IMA. The Investment Manager also provides day-to-day administration of the Company and acts as secretary to the Company, including maintenance of accounting records and preparing the annual and interim financial statements of the Company.

During the year annual management fees payable to the Investment Manager under the IMA were calculated as follows:

- 0.9% of the NAV of the Company as at the relevant quarter day which is less than or equal to £200m divided by 4;

- 0.75% of the NAV of the Company as at the relevant quarter day which is in excess of £200m but below £500m divided by 4; plus
- 0.65% of the NAV of the Company as at the relevant quarter day which is in excess of £500m divided by 4.

During the year administrative fees payable to the Investment Manager under the IMA were calculated as follows:

- 0.125% of the NAV of the Company as at the relevant quarter day which is less than or equal to £200m divided by 4;
- 0.08% of the NAV of the Company as at the relevant quarter day which is in excess of £200m but below £500m divided by 4; plus
- 0.05% of the NAV of the Company as at the relevant quarter day which is in excess of £500m divided by 4.

On 22 June 2020 the terms of the IMA were varied with effect from that date to extend the appointment of the Investment Manager for a further three years and to introduce further fee hurdles such that annual management fees payable to the Investment Manager under the IMA are now:

- 0.9% of the NAV of the Company as at the relevant quarter day which is less than or equal to £200m divided by 4;
- 0.75% of the NAV of the Company as at the relevant quarter day which is in excess of £200m but below £500m divided by 4; plus
- 0.65% of the NAV of the Company as at the relevant quarter day which is in excess of £500m but below £750m divided by 4; plus
- 0.55% of the NAV of the Company as at the relevant quarter day which is in excess of £500m divided by 4.

Administrative fees payable to the Investment Manager under the IMA are now:

- 0.125% of the NAV of the Company as at the relevant quarter day which is less than or equal to £200m divided by 4;
- 0.08% of the NAV of the Company as at the relevant quarter day which is in excess of £200m but below £500m divided by 4; plus
- 0.05% of the NAV of the Company as at the relevant quarter day which is in excess of £500m but below £750m divided by 4; plus
- 0.03% of the NAV of the Company as at the relevant quarter day which is in excess of £750m divided by 4.

The IMA is terminable by either party by giving not less than 12 months' prior written notice to the other, which notice may only be given after the expiry of the three year term. The IMA may also be terminated

on the occurrence of an insolvency event in relation to either party, if the Investment Manager is fraudulent, grossly negligent or commits a material breach which, if capable of remedy, is not remedied within three months, or on a force majeure event continuing for more than 90 days.

The Investment Manager receives a marketing fee of 0.25% (2019: 0.25%) of the aggregate gross proceeds from any issue of new shares in consideration of the marketing services it provides to the Company.

During the year the Investment Manager charged the Company £4.01m (2019: £3.95m) comprising £3.52m (2019: £3.49m) in respect of annual management fees, £0.43m (2019: £0.43m) in respect of administrative fees and £0.06m (2019: £0.03m) in respect of marketing fees.

Properties

The Company owns 1, Penman Way, Leicester (formerly MW House) and Gateway House located at Grove Park, Leicester, which were partially let to Mattioli Woods for part of the prior year. On 31 October 2018 Mattioli Woods surrendered one lease and terminated its other lease over parts of Gateway House, paying the remaining 13 months' rent in full, and on 26 November 2018 Mattioli Woods assigned its lease over MW House for the remainder of its term. Mattioli Woods paid the Company rentals of £nil (2019: £0.26m) and £nil (2019: £0.56m) in dilapidation settlements during the year.

19 Financial risk management

Capital risk management

The Company manages its capital to ensure it can continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance within the parameters of its investment policy. The capital structure of the Company consists of debt, which includes the borrowings disclosed below, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued ordinary share capital, share premium and retained earnings.

Net gearing ratio

The Board reviews the capital structure of the Company on a regular basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. The Company has a target net gearing ratio of 25% determined as the proportion of debt (net of unrestricted cash) to investment property. The net gearing ratio at the year end was 22.4% (2019: 24.1%).

Externally imposed capital requirements

The Company is not subject to externally imposed capital requirements, although there are restrictions on the level of interest that can be paid due to conditions imposed on REITs.

Financial risk management

The Company seeks to minimise the effects of interest rate risk, credit risk, liquidity risk and cash flow risk by using fixed and floating rate debt instruments with varying maturity profiles, at low levels of net gearing.

Interest rate risk management

The Company's activities expose it primarily to the financial risks of increases in interest rates, as it borrows funds at floating interest rates. The risk is managed by maintaining:

- An appropriate balance between fixed and floating rate borrowings;
- A low level of net gearing; and
- The RCF whose flexibility allows the Company to manage the risk of changes in interest rates.

The Board periodically considers the availability and cost of hedging instruments to assess whether their use is appropriate and also considers the maturity profile of the Company's borrowings.

Interest rate sensitivity analysis

Interest rate risk arises on interest payable on the RCF only, as interest on all other debt facilities is payable on a fixed rate basis. At 31 March 2020, the RCF was drawn at £35m. Assuming this amount was outstanding for the whole year and based on the exposure to interest rates at the reporting date, if three-month LIBOR had been 0.5% higher/lower and all other variables were constant, the Company's profit for the year ended 31 March 2020 would decrease/increase by £0.2m due to its variable rate borrowings.

Market risk management

The Company manages its exposure to market risk by holding a portfolio of investment property diversified by sector, location and tenant.

Market risk sensitivity

Market risk arises on the valuation of the Company's property portfolio in complying with its bank loan covenants (Note 15). The Company would breach its overall borrowing covenant if the valuation of its property portfolio fell by 35% (2019: 31%).

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company. The Company's credit risk is primarily attributable to its trade receivables and cash balances. The amounts included in the statement of financial position are net of allowances for bad and doubtful debts. An allowance for impairment is made where a debtor is in breach of its financial covenants, available information indicates a debtor can't pay or where balances are significantly past due.

The Company has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The maximum credit risk on financial assets at 31 March 2020 was £4.4m (2019: £2.5m).

The Company has no significant concentration of credit risk, with exposure spread over a large number of tenants covering a wide variety of business types. Further detail on the Company's credit risk management process is included within the Strategic report.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profile of financial assets and liabilities.

The following tables detail the Company's contractual maturity for its financial liabilities. The table has been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

Group	Weighted average effective interest rate %	31 March 2020 0-3 months £000	31 March 2020 3 months – 1 year £000	31 March 2020 1-5 years £000	31 March 2020 5 years + £000
Trade and other payables		7,794	-	151	425
Borrowings:					
Variable rate	1.988	174	522	37,413	-
Fixed rate	3.935	197	590	3,148	20,295
Fixed rate	2.987	336	1,008	5,377	49,279
Fixed rate	3.020	264	793	4,228	42,419
Fixed rate	3.260	122	367	1,956	18,716
		8,887	**3,280**	**52,273**	**131,134**

Company	*Weighted average effective interest rate %*	*31 March 2020 0-3 months £000*	*31 March 2020* 3 months – 1 year *£000*	*31 March 2020 1-5 years £000*	*31 March 2020* 5 years + *£000*
Trade and other payables		7,794	-	151	425
Borrowings:					
Variable rate	1.988	174	522	37,413	-
Fixed rate	3.935	197	590	3,148	20,295
Fixed rate	2.987	336	1,008	5,377	49,279
Fixed rate	3.020	264	793	4,228	42,419
Fixed rate	3.260	122	367	1,956	18,715
		8,887	**3,280**	**52,273**	**131,134**

Group	Weighted average effective interest rate %	31 March 2019 0-3 months £000	31 March 2019 3 months – 1 year £000	31 March 2019 1-5 years £000	31 March 2019 5 years + £000
Trade and other payables		6,851	-	151	425
Borrowings:					
Variable rate	3.143	189	566	24,473	-
Fixed rate	3.935	197	590	3,148	21,082
Fixed rate	2.987	336	1,008	5,377	50,623
Fixed rate	3.020	264	793	4,228	43,476
Fixed rate	3.260	122	367	1,956	19,205
		7,959	**3,324**	**39,333**	**134,811**

Company	Weighted average effective interest rate %	31 March 2019 0-3 months £000	31 March 2019 3 months – 1 year £000	31 March 2019 1-5 years £000	31 March 2019 5 years + £000
Trade and other payables		7,352	-	151	425
Borrowings:					
Variable rate	3.143	189	566	24,473	-
Fixed rate	3.935	197	590	3,148	21,082
Fixed rate	2.987	336	1,008	5,377	50,623
Fixed rate	3.020	264	793	4,228	43,476
Fixed rate	3.260	122	367	1,956	19,205
		8,460	**3,324**	**39,333**	**134,811**

Fair values

The fair values of financial assets and liabilities are not materially different from their carrying values in the financial statements. The fair value hierarchy levels are as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – inputs for the assets or liability that are not based on observable market data (unobservable inputs).

There have been no transfers between Levels 1, 2 and 3 during the year. The main methods and assumptions used in estimating the fair values of financial instruments and investment property are detailed below.

Investment property – level 3

Fair value is based on valuations provided by an independent firm of chartered surveyors and registered appraisers, which uses the inputs set out in Note 10. These values were determined after having taken into consideration recent market transactions for similar properties in similar locations to the investment properties held by the Company. The fair value hierarchy of investment property is level 3. At 31 March 2020, the fair value of the Company's investment properties was £559.8m (2019: £572.7m).

Interest bearing loans and borrowings – level 3

As at 31 March 2020 the value of the Company's loans was £150m (2019: £137.5m) and the amortised cost of the Company's loans with Lloyds, SWIP and Aviva approximated their fair value.

Trade and other receivables/payables – level 3

The carrying amount of all receivables and payables deemed to be due within one year are considered to reflect their fair value.

Impact of Brexit and the COVID-19 pandemic

As set out in the Principal risks and uncertainties section of the Strategic report, the Board believes it too early to understand fully the impact of the COVID-19 pandemic and Brexit, but the Board believes the Company is well placed to weather any short-term impact due to the reasons set out in the Strategic report.

The Board does therefore not consider it necessary or possible to carry out sensitivity analysis on its valuation or cashflow assumptions.

20 Events after the reporting date

On 22 June 2020 the IMA was renewed as detailed in Note 18.

21 Alternative performance measures

NAV per share total return

A measure of performance taking into account both capital returns and dividends by assuming dividends declared are reinvested at NAV at the time the shares are quoted ex-dividend, shown as a percentage change from the start of the year.

	Year ended 31 March 2020	Year ended 31 March 2019
Net assets (£000)	**426,752**	426,623
Shares in issue at 31 March (thousands)	**420,053**	398,203
NAV per share at the start of the year (p)	**107.1**	107.3
Dividends per share for the year (p)	**6.65**	6.55
NAV per share at the end of the year (p)	**101.6**	107.1
NAV per share total return	**1.1%**	5.9%

Share price total return

A measure of performance taking into account both share price returns and dividends by assuming dividends declared are reinvested at the ex-dividend share price, shown as a percentage change from the start of the year.

	Year ended 31 March 2020	Year ended 31 March 2019
Share price at the start of the year (p)	**111.2**	**113.0**
Dividends per share for the year (p)	**6.65**	**6.55**
Share price at the end of the year (p)	**99.0**	**111.2**
Share price total return	**(5.0%)**	**4.2%**

Dividend cover

The extent to which dividends relating to the year are supported by recurring net income.

	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Dividends paid relating to the year	**20,481**	19,246
Dividends approved relating to the year	**6,983**	6,521
	27,464	25,767
Profit after tax	**2,123**	23,646
One-off costs	**-**	170
Net loss on investment property	**26,550**	4,640
	28,673	28,456
Dividend cover	**104.4%**	110.4%

Premium of share price to NAV per share

The difference between the Company's share price and NAV, shown as a percentage at the end of the year.

	Year ended 31 March 2020	Year ended 31 March 2019
NAV per share (p)	**101.6**	107.1
Share price at the end of the year (p)	**99.0**	111.2
(Discount)/premium	**(2.6%)**	3.8%

Net gearing

Gross borrowings less cash (excluding rent deposits), divided by property portfolio value.

	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Gross borrowings	**150,000**	139,000
Cash	**(25,399)**	(2,472)
Cash held on behalf of tenants	**911**	1,369
Net borrowings	**125,512**	137,897
Investment property	**559,817**	572,745
Net gearing	**22.4%**	24.1%

Ongoing charges

A measure of the regular, recurring costs of running an investment company expressed as a percentage of average NAV.

	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Average quarterly NAV during the year	**428,979**	422,574
Expenses	**7,547**	7,185
Operating expenses of rental property rechargeable to tenants	**(880)**	(866)
	6,667	6,319
Operating expenses of rental property directly incurred	**(1,883)**	(1,400)
One-off costs	**-**	(170)
	4,784	4,749
OCR	**1.55%**	1.50%
OCR excluding direct property expenses	**1.12%**	1.12%

EPRA performance measures

EPRA promotes, develops and represents the European public real estate sector, providing leadership in matters of common interest by publishing research and encouraging discussion of issues impacting the property industry, both within the membership and with a wide range of stakeholders, including the EU institutions, governmental and regulatory bodies and business partners. The Board supports EPRA's drive to bring parity to the comparability and quality of information provided in this report to investors and other key stakeholders.

EPRA earnings per share

A measure of the Company's operating results excluding gains or losses on investment property, giving a better indication than basic EPS of the extent to which dividends paid in the year are supported by recurring net income;

	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Profit for the year after taxation	**2,120**	23,646
Net loss on investment property	**26,550**	4,640
One-off abortive acquisition costs	**-**	170
EPRA earnings	**28,670**	28,456
Weighted average number of shares in issue (thousands)	**409,711**	391,868
EPRA earnings per share (p)	**7.0**	7.3

EPRA NAV per share

The EPRA NAV highlights the fair value of net assets on an ongoing, long-term basis. It excludes assets and liabilities that are not expected to crystallise in normal circumstances such as the fair value of financial derivatives and deferred taxes on property valuation surpluses.

	31 March 2020 £000	31 March 2019 £000
Net assets	**426,751**	426,623
Fair value of financial instruments	**-**	-
Deferred tax	**-**	-
EPRA NAV	**426,751**	426,623
Closing number of shares in issue (thousands)	**420,053**	398,203
EPRA NAV per share (p)	**101.6**	107.1

EPRA NNNAV per share

The EPRA triple NAV is the EPRA NAV adjusted to reflect the fair value of debt and derivatives and to include deferred taxation on revaluations.

	31 March 2020 £000	31 March 2019 £000
EPRA NAV	**426,751**	426,623
Fair value of debt	**-**	-
Deferred tax	**-**	-
EPRA NNNAV	**426,751**	426,623
Closing number of shares in issue (thousands)	**420,053**	398,203
EPRA NNNAV per share (p)	**101.6**	107.1

There is no difference between the carrying value of the Company's interest-bearing loans included in the balance sheet at amortised cost and their fair value. Fair value excludes 'break' costs chargeable should the Company settle loans ahead of their contractual expiry.

EPRA NIY and EPRA 'topped-up' NIY

EPRA NIY represents annualised rental income based on cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the gross property valuation. The EPRA 'topped-up' NIY is calculated by making an adjustment to the EPRA NIY in respect of the expiration of rent free periods (or other unexpired lease incentives such as discounted rent periods and stepped rents).

	31 March 2020 £000	31 March 2019 £000
Investment property	**558,817**	572,745
Allowance for estimated purchasers' costs[30]	**36,388**	37,228
Gross up property portfolio valuation	**596,205**	609,973
Annualised cash passing rental income	**38,196**	38,977
Property outgoings	**(1,451)**	(914)
Annualised net rents	**36,745**	38,063
Impact of expiry of current lease incentives	**2,553**	1,274
	39,298	39,337
EPRA NIY	**6.2%**	6.2%
EPRA 'topped-up' NIY	**6.6%**	6.4%

30 Assumed at 6.5% of investment property valuation.

EPRA vacancy rate

EPRA vacancy rate is the ERV of vacant space as a percentage of the ERV of the whole property portfolio.

	31 March 2020 £000	31 March 2019 £000
Annualised potential rental value of vacant premises	**1,745**	1,728
Annualised potential rental value for the property portfolio	**42,494**	42,012
EPRA vacancy rate	**4.1%**	4.1%

EPRA cost ratios

EPRA cost ratios reflect overheads and operating costs as a percentage of gross rental income.

	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Directly incurred operating expenses and administrative fees	**6,667**	6,319
Ground rent costs	**(37)**	(37)
EPRA costs (including direct vacancy costs)	**6,630**	6,282
Property void costs	**(836)**	(609)
EPRA costs (excluding direct vacancy costs)	**5,794**	5,673
Gross rental income	**40,022**	39,108
Ground rent costs	**(37)**	(37)
Rental income net of ground rent costs	**39,985**	39,071
EPRA cost ratio (including direct vacancy costs)	**16.6%**	16.1%
EPRA cost ratio (excluding direct vacancy costs)	**14.5%**	14.5%

EPRA capital expenditure

Capital expenditure incurred on the Company's property portfolio during the year.

	31 March 2020 £000	31 March 2019 £000
Acquisitions	**-**	-
Development	**79**	693
Like-for-like portfolio	**2,725**	1,837
Total capital expenditure	**2,804**	2,530

EPRA like-for-like rental growth

Like-for-like rental growth of the property portfolio by sector.

2020	Industrial £000	Retail warehouse £000	Retail £000	Other £000	Office £000	**Total £000**
Like-for-like rent	15,128	8,928	4,689	6,656	3,601	**39,002**
Acquired properties	424	-	-	-	-	**424**
Sold properties	208	-	-	-	388	**596**
	15,760	8,928	4,689	6,656	3,989	**40,022**

2019	Industrial £000	Retail warehouse £000	Retail £000	Other £000	Office £000	Total £000
Like-for-like rent	14,714	7,362	5,060	5,568	4,045	**36,749**
Acquired properties	516	591	64	780	197	**2,148**
Sold properties	193	18	-	-	-	**211**
	15,423	7,971	5,124	6,348	4,242	**39,108**

22 Distribution of the Annual Report and accounts to members

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 March 2020 or 2019, but is derived from those accounts. Statutory accounts for 2019 have been delivered to the Registrar of Companies and those for 2020 will be delivered following the Company's AGM being held at 1 September 2020 at 2:00pm. The auditor has reported on those accounts: their reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s498(2) or (3) of the Companies Act 2006. The Annual Report and accounts will be posted to shareholders in due course, and will be available on our website

(custodianreit.com) and for inspection by the public at the Company's registered office address: 1 New Walk Place, Leicester LE1 6RU during normal business hours on any weekday. Further copies will be available on request.

- Ends -