Custodian REIT PLC

16 June 2021

**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 2021.

## Financial highlights and performance summary

- 91% of rent collected for the year, adjusted for contractual rent deferrals
- EPRA[1] earnings per share[2] decreased to 5.6p (2020: 7.0p) due to providing for deferred and overdue rent and a 5.0% decrease in the annual rent roll
- Basic and diluted earnings per share[3] of 0.9p (2020: 0.5p), impacted by property valuation decreases of £19.6m (2020: £25.9m)
- Profit before tax up 76.6% to £3.7m (2020: £2.1m)
- Aggregate dividends per share for the year of 5.0p (2020: 6.65p), reflecting the decreases in rent collection rate and rent roll since the onset of the COVID-19 pandemic
- Target dividend per share for the year ending 31 March 2022 of not less than 5.0p, based on rent collection levels remaining in line with expectations
- NAV total return per share[4] of 0.9% (2020: 1.1%) comprising 4.8% dividends (2020: 6.2%) and a 3.9% capital decrease (2020: 5.1% capital decrease)
- Property value of £551.9m (2020: £559.8m):
  - £19.6m aggregate valuation decrease (3.5% of property portfolio value) comprising a £9.4m property valuation uplift from successful asset management initiatives and £29.0m of general 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
  - £11.4m[5] invested in three property acquisitions

1 The European Public Real Estate Association ("EPRA").

2 Profit after tax excluding net gains or losses on investment property divided by weighted average number of shares in issue.

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

4 Net Asset Value ("NAV") movement including dividends paid during the year on shares in issue at 31 March 2020.

5 Before acquisition costs of £0.7m.

- Disposal of five properties for aggregate consideration of £4.4m[6]
- £2.3m capital expenditure incurred including £0.7m on construction of a drive-through restaurant on an existing site

| | *2021* | *2020* | *Change* |
|---|---|---|---|
| *Return* | | | |
| Share price total return[7] | (2.3%) | (5.0%) | 2.7% |
| Dividend cover[8] | 112.7% | 104.4% | 8.3% |
| Dividends per share[9] (p) | 5.0 | 6.65 | (24.8%) |
| *Capital values* | | | |
| NAV and EPRA NTA[10] (£m) | 409.9 | 426.7 | (3.9%) |
| NAV per share and NTA per share (p) | 97.6 | 101.6 | (3.9%) |
| Share price (p) | 91.8 | 99.0 | (7.3%) |
| Market capitalisation (£m) | 385.6 | 415.9 | (7.3%) |
| Discount of share price to NAV per share | (5.9%) | (2.6%) | (3.3%) |
| Net gearing[11] | 24.9% | 22.4% | (2.5%) |
| *Costs* | | | |
| Ongoing charges ratio[12] ("OCR") | 2.48% | 1.55% | 0.93% |
| OCR excluding direct property expenses[13] | 1.12% | 1.12% | 0.0% |
| *Environmental* | | | |
| Weighted average energy performance certificate ("EPC") rating[14] | C (63) | C (70) | (10%) |

*Alternative performance measures*

The Company reports alternative performance measures ("APMs") to assist stakeholders in assessing performance alongside the Company's results on a statutory basis, set out above. 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. 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.

6 Before disposal costs of £0.1m.

7 Share price movement including dividends paid during the year.

8 Profit after tax, excluding net gains or losses on investment property, divided by dividends paid and approved for the year.

9 Dividends paid and approved for the year.

10 Following the recent update to EPRA's Best Practice Recommendations Guidelines the Company's peer group has adopted EPRA net tangible assets ("NTA") as the primary measure of net asset value. There are no differences between the Company's IFRS NAV, EPRA NAV and EPRA NTA.

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

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

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

14 For properties in Scotland, English equivalent EPC ratings have been obtained.

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

"Custodian REIT's investment strategy has been tested, with the Company operating for a full year under the shadow of COVID-19. From a low point in May 2020, Custodian REIT's share price has been gently recovering, matching the greater clarity that the Company has provided around dividends through the course of the year.

"The impact of the pandemic has been to accelerate the decline in high street retail, pushing an increasing number of occupiers into insolvency and many occupiers into seeking to defer rental payments. Despite the strongly positive performance of the Company's industrial and logistics portfolio, the net result has been a 3.5% property valuation decrease during the year.

"However, 91% of rent was collected, net of contractual deferrals, meaning I was delighted to be able to announce dividends per share totalling 5.0p for the year and that the Company is targeting a dividend per share of at least 5.0p for the year ending 31 March 2022, based on rent collection levels remaining in line with expectations. This dividend outcome is significantly ahead of the minimum level announced in April 2020 of 0.75p per quarter before the full impact of the first national lockdown could be ascertained.

"The combination of resilient capital values and a return to stabilised dividends should lend support to Custodian REIT's objective to be the REIT of choice for private and institutional investors seeking high and well supported dividends from diversified UK commercial property."

**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 2:00pm today. Those analysts wishing to take part are asked to register at:

numiscorp.zoom.us/webinar/register/WN_cZmwSfrpTAqdmcWrYM4pmQ

After registering, you will receive a confirmation email containing information about joining the webinar. If you have any questions please contact Amy Rush on +44 (0) 20 7260 1365 or at a.rush@numis.com.

**Investor presentation**

The Board has been monitoring whether COVID-19 guidance limiting public gatherings and travel will be in place when the Company holds its AGM on 25 August 2021. To provide certainty and encourage interaction and engagement with our shareholders, the Company has arranged an online investor presentation at 2:00pm on 6 July 2021 at which shareholders will receive updates from the Chairman and Investment Manager with the opportunity for an interactive question and answer session.

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

bigmarker.com/mattioli-woods-plc/Custodian-REIT-plc-annual-results

## Business model and strategy

*Purpose*

Custodian REIT offers investors the opportunity to access a diversified portfolio of UK commercial real estate through a closed-ended fund. The Company seeks to provide investors with an attractive level of income and the potential for capital growth, becoming the REIT of choice for private and institutional investors seeking high and stable dividends from well-diversified UK real estate.

*Investment Policy*

The Company's investment policy[15] is summarised below:

- To invest in a diverse portfolio of UK commercial real estate, principally characterised by individual property values of less than £10m at acquisition.
- The property portfolio should be diversified by sector, location, tenant and lease term, with a maximum weighting to any one property sector or geographic region of 50%.
- To focus on areas with high residual values, strong local economies and an imbalance between supply and demand, acquiring modern buildings or those considered fit for purpose by occupiers.
- No one tenant or property should account for more than 10% of the rent roll at the time of purchase, except for:
  (i) governmental bodies or departments; or
  (ii) single tenants rated by Dun & Bradstreet as having a credit risk score higher than two[16], where exposure may not exceed 5% of the rent roll.
- The Company will not undertake speculative development except for the refurbishment of existing holdings, but may invest in forward funding agreements where the Company may acquire pre-let development land and construct investment property with the intention of owning the completed development.
- The Company may use gearing provided that the maximum LTV shall not exceed 35%, with a medium-term net gearing target of 25% LTV.

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.

15 A full version of the Company's Investment Policy is available at custodianreit.com/wp-content/uploads/2021/02/CREIT-Investment-policy.pdf

16 A risk score of two represents "lower than average risk".

*Diverse portfolio*

| Top ten tenants | Asset locations | Annual passing rent (£m) | % portfolio income |
|---|---|---|---|
| Menzies Distribution | Aberdeen, Edinburgh, Glasgow, Ipswich, Norwich, Stockton-on-Tees, Swansea, Weybridge | 1.6 | 3.8% |
| B&Q | Banbury, Galashiels, Weymouth | 1.4 | 3.2% |
| B&M Retail | Swindon, Ashton-under-Lyne, Plymouth, Carlisle | 1.3 | 2.9% |
| VW Group | Derby, Stafford, Shrewsbury | 0.8 | 2.0% |
| Superdrug Stores | Weston-super-Mare, Avonmouth, Southsea, Worcester | 0.8 | 1.9% |
| Wickes Building Supplies | Winnersh, Burton upon Trent | 0.8 | 1.8% |
| Williams Motor Co (t/a Williams BMW and Mini) | Stockport | 0.6 | 1.5% |
| Regus (Maidstone West Malling) | West Malling | 0.6 | 1.5% |
| First Title (t/a Enact Conveyancing) | Leeds | 0.6 | 1.5% |
| H&M | Winsford | 0.6 | 1.5% |

*Financial resilience*

| | **31 Mar 2021** | 31 Mar 2020 |
|---|---|---|
| Net gearing | **24.9%** | 22.4% |
| Number of property assets | **159** | 161 |
| Debt facility average maturity | **7.4 years** | 7.8 years |

*Our environmental, social and governance ("ESG") objectives*

- Minimising our environmental impact - seek to reduce pollution and comply with all relevant environmental legislation, gather and analyse data on the environmental performance of our properties and measure environmental performance against targets.
- Engaging with our stakeholders - the Board and Investment Manager ensure ESG progress is discussed and embedded across all work done. The Investment Manager liaises closely with tenants to understand consumption trends and data and understand where we can upgrade and optimise buildings for tenant well-being and environmental impact reductions.
- Supporting local communities - the Company is committed to engaging constructively with central and local government to ensure we support the wider community through local economic and environmental plans and strategies and play our part in providing the real estate fabric of the economy, giving employers a place of business.
- Transparent disclosure - the Investment Manager has been working with the Company's environmental consultants, Carbon Intelligence, to put in place an environmental vision and strategy including implementation of environmental key performance indicators, data collection and monitoring and long-term emissions targets.

**Chairman's statement**

Custodian REIT's investment strategy has been tested, with the Company operating for a full year under the shadow of COVID-19. The Company's absolute focus on income by maximising rent collection and preserving cash flow from the property portfolio has enabled it to weather the storm. Following the shock of the first lockdown, and from a low point in May 2020, Custodian REIT's share price showed less volatility through the second half of 2020. Since the start of 2021 the share price has been gently recovering. This trajectory in share price performance has matched the greater clarity that the Company was able to provide around dividends through the course of the year, demonstrating the importance placed on income by shareholders.

The impact of the pandemic has been to accelerate the decline in high street retail, pushing an increasing number of occupiers into Administration or company voluntary arrangements ("CVAs") and many occupiers into seeking to defer rental payments for later collection. Despite the strongly positive performance of the Company's industrial and logistics portfolio, the net result has been a 3.5% (£19.6m) property valuation decrease during the year. 91% of rent was collected, net of contractual deferrals, or 89% before contractual deferrals. Most tenants are honouring rent deferral agreements but some arrears are still at risk of non-recovery from CVAs or Administrations.

In the circumstances I was delighted to be able to announce that the Company's successful focus on rent collection allowed dividends per share totalling 5.0p to be declared for the year. This dividend outcome is significantly ahead of the minimum level announced in April 2020 of 0.75p per quarter before the full impact of the first national lockdown could be ascertained.

This dividend was one of the highest fully covered dividends amongst its peer group of listed property investment companies[17] for the year ended 31 March 2021 and, in line with the Company's policy, was fully covered by net cash receipts and 113% covered by EPRA earnings.

Acknowledging the importance of income for shareholders, I was also very pleased to announce that the Company is targeting a dividend per share of at least 5.0p for the year ending 31 March 2022, based on rent collection levels remaining in line with expectations.

These have been testing times which have necessitated an exceptional effort from the Investment Manager both in the collection of rents and in operating remotely as a team. I would like to acknowledge this achievement. I also thank my fellow Board members who have been flexible and supportive during a year which has required numerous formal and informal additional Board meetings.

17 Source: Numis Securities Limited.

*Financial and operational resilience*

The Company remains in a strong financial position to address the extraordinary circumstances imposed by the COVID-19 pandemic. At 31 March 2021 it had:

- A diverse and high-quality asset and tenant base comprising 159 assets and 201 typically 'institutional grade' tenants across all commercial sectors, with an occupancy rate of 91.6%;
- £3.9m of cash and £10.0m of undrawn revolving credit facility (“RCF”), with gross borrowings of £140m resulting in low net gearing, with no short-term refinancing risk and a weighted average debt facility maturity of seven years;
- Significant headroom on lender covenants at a portfolio level, with net gearing of 24.9% and a maximum loan to value ("LTV") covenant of 35%; and
- Interest cover covenant[18] waivers in place to mitigate the risk that covenants on individual longer-term fixed-rate debt facilities might have come under pressure due to curtailed rent receipts.

Covenant waivers have not been required due to the level of rent collected and are not expected to be requested beyond 31 March 2021. No lender covenants have been breached during the Period.

*Net asset value*

The NAV of the Company at 31 March 2021 was £409.9m, approximately 97.6p per share, a decrease of 4.0p (3.9%) since 31 March 2020:

| | Pence per share | £m |
|---|---|---|
| NAV at 31 March 2020 | 101.6 | 426.7 |
| Valuation movements relating to: | | |
| - Asset management activity | 2.2 | 9.4 |
| - General valuation decreases | (6.9) | (29.0) |
| Valuation decrease before acquisition costs | (4.7) | (19.6) |
| Impact of acquisition costs | (0.2) | (0.7) |
| Valuation decrease including acquisition costs | (4.9) | (20.3) |
| Profit on disposal of investment property | 0.1 | 0.4 |
| Net valuation movement | (4.8) | (19.9) |
| Revenue | 9.5 | 39.7 |
| Expenses and net finance costs | (3.8) | (16.0) |
| Dividends paid[19] | (4.9) | (20.6) |
| **NAV at 31 March 2021** | **97.6** | **409.9** |

18 Historical rental income received and projected contractual rental income receivable less certain property expenses divided by interest and fees payable to its lenders must exceed 250%.

19 Dividends totalling 4.9125p per share (1.6625p relating to the prior year and 3.25p relating to the year) were paid on shares in issue throughout the year.

The net valuation decrease of 3.5% (£19.6m) saw falls in retail, other and office sector valuations, partially offset by a 4.6% (£12.0m) increase in industrial and logistics further detailed in the Investment Manager's report, due to:

- The Company's valuers reflecting historical rent arrears within valuations and downgrading valuations for properties let to tenants which had ceased or significantly curtailed trading, in line with current RICS advice to valuers;
- A steep reduction in retail rental values;
- Strongly polarised investment demand, favouring logistics and long income and shunning consumer facing property, especially retail; and
- The impact of CVAs and company Administrations detailed in the Asset management report.

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 investment yields tightening in this very popular sector and with income returns coming under pressure the opportunities for a diversified investment strategy, to support future dividends, remain a focus for the Company.

*The market*

FY21 has seen a market where almost every commercial property investment has been impacted by COVID-19 – some negatively and some positively. We have not seen such a widespread impact across the whole property investment market since the Global Financial Crisis. However, a downturn is often the best time for an investment strategy to be tested, and so the last year has proved. Custodian REIT has endured lower volatility relative to its close peer group of diversified property investment companies[20], and its property portfolio continues to deliver asset management opportunities which are value accretive as discussed in the Asset management report.

Property investment companies with certain sector specific investment strategies, such as healthcare and logistics, have outperformed during the year. However, we believe that for a large swathe of investors the long-term attributes of a diversified strategy remain the key attraction of real estate investment. Our strategy offers diversification of tenant, lease expiry profile and asset type, low net gearing, a risk-averse debt profile, strong regional property locations and the ability of the management team to generate future income from the assets. These attributes contribute to lower share price volatility than the close peer group and have been rewarded with continued dividends, supporting a 5% plus dividend yield for most of the year.

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

20 Source: Numis Securities Limited.

liquid structure. After many months of Open-Ended Property Funds blocking redemptions, (in part due to FCA restrictions and in part due to lack of liquidity) the investment trust structure offers a natural choice for retail investors seeking high and stable dividends from well-diversified UK real estate through a liquid vehicle.

*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 fees paid to Investment Manager were £3.8m (2020: £4.0m) in respect of annual management and administrative 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 in rent collection levels and its continued successful asset management during the pandemic which contributed to both capital values and income. The Board is satisfied that the Investment Manager's performance remains aligned with the Company's purpose, values and strategy.

The MEC reviewed, in detail, the arrangements with the Investment Manager when the Investment Management Agreement ("IMA") reached the end of its three-year term on 31 May 2020. In light of the positive performance of the Company the Board agreed a further three-year term with the Investment Manager, from 1 June 2020. The fees payable to the Investment Manager under the IMA were amended to include:

- A step down in the annual management fees[21] 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 remained unchanged. The Board consider these amendments to the IMA to be in the best interests of the Company's shareholders because:

- Continued growth in NAV, particularly above thresholds of £500m and £750m, will further reduce the Company's OCR and increase dividend capacity; and
- Another three-year term provides the Investment Manager with appropriate security of tenure and allows further investment in the dedicated systems and people providing its services under the IMA.

*Board succession and remuneration*

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

Although the Company's succession policy allows for a director tenure of longer than nine years, in line with the 2019 AIC Corporate Governance Code for Investment Companies ("AIC Code"), the Board acknowledges the benefits of ongoing Board refreshment and for this reason expected Director retirement dates are staggered within a nine year tenure period.

On 1 January 2021, after nearly seven years of service, Professor Barry Gilbertson retired as Senior Independent Non-Executive Director of the Company. The Board would like to thank Barry for his significant contribution to the development of the Company since his appointment on IPO in 2014.

Responding to Barry's departure and the growth of the Company since inception we were delighted to welcome Elizabeth McMeikan and Chris Ireland to the Board on 1 April 2021. Both new Directors bring a range of different but complementary skills which strengthen the Board's property and governance experience and add to its diversity. We look forward to the contribution they will both make.

The Board is conscious of the increased focus on diversity and recognises the value and importance of diversity in the boardroom. No Directors are from a minority ethnic background. The appointment of Elizabeth McMeikan increases the female representation on the Board to 33% which meets the gender diversity recommendations of the Hampton-Alexander Review for at least 33% female representation on FTSE350 company boards. As a constituent of the FTSESmallCap Index Custodian REIT is not bound by this recommendation. The Board supports the overall recommendations of the Hampton-Alexander and Parker Reports although it is not seen to be in the interests of the Company and its shareholders to set prescriptive diversity targets for the Board at this point.

In March 2020 the Remuneration Committee determined that there would be no increase in the level of Directors' annual fees for the year ending 31 March 2021 due to the uncertainty caused by the COVID-19 pandemic. For the year ending 31 March 2022 the Remuneration Committee has continued its historical policy of paying appropriately benchmarked Directors' fees.

*Environmental, social and governance ("ESG")*

The Board recognises that its decisions have an impact on the environment, people and communities. It also believes there are positive financial reasons to incorporate good ESG practices into the way we do business.

The Board shares the increased stakeholder interest in, and recognises the importance of, compliance requirements around good ESG management. It seeks to adopt sustainable principles wherever possible, actively seeking opportunities to make environmentally beneficial improvements to its property portfolio and encouraging tenants to report and improve emissions data. As testament to this commitment, the Board recently constituted an ESG Committee to monitor the Company's performance against its environmental key performance indicators ("KPIs"); ensure it complies with its environmental reporting requirements; assess the engagement with the Company’s environmental consultants; and assess the level of social outcomes being achieved for its stakeholders and the communities in which it operates.

The Company's ESG policy outlines our approach to managing ESG impacts and provides the framework for setting and reviewing environmental and social objectives to ensure we are continuously improving our performance and setting a leadership direction.

As a result, the Board 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
- Monitor environmental performance and achievements against targets for our properties as a commitment to continuous improvement.

Progress towards these commitments during the year is summarised below:

- The Company’s Annual Report for the year ended 31 March 2020 received a ‘most improved’ award for its first year complying with EPRA Sustainability Best Practice Recommendation reporting.

- The Company made its first Global Real Estate Sustainability Benchmark (“GRESB”) submission in July 2020, one of the most widely used sustainability benchmarks in the real estate sector. The results of this submission have provided a valuable insight into the Company’s current sustainability performance and identified certain areas for improvement. As a result during the year the Company implemented a comprehensive data management service using a dedicated software system that collects, verifies, stores and reports on the key carbon and ESG performance metrics. This system will both ensure all data is robust and accurate for external and internal reporting and provide data access for tenants to upload data direct and share information to assist them in improving environmental performance.

- The Company set target environmental KPIs to provide a way to measure its success towards achieving its environmental objectives and ensure the Investment Manager is embedding key ESG principles into portfolio management.

- The Company undertook its first in-depth review of climate-related risks and opportunities to begin to align disclosures to the recommendations of the Taskforce on Climate-related Financial Disclosures (“TCFD”) and better understand how the Company and the portfolio will be impacted by climate change and the transition to a low-carbon economy.

Details of the Company’s environmental policy and its KPIs are contained within the ESG Committee report within the Strategic report.

*Outlook*

Despite the headwinds, real estate continues to be in demand by occupiers and as an investment class. The Asset management report looks more closely at occupier demand and paints a rosier picture than a year of pandemic headlines might suggest, and although occupancy has decreased from 95.9% to 91.6%, more than half of our vacant properties are currently under offer to let. The outlook feels more positive and predictable than 12 months ago and we expect that the Company's property portfolio will continue to support the policy of stable dividends in a post-pandemic world. As discussed in the Financial review, dividends per share of 5.0p have been approved for the year and the Board has announced a minimum dividend of 5.0p for the year in prospect.

In a long-term low interest rate environment the marginal income return from real estate investment over risk-free investment, represented by UK 10 year gilts, and the low cost of debt are both likely to support property pricing.

The combination of resilient capital values and a return to stabilised dividends should lend support to Custodian REIT's objective to be the REIT of choice for private and institutional investors seeking high and well supported dividends from diversified UK commercial property.

**David Hunter**
Chairman
15 June 2021

**Investment Manager's report**

*The UK property market*

In common with the wider economy, the commercial property investment market has experienced a year unlike any other with office workers deserting their offices, shoppers going online as retailers were forced to close and pubs and restaurants unable to serve customers for a large part of the year. The government's moratorium on the eviction of tenants for non-payment of rent has left landlords unable to compel tenants to pay rent but, despite these challenges, I believe real estate investment has been remarkably resilient.

As a diversified property investment company, Custodian REIT's resilience in the face of the pandemic is representative of the resilience of the real estate market more broadly. Custodian REIT's NAV decreased by 4.0p over the year which was exceeded by dividends paid to deliver a marginal, but positive NAV total return of 0.9% for the year. We go into the year ending 31 March 2022 with the estimated rental value ("ERV") of the property portfolio, adjusted for acquisitions and disposals, only 1.4% diminished, albeit with an increased vacancy rate.

These positive total returns and limited rental reductions, when compared to significant share price volatility, particularly in Q1, suggest that real estate outperformed market expectations of earlier in the year. A share price recovery began in Q4 in line with greater certainty of rent collection rates which were much better than forecast and had been improving through the year.

The clear winner in real estate investment has been the industrial and logistics sector which has benefited from the shift from the High Street to 'E-tailing' and from the onshoring of the national supply chain post Brexit. Investment demand and pricing are both at record levels which has been strongly positive for Custodian REIT as this sector makes up 49% by value of the portfolio and its valuation increased by 4.6% during the year.

The high street retail sector's future is uncertain, but, I believe, as part of a combined retail and leisure-based city centre there will still be active demand from occupiers. The trend for fewer shops was well established prior to the pandemic but in core locations we still expect to see high occupancy levels albeit at rental levels 25-50% below the peak. High Street retail makes up only 8% by value of the property portfolio and we have sold four small shops in the last six months, with another under offer, which we did not feel had medium-term potential for a return to rental growth.

By contrast the out of town retail sector which makes up 18% of the Custodian REIT portfolio by value, is witnessing investors openly competing for assets. This is a sector where there is confidence that the combination of convenience, lower costs per square foot and the complementary offer to online retail will keep these assets relevant. Through the last year we have seen DIY and discounters (B&Q and B&M for example) trading strongly.

After a year of working from home many workers are looking forward to returning to the office. Without doubt the way we use offices and how frequently we visit them has changed, following the largely successful national experiment of remote working. As always, when considering real estate investment, the location of offices will be key. Having withdrawn from an office acquisition in Oxford, to preserve cash, at the start of the first lockdown Custodian REIT completed on the same office building one year later in a city which is benefiting from the growth in Biotech, driven in part by the university and the focus of this growing sector in the Oxford-Cambridge arc. We have already agreed terms to lease the last remaining space in the building at a new headline rent demonstrating the positive future prospects for the property.

The sustainability credentials of both the building and the location will be evermore important for occupiers and investors. As investment manager we are absolutely committed to the Company’s ambitious goals in relation to ESG and believe the real estate sector should be a leader in this field.

ESG has become an imperative for many investors. Commercial real estate is a significant contributor to national emissions, so we believe an emphasis on how we can improve the “E” is particularly relevant for real estate. In this regard we are striving to beat the Company’s target to improve the Energy Performance Certificates (“EPC”) of the portfolio. We expect to eradicate all EPC’s of “F” and ”G” ahead of the target set of end of 2022 and all EPC’s of “E” before 2025. We are well advanced with this project with plans in place for all the “F” and “G” EPCs and 30% of the “E” EPCs.

Energy performance and emissions are important considerations across all redevelopments and refurbishments in the portfolio as is the importance of “S” (Social) in creating an engaging, appropriate and sustainable (in all senses of the word) built environment. These commitments are demonstrated in the refurbishment of a property in West Bromwich, the details of which are set out in the ESG Committee report. Investing in real estate that meets the ESG requirements of occupiers and legislation will lead to shorter periods of vacancy, higher rents and enhanced values. We have policies, embedded in our strategy, to keep Custodian REIT on target to meet the required standards but we remain focused on delivering returns at the same time. The KPIs the Company has set itself are set out in the ESG Committee report.

Before considering rent collection, which has been a key focus through the year, it is worth reflecting on the continued use of CVAs by tenants to reduce their operating costs. As discussed in the Asset management report CVAs have been the cause of an 1.3% reduction in annual passing rent during the year. While, on the face of it, CVAs are disadvantageous for landlords this is not always the case over a medium-term time horizon. An example of how this can be positive for investors is the CVA of Pizza Hut. The Custodian REIT portfolio contains three Pizza Hut restaurants operating an arguably outdated model. The CVA enabled the Company to gain vacant possession of each property with increasingly competitive bids received to secure the assets from new drive-through operators including fast food and coffee shops and Pizza Hut itself. All three units now have 21st century tenants lined up to take occupation.

*Rent collection*

As Investment Manager, Custodian Capital invoices and collects rent directly, importantly allowing it to hold conversations promptly with most tenants regarding the payment of rent. This direct contact has proved invaluable, through the COVID-19 pandemic disruption, enabling better outcomes for the Company. Many of these conversations have led to positive asset management outcomes, some of which are discussed in the Asset management report. The financial resilience of the Company and the pragmatic approach of the Manager has enabled the Company to take a longer-term view of rent collection. It was better to acknowledge the challenges faced by certain occupiers and balance their contractual requirement to pay rent and the ability of the Company to fund short-term rent deferrals. If quarterly rent payments could not be secured consensually the Manager sought to allow tenants to pay monthly and, only if this was not achievable, to allow for an element of rent to be deferred. Where possible longer lease commitments were sought in return as part of a lease re-gear. Rent concessions were offered, as a last resort, but amounted to less than 1% of the total contractual rent roll.

91% of rent relating to the year has been collected, net of contractual rent deferrals, or 89% before contractual deferrals, as set out below:

| | 31 Mar 2021 £m | Net of contractual rent deferrals | Before contractual rent deferrals |
|---|---|---|---|
| Rental income from investment property (IFRS basis) | 38.7 | | |
| Lease incentives | (1.9) | | |
| Cash rental income expected, before contractual rent deferrals | 36.8 | | 100% |
| Contractual rent deferred until subsequent financial years | (0.9) | | (3%) |
| Cash rental income expected, net of contractual rent deferrals | 35.9 | 100% | |
| Outstanding rental income | (3.1) | (9%) | (8%) |
| Rental income collected | 32.8 | 91% | 89% |

Outstanding rental income remains the subject of discussion with various tenants, and some arrears are potentially at risk of non-recovery due to disruption caused by the recent national lockdown and from CVAs or Administrations.

The Company’s doubtful debt provision has increased by £2.7m (0.6p per share) from £0.3m to £3.0m during the year to reflect the risk of failing to collect outstanding and deferred rent.

*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 2021 £m | Weighting by income[22] 31 March 2021 | Valuation 31 March 2020 £m | Weighting by income 31 March 2020 | Valuation movement before acquisition costs £m | Valuation movement including acquisition costs £m | Weighting by value 31 March 2021 | Weighting by value 31 March 2020 |
|---|---|---|---|---|---|---|---|---|
| Industrial | 270.2 | 41% | 257.3 | 40% | 12.0 | 11.8 | 49% | 46% |
| Retail warehouse | 99.7 | 21% | 109.7 | 22% | (10.9) | (10.9) | 18% | 20% |
| Other[23] | 84.4 | 16% | 87.4 | 17% | (5.6) | (5.7) | 15% | 16% |
| Office | 54.8 | 12% | 52.6 | 10% | (5.8) | (6.2) | 10% | 9% |
| High street retail | 42.8 | 10% | 52.8 | 11% | (9.3) | (9.3) | 8% | 9% |
| Total | 551.9 | 100% | 559.8 | 100% | (19.6) | (20.3) | 100% | 100% |

During the year the different sectors have performed in line with market norms. Industrial and logistics values have strengthened by 4.6% recording high levels of occupancy and continued rental growth. Office values have suffered a 10.4% decrease experiencing an increase in vacancy as occupiers exercised their options to vacate at lease expiry or break, in order to ride out the pandemic. For the second year retail has been the worst hit, although with a greater percentage decline in high street locations of 21.6% compared to out of town retail warehousing decline of 10.8%. 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.

The 31 March 2020 valuation was reported on the basis of 'material valuation uncertainty' in accordance with RICS valuation standards. This basis did not invalidate the valuation but, in the circumstances, implied that less certainty could be attached to the valuation than otherwise would be the case. However, for 31 March 2021 valuations, no 'material valuation uncertainty' clauses were applied to any asset classes in the Company's property portfolio.

The Company has appointed Savills as valuer to replace Lambert Smith Hampton and to work alongside Knight Frank. We thank Lambert Smith Hampton which has valued the Custodian REIT portfolio since IPO in 2014. From the quarter ending 30 June 2021, Knight Frank and Savills will take responsibility for approximately half of the property portfolio each.

22 Current passing rent plus ERV of vacant properties.

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

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

*Acquisitions*

The Company invested £11.4m in three acquisitions during the year described below:

- In December 2020 the Company acquired Willow Court for £7.86m, a 22,545 sq ft office building on Minns Business Park, one mile west of Oxford city centre. The property comprises four floors let to RBS, Dehns, Charles Stanley, Oxentia and the Smith Institute with a weighted average unexpired lease term to first break or expiry of four years and an aggregate rent of £537k per annum, reflecting a net initial yield ("NIY") of 6.41%.
- In November 2020 the Company acquired four industrial units on Hilton Business Park, Derby for £1.975m, covering an aggregate 23,250 sq ft. The units are occupied by MP Bio Science, Shakespeare Pharma and Jangala Softplay with a weighted average unexpired term to first break or expiry of 2.0 years and aggregate passing rent of £134k per annum, reflecting a NIY of 6.39%.
- During the year the Company acquired 0.6 acres of land in Nottingham on which it has developed a 2,163 sq ft drive-through coffee shop with 34 parking spaces, with land and construction costs totalling £1.60m. The unit was pre-let to KBeverage Limited (trading as Starbucks Coffee) on a 20 year lease with no breaks and five yearly upward only market rent reviews with passing rent of £115k pa, reflecting a NIY of 6.67%.

The Company has also invested £0.7m of capital expenditure developing a drive through restaurant on an existing retail park holding in Burton upon Trent pre-let to 1 Oak Limited (t/a Starbucks) at an annual rent of £55k for a term of 20 years with a break in year 10, which commenced trading in November 2020.

Since the year end the Company acquired an industrial asset in Knowsley for £3.5m.

*Disposals*

Owning the right properties at the right time is a key element of effective property portfolio management, which necessarily involves periodically selling 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.

The following properties were sold during the year for an aggregate headline consideration of £4.4m:

- In May 2020 the Company sold a 20,280 sq ft industrial warehouse in Westerham for £2.8m, £0.5m (23%) ahead of the 31 March 2020 valuation, representing a net initial yield of 4.50%.
- In October 2020 the Company sold four high street retail properties at auction in Chester, Scarborough, Bedford and Llandudno for an aggregate £1.6m, in line with the most recent valuations. The properties were originally acquired within larger portfolios in 2014 and 2015 and were either

vacant or let on short-term leases and the disposals reduced the Company's high street retail sector weighting by income from 11% to 10%.

Since the year end the Company sold a high street retail property at auction in Nottingham for £0.7m, in line with the most recent valuation.

*Outlook*

In March 2020, as the country entered the first lockdown, the pandemic was taking hold. At that stage a marginal but positive NAV total return for the year ahead would have been seen as an exceptional result. 12 months later Custodian REIT has delivered a positive NAV total return, demonstrating the resilience of UK commercial real estate and the power of income to support returns. It also underscores the need to look at real estate investment over the long-term. NAV total return since IPO seven years ago has averaged 6.3% per annum and as we look forward to a post pandemic world the Company is in a good position to continue to deliver positive returns.

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 this year. From the outside, it may appear that property fund managers have spent the year chasing rent collection and worrying about the pandemic. From our perspective we are largely experiencing business as usual, managing landlord/tenant relationships and engaging in normal levels of activity in terms of new lettings, extending existing leases, acquiring new assets and selling assets that we do not believe will perform over the medium to long-term. Through the year we have completed 50 separate asset management transactions, each designed to keep the portfolio relevant, to protect value and to support dividends which have always been out key objectives.

The important consideration for the outlook for commercial property is occupier demand. If commercial property remains in use by occupiers, then it has a bright future. As touched on above, occupier demand in the industrial and logistics sector is very strong and forecast to remain so, which is supporting rental growth. We are seeing demand from occupiers on retail parks and in prime town centres but on rebased rents. Offices are likely to continue to be an essential feature of most businesses and we are seeing occupiers look beyond the pandemic to secure appropriate space. The overlay on all this demand will be ESG. As a manager we are committed to achieving the objectives set out in the ESG Committee report. We have an ongoing project to improve the environmental performance of the portfolio when properties are under landlord's control and also when looking at the let portfolio. We understand that our commitment to ESG must mirror our tenants' objectives. Meeting the demands of our tenants will ensure ongoing performance for shareholders.

**Richard Shepherd-Cross**

for and on behalf of Custodian Capital Limited
Investment Manager
15 June 2021

**Asset management report**

Our continued focus on asset management during the year including rent reviews, new lettings, lease extensions and the retention of tenants beyond their contractual break clauses resulted in a £9.4m valuation increase in the year.

*Property portfolio summary*

| | **2021** | 2020 |
|---|---|---|
| Property portfolio value | **£551.9m** | £559.8m |
| Separate tenancies | **265** | 280 |
| EPRA occupancy rate | **91.6%** | 95.9% |
| Assets | **159** | 161 |
| WAULT | **5.0 years** | 5.3 years |
| NIY | **6.6%** | 6.8% |
| Weighted average EPC rating | **C (63)** | C (70) |

In what has been a challenging year we have seen that close collaboration with tenants will generate asset management opportunities including lease extensions and re-gears which has seen the Company maintain its weighted average unexpired lease term to first break or expiry ("WAULT") above five years despite the effects of the COVID-19 pandemic.

Key asset management initiatives completed during the year include:

1) Completing a 10 year lease with Life Technologies at an industrial unit in Warrington at an annual rent of £378k, with a tenant only break option and open market rent review in year five, increasing valuation by £1.6m;
2) Completing a 20-year lease extension with Bannatyne Fitness on a leisure scheme in Perth, extending lease expiry to August 2046 and incorporating five yearly RPI linked rent reviews, which increased valuation by £1.5m;
3) Completing a lease extension without break with DX Networks at a logistics unit in Nuneaton, with lease expiry moving from March 2022 to March 2032. The March 2022 rent review is expected to result in an increase in the annual £267k passing rent. This lease extension increased valuation by £1.4m;
4) Completing a new lease to Nuffield Health at Stoke for a term of 20 years without break, at an annual rent of £300k subject to five yearly CPI-linked rent reviews, increasing valuation by £0.9m;
5) Unconditionally exchanging an agreement for lease with MCC Labels in Daventry on a new ten-year lease without break commencing in Spring 2021 after the current tenant vacates in December 2020, at a rent of £295k pa, which increased valuation by £0.8m;
6) Commencing a letting with Nationwide Building Society on a high street retail unit in Shrewsbury for a term of 10 years without break, at an annual rental of £100k, increasing valuation by £0.6m;
7) Completing a five year reversionary lease with Worthington Armstrong on an industrial unit in Gateshead at an increased annual rent of £285k, increasing valuation by £0.4m;

8) Completing a 10 year lease renewal with Silgan Closures at an industrial unit in Doncaster, with tenant break options in years three and five at an increased annual rent of £400k, increasing valuation by £0.3m;
9) Completing a 10 year lease renewal with a break in year five to Royal Mail at an industrial unit in Kilmarnock, maintaining the current passing rent of £95k with an open market rent review in year five, increasing valuation by £0.3m;
10) Completing a lease assignment for a car showroom in Stockport from Benham Specialist Cars to the stronger covenant of Williams Motor Company, and rebasing the annual rent from £740k to £640k with a fixed uplift to £669k in August 2022, increasing valuation by £0.3m;
11) Completing a five-year lease extension with DHL on an industrial unit at Speke, Liverpool, subject to a tenant-only break in year three, maintaining annual passing rent at £119k which increased valuation by £0.2m;
12) Varying the lease with Elma Electronics at an industrial unit in Bedford to remove the September 2022 break option, moving lease expiry out to September 2027, increasing valuation by £0.2m;
13) Settling an outstanding rent review with Unilin Distribution at a logistics unit in Manchester, securing an uplift in annual passing rent from £220k to £254k, increasing valuation by £0.2m;
14) Completing an open market rent review with Yodel at a logistics unit in Bellshill, securing an uplift from £275k to £310k, increasing valuation by £0.2m;
15) Completing lease renewal with Rexel at an industrial unit in Gateshead on a 10 year term with a tenant break option in year five and open market rent reviews and annual passing rent increasing from £50k to £55k, increasing valuation by £0.1m;
16) Completing a five-year lease extension with Erskine Murray at an office building in Leicester, extending the lease expiry from December 2020 to December 2025 at an increased annual rental of £72.5k (previously £66.5k) which increased valuation by £0.1m;
17) Completing a deed of variation with Urban Outfitters in Southampton to push the October 2021 tenant only break option back to April 2024, increasing the term certain to 3.5 years, which increased valuation by £0.1m;
18) Settling an open market rent review with Synergy Health at an industrial unit in Sheffield, increasing the annual rent from £142k to £158k which increased valuation by £0.1m;
19) Completing a five year lease extension with Homebase at Leighton Buzzard, maintaining annual passing rent of £341k and moving lease expiry from December 2023 to 2028, increasing valuation by £0.1m;
20) Exchanging an agreement for lease with Just for Pets on a retail warehouse unit in Evesham for a term of 10 years with a break in year six, at an annual rent of £95k, with no impact on valuation;
21) Completing a deed of variation to remove the September 2021 break option with Felldale Group at a retail unit in Chester, extending the lease expiry to September 2026 with no impact on valuation;
22) Completing a lease assignment from JB Global to Oak Furniture Land Group at a retail warehouse unit in Plymouth, rebasing the passing rent from £250k to £150k and including mutual break options in years two and four, with no impact on valuation;
23) Unconditionally exchanging an agreement for lease with MKM in Lincoln on a new 10 year reversionary lease on a trade counter unit, extending expiry from June 2022 to June 2032 without

break and maintaining annual passing rent at £192k with 12 months' rent free, with no impact on valuation;

24) Re-gearing with The Works in Portsmouth which removed a tenant only break option in October 2021, extending the term certain to October 2026, with no impact on valuation;
25) Completing a lease renewal with The White Company in Nottingham for a five year lease with 2.5 year tenant only break option at a reduced annual rent of £65k, with the property disposed of since the year end at valuation;
26) Completing a short-term turnover-based lease with mutual breaks to retain Game in Portsmouth following expiry of its existing lease whilst we re-market the premises, with no impact on valuation;
27) Completing a five-year lease renewal with Sports Direct on a retail park in Weymouth at a rebased annual rent of £90k (previously £118k), subject to a 5% turnover top-up clause and featuring rolling mutual break options after 36 months, with no impact on valuation;
28) Commencing the letting of a newly developed drive-through coffee restaurant in Burton upon Trent let to 1 Oak (t/a Starbucks) on a 20 year lease subject to a tenant break option in year 10, at an annual rent of £55k with five-yearly RPI-linked rent reviews;
29) Exchanging an agreement for lease with Tim Hortons Fast Food Restaurants on a drive-through restaurant in Perth (formerly a Frankie & Benny's) at an annual rent of £90k for a term of 15 years, with a tenant only break option in year 10, with no impact on valuation;
30) Completing a five year lease renewal with Reiss on a high street retail unit in Guildford at an annual rent of £170k, which reduced Reiss' footprint to allow access to the unused upper floors for potential residential conversion, with no impact on valuation; and
31) Completing a five year lease to Oak Furniture Land Group in Carlisle with annual tenant break options and landlord break options in years two and four, at an annual rent of £100k, with no impact on valuation.

Although these positive asset management outcomes have been tempered by the impact of the following business failures, which have resulted in £1,346k (3.3% of rent roll) of lost annual contractual rent since 31 March 2020, in most cases we have subsequently seen positive letting activity:

| Location | Tenant | Sector | Lost annual contractual rent £000 | Event | Activity following business failure |
|---|---|---|---|---|---|
| West Bromwich | Office Team | Industrial | 280 | Tenant vacated and in liquidation | Comprehensive building refurbishment underway, with unit being remarketed |
| Grantham and Evesham | Poundstretcher | Retail warehouse | 221 | CVA - tenant remains in occupation rent free whilst units are remarketed | Agreement for lease with new tenant exchanged for Evesham site |
| Portishead | Travelodge | Hotel | 167 | CVA – rent reduced to 25% in 2020 and 70% in 2021 | Lease assigned to AGO Hotels at above the CVA rent |
| Leicester, Watford and Crewe | Pizza Hut | Restaurant | 155 | CVA – base rent reduced by an average of 66% of passing rent plus an 8% of turnover top-up | Leicester and Watford sites under offer to national drive-through chains. Crewe unit is being marketed |
| Carlisle and Plymouth | JB Global (t/a Oak Furniture Land) | Retail warehouse | 140 | Pre-pack Administration - Oak Furniture Land now occupying under licence at a lower rent | Leases assigned to new Oak Furniture Land trading company on rebased rents |
| Perth* | The Restaurant Group | Restaurant | 100 | CVA - rent reduced to 0% for 12 months before closure | Now let to Tim Hortons Restaurants |
| Lincoln | Total Fitness | Other | 95 | CVA – rent reduced by 25% for three years | Tenant remains in occupation at CVA rent |
| Shrewsbury | Edinburgh Woollen Mill | High street retail | 93 | Tenant vacated and in Administration | Unit vacant and being marketed |
| Gateshead | Human Office | Industrial | 32 | Tenant in liquidation | Unit vacant and being marketed |

| | | | | | |
|---|---|---|---|---|---|
| Shrewsbury | Azzuri | High street retail | 24 | Pre-pack Administration | Lease assigned to Ask Italian Restaurant at a reduced rent |
| Torquay | Las Iguanas | Restaurant | 20 | In Administration | Tenant remains in occupation under licence at a lower rent |
| Shrewsbury | Paperchase | High street retail | 19 | Tenant in Administration | Unit vacant and being marketed |
| | | | 1,346 | | |

Tenant business failures have contributed to occupancy levels decreasing to 91.6% from 95.9% at 31 March 2020, but letting activity is increasing across most sectors. We have a strong pipeline of potential new tenants and since the year end have completed:

- A new five year letting to Green Retreats at a recently refurbished industrial unit in Farnborough with annual rent of £185k;
- A new 10 year letting to Just for Pets at a retail warehouse unit in Evesham with an annual rent of £95k;
- A new 10 year letting to Dehns on the ground floor suite of an office building in Oxford with an annual rent of £81k; and
- A new 10 year letting to Spa Medica on the ground floor suite of an office building in Leicester with an annual rent of £80k.

In aggregate these lettings increased occupancy by 1.0%. We expect occupancy levels across the portfolio to continue to recover over the next 3-6 months as we complete more new lettings, unless there were to be further significant tenant failures.

*Property portfolio risk*

We have managed the property portfolio's income expiry profile through successful asset management activities with only 53% of aggregate income expiring within five years from 31 March 2021 (2020: 51%). Short-term income at risk is a relatively low proportion of the property portfolio's income, with only 31% expiring in the next three years (2020: 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 2021 | 31 March 2020 |
|---|---|---|
| 0-1 years | 11% | 9% |
| 1-3 years | 20% | 23% |
| 3-5 years | 22% | 19% |
| 5-10 years | 34% | 37% |
| 10+ years | 13% | 12% |
| | 100% | 100% |

*Outlook*

Looking forward, we maintain a positive outlook with many of the asset management initiatives currently under way expected to come to fruition over the next 6-12 months which should see new tenants secured, leases extended and new investment into existing assets improving their environmental credentials and realising their full potential.

**Alex Nix**
Assistant Investment Manager
for and on behalf of Custodian Capital Limited
Investment Manager
15 June 2021

**ESG Committee report**

The ESG Committee ("the Committee") was constituted on 1 April 2021. Its key responsibilities are:

- To monitor and report on the Company's performance against its environmental KPIs and ensure the Investment Manager is managing its property portfolio in line with the ESG policy;
- To ensure the Company complies with its external reporting requirements and obligations on ESG matters such as GRESB, EPRA, TCFD, SECR and adopts sector best practice where appropriate;
- To assess, at least annually, the fees and scope of engagement of the Company's environmental consultants; and
- To assess whether the Company is obtaining a suitable level of social outcomes for its tenants, other stakeholders and the communities in which it operates.

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 approach to ESG matters addresses the importance of these issues in the day-to-day running of the business, as detailed below.

*ESG policy*

Environmental - we want our properties to minimise their impact on the local and wider environment. The Investment Manager carefully considers the environmental performance of our properties, both before we acquire them, as well as during our period of management. Sites are visited on a regular basis by the Investment Manager and any obvious environmental issues are reported.

Social - Custodian REIT strives to manage and develop buildings which are comfortable, safe and high-quality spaces. As such, our aim is that the safety and well-being of occupants of our buildings is maximised. We have implemented a portfolio approach to well-being which encourages engagement with tenants, ensures maximum building safety and optimises comfort and quality of occupancy.

Governance - high standards of corporate governance and disclosure are essential to ensuring the effective operation of the Company and instilling confidence amongst our stakeholders. We aim to continually improve our levels of governance and disclosure to achieve industry best practice.

The Committee 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 Committee believes that following this strategy will ultimately be to the benefit of shareholders through enhanced rent and asset values.

The Company's environmental policy 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.

*Environmental key performance indicators*

During the year with the assistance of Carbon Intelligence, specialist environmental consultants, the Company set target environmental key performance indicators ("KPIs") to provide a strategic way to measure its success towards achieving its environmental objectives and ensure the Investment Manager is embedding key ESG principles. These environmental KPIs cover our main areas of environmental impact including energy efficiency, greenhouse emissions, water, waste and tenant engagement.

These KPIs help the Company to monitor our ESG progress and directly support climate risk mitigation and capture some ESG opportunities from the transition to a low-carbon economy. As we progress our climate-related risk identification and management, we aim to identify and implement further climate-related metrics that can more clearly define the impact of climate-related risks and opportunities on our business. ESG reporting frameworks, including GRESB, require businesses to disclose the KPIs which contribute towards benchmark scoring and potentially influence investor decisions.

The Company's qualitative and quantitative environmental targets, measured via the KPIs, cover four 'boundaries' and are set out below:

| Boundary | KPI |
|---|---|
| **Whole portfolio boundary** | Reduce total portfolio absolute emissions by 30% by 2025 |
| | All 'D' EPC ratings to be removed or improved by 2027, all 'E' EPC ratings to be removed or improved by 2025 and all 'F' and 'G' EPC ratings to be removed or improved by 31 March 2022 |
| | Reduce absolute energy consumption of the property portfolio by 15% against a 2019 baseline by 2025 |
| **Landlord controlled boundary** | Switch all landlord-controlled sites to 100% renewables by 2025 |
| | Switch all landlord-controlled sites to green gas by 2025 |
| | Install EV charging points across 100% of the Company's retail warehouse assets by 2025 and investigate onsite renewables on one asset by 2025 |
| | Zero waste to landfill from landlord-controlled waste by 2022 |
| | Reduce landlord-controlled water consumption by 50% by 2025 |
| **Tenant boundary** | Engage with occupiers during lease negotiations to incorporate sustainability clauses into new leases |
| | Engage with tenants on quarterly basis on ESG issues |
| **Development boundary** | Achieve EPRA Gold Standard for the year ended 31 March 2021 |
| | Report to TCFD by 2021 |
| | Incorporate ESG factors into all investment due diligence undertaken |

These KPIs were formulated during the year ended 31 March 2021. The Company intends to report on progress against each measure in subsequent financial years.

To help this assessment of progress against KPIs a central data management system, hosted by the Company's environment consultants, has been established to provide a robust data collation and validation process. This data management system is being used to identify tenant engagement and asset optimisation opportunities and facilitates the communication of environmental performance data to various stakeholders.

*Investment decisions*

Investment decisions will play a key role in achieving the Company's environmental KPIs. The Company undertakes an environmental assessment on vacated assets and during the acquisition due diligence process, rating assets or tenants against a number of ESG factors which form part of the Investment Committee decision making process. This process also helps the Investment Manager evaluate the potential environmental risks and opportunities associated with an asset and the impact on the achievement of the KPIs.

During the year the Company amended its procurement policy for property services to include an assessment of new suppliers on their specification and use of sustainable and energy efficient materials, systems, equipment, onsite operating practices and performance evaluation/incentives put in place for direct external suppliers and/or service providers to employ sustainable processes in day-to-day work.

*Current initiatives*

To achieve the Company's environmental objectives and targets, the Investment Manager seeks to achieve the following initiatives:

<u>Energy consumption & management</u>

- 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 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[24] clauses into our tenant leases.

24 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.

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 GRESB; and
- Continue to expand our carbon reporting in line with industry expectations and relevant legislation.

Further information on our GHG emissions is set out within our Streamlined Energy and Carbon Report (SECR) in the Directors' report.

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.

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 well-being of the occupants of our buildings is maximised. We will implement a property portfolio approach to well-being 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 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 – West Bromwich*

As part of a comprehensive refurbishment of Units 1-7 Hawthorns Business Park, West Bromwich, significant investment is being made to improve the ESG credentials of the asset. This additional investment will significantly reduce the use in carbon for operation when assessed against competing buildings in the local market.

On completion, the refurbished property will be served by six EV charging points to promote and support the use of electric vehicles. These installations support all forms of electric vehicles currently on the market and will be an attractive proposition to any future tenant.

In addition, Custodian REIT is making an investment of circa £85k to provide solar photovoltaic (PV) coverage to over 700 sq m of the roof area. This renewable energy is anticipated to offset circa 116 tonnes of carbon in Year 1, meaning the anticipated payback on investment is 3.5 years. As well as aiding tenants in their reduction of carbon usage, the Company is able to offer future tenants a reduction in their utility costs by selling generated energy directly to the tenant rather than directing to the central network. The panels are self-cleaning and offer a 20 year guarantee.

A further investment of circa £50k is being made to install air source heat pumps to provide heating and hot water. This installation will see a saving of nearly £2k a year in running costs and a reduction in carbon use of around 12k kg a year in comparison to traditional gas boilers. As part of this investment new energy efficient radiators are also being installed. Warehouse and office lighting is being replaced with new LED fittings including passive infrared sensors to reduce operational use.

Pre-refurbishment, the EPC rating for the property was C (69) and it is projected that a high B will be achieved on completion of the refurbishment.

It is anticipated that the ERV of the property on completion of the works will increase from £280k pa (£4.80 per sq ft) to circa £350k pa (£6.00 per sq ft). Once re-let it is estimated that the uplift in property valuation will be well in excess of the capital outlay for refurbishment.

*EPC ratings*

During the year the Company has updated EPCs at 63 units across 43 properties covering 983k sq ft for properties where existing EPCs had expired or where works had been completed. For updated EPCs, there was an aggregate decrease in rating of 37 ‘energy performance asset rating points[25]’. Some of the properties showing an improvement are detailed below:

- Burton upon Trent – a new Starbucks drive through restaurant was built on the site of a former tool hire centre, improving the EPC score from D (99) to B (43)
- Daventry – a significant refurbishment of this industrial property was carried out during the year, improving the EPC score from C (52) to B (46)
- Glasgow West George Street – a refurbishment of these offices improved the EPC score from E (62) to B (34)

25 One EPC letter represents 25 energy performance asset rating points.

*Climate-related risks and opportunities*

Climate change poses a number of physical risks to our property portfolio, for example those caused by the increased frequency and severity of extreme weather events. The Committee also recognises there are a number of transition-related risks, including economic, technology or regulatory challenges related to moving to a greener economy which it needs to consider. But climate change also provides opportunities to invest in alternative asset classes or to provide tenants with additional services.

The Company has commenced work to identify and understand our climate-related risks and opportunities alongside our work on our wider ESG ambitions and metrics. Below we have outlined our first year of disclosures aligned to the recommendations of Taskforce on Climate-related Financial Disclosures ("TCFD"). We are working together with our sustainability partner, Carbon Intelligence, to continue to refine our TCFD programme over the next financial year.

Governance

The Board is ultimately responsible to stakeholders for the Company's activities and for oversight of our climate-related risks and opportunities. Specifically, the ESG Committee is the Board-level governance body responsible for reviewing our identified climate-related risks alongside our ESG strategy.

The Investment Manager maintains the Company's risk management framework and risk register, which means our ESG objectives are embedded into the way the Company conducts and manages the business and the property portfolio day to day.

Risk management

This year, the Company conducted a risk identification and materiality assessment to determine our climate-related impacts, identifying the following climate-related risks and opportunities as material to the business:

| **Climate-related risks:** | **Climate-related opportunities:** |
|---|---|
| Physical risks<br>• Asset damage from storms and flooding<br>• Global temperature increases reducing the appeal of less energy-efficient assets<br>• Insufficient electricity supply to maintain tenant operations due to inadequate infrastructure<br><br>Transition risks | • Exposure to new asset classes for potential investment<br>• Shifting tenant preferences may create new demand for new or existing products/ services<br>• Opportunities to expand low-carbon buildings and low-carbon landlord services<br>• Shifting tenant preferences to diversify sectors and asset types<br>• Reducing emissions footprint of buildings for tenants |

- Reduced attractiveness of the portfolio due to changing tenant preferences
- Changing insurance products, pricing and availability
- Investor divestment or activism due to changing ESG expectations
- Sector stigmatisation due to high emissions
- Unsuccessful investment in new technology

To account for the long-term nature of climate change three time horizons were used within the assessment:

- Short-term (0-3 years);
- Medium-term (3-12 years); and
- Long-term (12-20 years).

This period differs from the longer-term viability assessment of three years, as the outputs of our climate-related materiality assessment will be reviewed and built upon over time in order to effectively embed identified risks into our risk management framework.

Strategy

In line with the TCFD recommendations, the next phase of implementing TCFD will be to conduct climate scenario analysis, to improve our understanding of the specific impacts of climate change on the Company. Scenario analysis will increase our understanding of our business and portfolio resilience under different climate scenarios including best and worst-case scenarios. This will ensure we are able to comprehensively assess and build upon the existing risk management processes and controls to further mitigate our climate risks.

**Approval**

This report was approved by the Committee and signed on its behalf by:

**Hazel Adam**
Chair of the ESG Committee
15 June 2021

**Financial review**

The Company has faced its most challenging year since IPO in 2014 due to the impact of the COVID-19 pandemic on rent collection rates, occupancy and property portfolio valuations but its financial performance has been robust, allowing dividends of 5.0p per share to be declared for the year, fully covered by net cash receipts and 112.7% covered by EPRA earnings.

A summary of the Company's financial performance for the year is shown below:

| *Financial summary* | **Year ended 31 Mar 2021 £000** | Year ended 31 Mar 2020 £000 |
|---|---|---|
| Revenue | **39,578** | 40,903 |
| Expenses and net finance costs | **(15,904)** | (12,230) |
| EPRA profits | **23,674** | 28,673 |
| Net loss on investment property | **(19,925)** | (26,550) |
| Profit before tax | **3,749** | 2,123 |
| | | |
| EPRA EPS (p) | **5.6** | 7.0 |
| Dividend cover | **112.7%** | 104.4% |
| OCR excluding direct property costs | **1.12%** | 1.12% |
| | | |
| *Borrowings* | | |
| Net gearing | **24.9%** | 22.4% |
| Weighted average debt maturity | **7.4 years** | 7.8 years |
| Weighted average cost of debt | **3.0%** | 3.0% |

The Company's rent roll has decreased by 5.0% from £40,749k at 31 March 2020 to £38,692k at 31 March 2021, which resulted in IFRS revenue decreasing by 3.2% from £40,903k to £39,578k.

This decrease in contractual rent was due to tenants exiting at contractual lease break or expiry (2.6%) and cessation of rents through Company Voluntary Arrangements ("CVAs") and Administrations (3.2%), partially offset by net property acquisitions (0.8%). Helpfully, rental increases in the industrial sector offset rental decreases seen in other sectors, demonstrating the robust nature of the Company's diverse property portfolio.

EPRA earnings per share decreased to 5.6p (2020: 7.0p) due primarily to this decrease in revenue, a £2.7m increase in the doubtful debt provision reflecting our prudent assumptions regarding the recovery of overdue and deferred contractual rents, £0.6m of irrecoverable debts due to tenant failure and the concession of £0.25m of contractual rent to support tenants most severely impacted by government restrictions.

*Dividends*

The Board acknowledges the importance of income for shareholders and during the year its objective was to pay dividends on a sustainable basis at a rate which was fully covered by net rental receipts and does not inhibit the flexibility of the Company's investment strategy.

The Company paid dividends totalling 4.9125p per share during the year, comprising the fourth interim dividend of 1.6625p per share relating to the year ended 31 March 2020 and interim dividends of 0.95p, 1.05p and 1.25p per share relating to the year ended 31 March 2021.

The Company paid a fourth interim dividend of 1.25p per share for the quarter ended 31 March 2021 on 28 May 2021 totalling £5.3m, and has approved a fifth interim dividend per share of 0.5p totalling £2.1m resulting in a total dividend relating to the year of 5.0p per share (2020: 6.65p), totalling £21.0m (2020: £27.5m). Dividends relating to the year ended 31 March 2021 were 112.7% covered by net recurring income of £23.7m, as calculated in Note 21.

*Cost control*

Despite the operational disruption caused by the COVID-19 pandemic, increasingly onerous compliance requirements and additional expenditure in ensuring the Company's environmental impact is minimised, the Investment Manager's focus on cost control and the Company's competitive management fee structure meant that OCR (excluding direct property costs) was maintained at 1.12% for the year. Although governance related expenditure is likely to continue to increase we believe the economies of scale provided by the Company's relatively fixed cost base and fee structure will mean that further growth will allow ongoing charges to be kept proportionately low.

*Key performance indicators*

The Board 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;
- NAV per share, share price and market capitalisation – reflect various measures of shareholder value at a point in time;
- Share price total return – reflects the movement in share price and dividends payable to shareholders;
- EPS and EPRA EPS – reflect the Company's ability to generate recurring earnings from the property portfolio which underpin dividends;
- 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;
- Target dividend per share – an expectation of the Company's ability to deliver an income stream to shareholders for the forthcoming year;
- 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;
- 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; and
- Weighted average EPC rating – measures the overall environmental performance of the Company's property portfolio

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.

*EPRA performance measures*

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.

| | 2021 | 2020 | Change |
|---|---|---|---|
| EPRA EPS (p) | **5.6** | 7.0 | (20.0%) |
| EPRA Net Tangible Assets (“NTA”) per share (p) | **97.6** | 101.6 | (3.9%) |
| EPRA net initial yield (“NIY”) | **6.0%** | 6.2% | (0.2%) |
| EPRA ‘topped up’ NIY | **6.4%** | 6.6% | (0.2%) |
| EPRA vacancy rate | **8.4%** | 4.1% | 4.3% |
| EPRA cost ratio (including direct vacancy costs) | **26.1%** | 16.6% | 9.5% |
| EPRA cost ratio (excluding direct vacancy costs) | **23.9%** | 14.5% | 9.4% |
| EPRA capital expenditure (£m) | **14.5** | 27.5 | (47.3%) |
| EPRA like-for-like rental growth (£m) | **37.5** | 40.0 | (6.3%) |

- EPRA EPS – a key measure of the Company’s underlying operating results and an indication of the extent to which current dividend payments are supported by earnings
- EPRA NAV per share metrics – make adjustments to the NAV per the IFRS financial statements to provide stakeholders with the most relevant information on the fair value of the assets and liabilities of a real estate investment company, under different scenarios. EPRA Net Tangible Assets - assumes that entities buy and sell assets, thereby crystallising certain levels of unavoidable deferred tax;
- 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, but including increases in the doubtful debt provision, compared to gross rental income;
- EPRA capital expenditure - capital expenditure incurred on the Company’s property portfolio during the year;
- EPRA like-for-like rental growth - a measure of rental growth of the property portfolio by sector, excluding acquisitions and disposals; and
- EPRA Sustainability Best Practice Recommendations – environmental performance measures focusing on emissions and resource consumption which create transparency to potential investors by enabling a comparison against peers and set a direction towards improving the integration of ESG into the management of the Company’s property portfolio.

*Debt financing*

Since the onset of the COVID-19 pandemic we have maintained a regular dialogue with our lenders, proactively reporting on rent collection and discussing individual asset performance on a timely basis. These positive actions have reinforced the excellent relationships we have built with our lenders.

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. The Company’s net gearing increased from 22.4% LTV last year to 24.9% at the year end due to £11.4m of acquisitions made during the year and a £19.6m decrease in the property portfolio valuation.

The Company has the following facilities available:

- A £35m revolving credit facility ("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. The RCF limit can be increased to £50m with Lloyds' consent;
- 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 £35m tranche repayable on 6 April 2032, with fixed annual interest of 3.02%; and
    - A £15m tranche repayable on 3 November 2032 with 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 the following covenants:

- The maximum LTV of each 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 has £165.0m (30% of the property portfolio) of unencumbered assets which could be charged to the security pools to enhance the LTV on the individual loans. During the year the Company charged five unencumbered properties valued at £21.1m to add additional headroom to certain facilities.

In the expectation that interest cover covenants on some individual loans could have come under short-term pressure due to COVID-19 pandemic restrictions, the Company obtained waivers of interest cover covenants until 31 March 2021. These waivers were not utilised and the Company complied with all loan covenants during the year.

The weighted average cost of the Company's agreed debt facilities at 31 March 2021 was 3.0% (2020: 3.0%) with a Weighted Average Maturity ("WAM") of 7.4 years (2020: 7.8 years) and 82% (2020: 77%) 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.

LIBOR, the London Inter Bank Offer Rate interest rate benchmark used for setting the interest rate charged on the Company's RCF facility is expected to be discontinued after the end of 2021. In its place, a replacement 'risk free' rate, the Sterling Overnight Index Average ("SONIA") will generally be used. We are working with Lloyds to prepare for a smooth transition in preparation for the cessation of LIBOR and do not expect the transition to have a material impact on the interest rate on the RCF. We expect to complete this process during the year ending 31 March 2022.

*Outlook*

The Company's business model has remained resilient during the year. Although we took pre-emptive action at the beginning of the pandemic to arrange debt covenant waivers, these waivers were not utilised and the Company's lenders remain supportive of our ambition for continued growth. We have a scalable cost structure and flexible capital structure to be on the front foot when opportunities present themselves to raise new equity and exploit acquisition opportunities.

**Ed Moore**
Finance Director
for and on behalf of Custodian Capital Limited
Investment Manager
15 June 2021

## Property portfolio

### Industrial

| Tenant | Location | % portfolio income |
|---|---|---|
| Menzies Distribution | Various | **3.8%** |
| H&M | Winsford | **1.5%** |
| JTF Wholesale | Warrington | **1.4%** |
| Teleperformance | Ashby-de-la-Zouch | **1.3%** |
| ATL Transport | Burton upon Trent | **1.2%** |
| Restore | Salford | **1.1%** |
| Daher Aerospace | Hilton | **0.9%** |
| Revlon International | Stone | **0.9%** |
| Next | Eurocentral | **0.9%** |
| Life Technologies | Warrington | **0.9%** |
| ICT Express | Tamworth | **0.8%** |
| Silgan Closures | Doncaster | **0.8%** |
| Yesss Electrical | Normanton | **0.8%** |
| Turpin Distribution Services | Biggleswade | **0.8%** |
| Royal Mail Group | Coventry/Kilmarnock | **0.8%** |
| Yodel | Bellshill | **0.7%** |
| HellermannTyton | Cannock | **0.7%** |
| Massmould | Milton Keynes | **0.7%** |
| Sherwin Williams | Plymouth | **0.7%** |
| Worthington Armstrong | Gateshead - Team Valley | **0.6%** |
| DX | Nuneaton | **0.6%** |
| Saint-Gobain | Milton Keynes | **0.6%** |
| Superdrug | Avonmouth | **0.6%** |
| Unilin Distribution | Manchester | **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%** |
| Sytner | Oldbury | **0.5%** |
| Vertiv Infrastructure | Bedford | **0.5%** |
| DHL Supply Chain | Aberdeen | **0.5%** |
| Interserve Project Services | Christchurch | **0.5%** |
| Semcon | Warwick | **0.5%** |
| Procurri Europe | Warrington | **0.5%** |
| Brenntag | Cambuslang | **0.5%** |
| Dinex Exhausts | Warrington | **0.4%** |
| VP Packaging | Kettering | **0.4%** |
| MTS Logistics | Coalville | **0.4%** |
| West Midlands Ambulance Service | Erdington | **0.4%** |
| Warburton | Langley Mill | **0.4%** |
| Northern Commercials | Irlam | **0.4%** |
| Synergy Health | Sheffield Parkway | **0.4%** |
| Bunzl | Castleford | **0.3%** |
| Powder Systems | Liverpool, Speke | **0.3%** |

| | | |
|---|---|---|
| WH Partnership | Gateshead | **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 | **0.2%** |
| Acorn Web Offset | Normanton | **0.2%** |
| ITM Power | Sheffield | **0.2%** |
| Tricel Composites | Leeds | **0.2%** |
| Sovereign Air Movement | Leeds | **0.2%** |
| Rapid Vehicle Repairs | Kettering | **0.2%** |
| Boots | Gateshead | **0.2%** |
| MP Bio Science | Harrison Court | **0.1%** |
| Rexel | Gateshead | **0.1%** |
| Equinox Aromas | Kettering | **0.1%** |
| Jangala Softplay | Harrison Court | **0.1%** |
| Nital Training Academy | Kettering | **0.1%** |
| The Human Office | Gateshead | **0.1%** |
| Shakespeare Pharma | Harrison Court | **0.1%** |
| Other smaller tenants | Kettering | **0.1%** |
| VACANT | | **3.3%** |
| | | **41.4%** |

**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 | **0.6%** |
| 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%** |
| Dehns | Oxford | **0.3%** |
| Oxentia | Oxford | **0.3%** |
| Cognizant Technology | Glasgow | **0.2%** |
| Health & Safety Executive | Sheffield | **0.2%** |
| NatWest | Oxford | **0.2%** |
| Charles Stanley | Oxford | **0.2%** |
| Erskine Murray | Leicester | **0.2%** |
| KWB Property Management | Birmingham | **0.1%** |
| Bell Cornwall Associates | Birmingham | **0.1%** |
| Copeland Wedge Associates | Birmingham | **0.1%** |
| Smith Institute | Oxford | **0.1%** |
| Quantem Consulting | Birmingham | **0.1%** |

| | | |
|---|---|---|
| Bradley & Cuthbertson LLP | Birmingham | **0.1%** |
| Safe Deposits | Glasgow | **0.1%** |
| Other smaller tenants | Various | **0.1%** |
| VACANT | | **1.9%** |
| | | **11.7%** |

**Other**

| | | |
|---|---|---|
| VW Group | Derby/Shrewsbury/Stafford | **2.0%** |
| Williams Motor Co (Holdings) | Stockport | **1.5%** |
| Total Fitness Health Clubs | Lincoln - Total Fitness | **0.9%** |
| MKM Buildings Supplies | Castleford/Lincoln | **0.7%** |
| Nuffield Health | Stoke | **0.7%** |
| Co-Operative | Gillingham | **0.6%** |
| Bannatyne Fitness | Perth | **0.5%** |
| Pendragon Property | York | **0.5%** |
| Liverpool Community Health NHS Trust | Liverpool | **0.5%** |
| Royalbase | Liverpool | **0.5%** |
| Parkwood Health & Fitness | Salisbury | **0.5%** |
| Pizza Hut* | Crewe/Leicester/Watford | **0.4%** |
| Listers Group | Loughborough | **0.4%** |
| Mecca Bingo | Crewe | **0.3%** |
| Chokdee | Bath | **0.3%** |
| MTOR | Gateshead | **0.3%** |
| Stonegate Pub Co | High Wycombe | **0.3%** |
| Starbucks Coffee | Maypole | **0.3%** |
| TJ Vickers & Sons | Shrewsbury | **0.3%** |
| Loungers | Kings Lynn/Torquay | **0.3%** |
| KBeverage (t/a Starbucks) | Nottingham | **0.3%** |
| Mecca Bingo (sublet to Odeon Cinemas) | Crewe | **0.3%** |
| The Gym Group | Carlisle | **0.3%** |
| AGO Hotels | Portishead | **0.2%** |
| Las Iguanas | Torquay | **0.2%** |
| Le Bistrot Pierre | Torquay | **0.2%** |
| Tim Hortons | Perth | **0.2%** |
| McDonald's | Plymouth | **0.2%** |
| JD Wetherspoons | Portishead | **0.2%** |
| Scotco Eastern (t/a KFC) | Perth | **0.2%** |
| Ask Italian Restaurant | Shrewsbury | **0.2%** |
| Wedgmoor | Crewe | **0.2%** |
| The Universal Church of the Kingdom of God | Stratford | **0.1%** |
| Bright Horizons | Chesham | **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 | Various | **0.1%** |
| VACANT | | **0.9%** |
| | | **16.3%** |

**Retail**

| | | |
|---|---|---|
| Superdrug | Southsea/Weston-super-Mare/Worcester | **1.3%** |
| Specsavers | Cardiff | **0.8%** |
| URBN UK | Southampton | **0.5%** |
| Sportswift | Cardiff/Portsmouth | **0.5%** |
| The Works | Bury St Edmunds/Portsmouth | **0.4%** |
| Reiss | Guildford | **0.4%** |
| Phase Eight | Edinburgh | **0.3%** |
| Poundland | Portsmouth | **0.3%** |
| Nationwide | Shrewsbury | **0.2%** |
| Portsmouth City Council | Southsea | **0.2%** |
| Foxtons | Stratford | **0.2%** |
| Wilko Retail | Taunton | **0.2%** |
| Signet Trading (t/a Ernest Jones) | Chester | **0.2%** |
| Tesco Stores | Birmingham | **0.2%** |
| Greggs | Birmingham/Shrewsbury | **0.2%** |
| Holland & Barrett | Shrewsbury | **0.2%** |
| Kruidvat Real Estate (t/a Savers) | Colchester | **0.2%** |
| Crepeaffaire | St Albans | **0.2%** |
| Lush | Colchester | **0.2%** |
| H Samuel | Colchester | **0.2%** |
| Der Touristik | Chester | **0.2%** |
| The White Company | Nottingham | **0.1%** |
| Savers Health & Beauty | Bury St Edmunds | **0.1%** |
| Your Phone Care | Portsmouth | **0.1%** |
| Feldale Retail (t/a 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 Taverner | 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 | Various | **0.1%** |
| VACANT | | **1.4%** |
| | | **9.7%** |

**Retail Warehouse**

| | | |
|---|---|---|
| B&Q | Banbury/Galashiels/Weymouth | **3.2%** |
| B&M | Swindon/Ashton-under-Lyne/ Plymouth/Carlisle | **2.9%** |
| Wickes | Winnersh/Burton upon Trent | **1.8%** |
| Matalan | Leicester | **1.2%** |
| Magnet | Gloucester/Leicester/Plymouth | **1.1%** |
| Halfords | Carlisle/Sheldon/Weymouth | **0.8%** |
| Homebase | Leighton Buzzard | **0.8%** |
| Go Outdoors | Swindon | **0.8%** |
| Smyths Toys | Gloucester | **0.6%** |
| JB Global (t/a Oak Furniture Land) | Plymouth | **0.6%** |
| A Share & Sons (t/a SCS) | Plymouth | **0.5%** |
| M&S | Evesham | **0.5%** |
| Sainsbury’s | Torpoint | **0.5%** |
| Pets at Home | Winnersh | **0.5%** |
| Boots | Evesham | **0.5%** |
| CDS | Burton upon Trent | **0.5%** |
| Argos | Evesham | **0.4%** |
| Next | Evesham | **0.4%** |
| Poundstretcher* | Evesham/Grantham | **0.4%** |
| Dreams | Sheldon | **0.4%** |
| TJ Morris (t/a HomeBargains) | Portishead | **0.3%** |
| Iceland | Carlisle | **0.3%** |
| Poundland | Carlisle | **0.2%** |
| Sports Direct | Weymouth | **0.2%** |
| Carpetright* | Grantham | **0.2%** |
| 1 Oak (t/a Starbucks) | Burton upon Trent | **0.1%** |
| Majestic Wine Warehouse | Portishead | **0.1%** |
| Other smaller tenants | Various | **0.1%** |
| VACANT | | **1.0%** |
| | | **20.9%** |

*Includes tenants in occupation paying £nil rent through CVAs where ERV has been used to calculate % portfolio income.

**Principal risks and uncertainties**

*COVID-19 pandemic response*

The impact of the COVID-19 pandemic has been pervasive across the globe, and has had a significant impact on rental receipts, tenant stability, property valuations, headroom against borrowing covenants and government legislation, and could cause further operational interruption to the Company for at least the financial year ending 31 March 2022. 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 uncertainty remains regarding the longer-term ramifications of the COVID-19 pandemic.

The business resilience and risk planning of the Company's key service providers has been tested during the year and in all cases has responded very well to the challenges presented by the COVID-19 pandemic disruption, with all key teams able to work from home and continue to offer high levels of service to the Company.

The Board met at least fortnightly via video-conference during the initial period of lockdown and has continued to receive regular updates on rent collection levels during the year to ensure the Company reacted promptly to the dynamic situation, including guiding and challenging the Investment Manager's response and approving decisions quickly when required.

*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***<br>• Tenant default due to a cessation or curtailment of trade due to the COVID-19 pandemic<br>• An increasing number of tenants exercising contractual breaks or not renewing at lease expiry<br>• Enforced reduction in contractual rents through a CVA or legislative changes due to the COVID-19 pandemic<br>• Decreases in ERVs resulting in decreases in passing rent to secure long-term occupancy<br>• Expiries or breaks concentrated in a specific year<br>• Unable to re-let void units<br>• Low UK economic growth impacting the commercial property market | Likelihood: High<br>Impact: High<br>Overall change in risk from last year: Remains high | • Diverse property portfolio covering all key sectors and geographical areas<br>• The Company has 265 individual tenancies with the largest tenant accounting for 3.8% of the rent roll<br>• Investment policy limits the Company's rent roll to no more than 10% from a single tenant and 50% from a single sector<br>• Primarily institutional grade tenants<br>• Focused on established business locations for investment<br>• Active management of lease expiry profile considered in forming acquisition decisions<br>• Building specifications typically not tailored to one user<br>• 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***<br>• Decreases in sector-specific ERVs<br>• Loss of contractual revenue<br>• Tenants exercising contractual breaks or not renewing at lease expiry<br>• Market pricing affecting value<br>• Change in demand for space<br>• Properties concentrated in a specific geographical location or sector<br>• Reduced property market sentiment and investor demand<br>• Lack of transactional evidence | Likelihood: Moderate<br>Impact: High<br>Overall change in risk from last year: Decreased | • Active property portfolio diversification between office, industrial (distribution, manufacturing and warehousing), retail warehousing, high street retail and other<br>• Investment policy limits the Company's property portfolio to no more than 50% in any specific sector or geographical region<br>• Smaller lot-size business model limits exposure to individual asset values<br>• 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<br>• Breach of borrowing covenants<br>• Significant increases in interest rates | Likelihood: Moderate<br><br>Impact: High<br><br>Overall change in risk from last year: Decreased | • The Company has three lenders<br>• Interest cover covenant waivers were in place during the year<br>• Target net gearing of 25% LTV on property portfolio<br>• 82% of drawn debt facilities at a fixed rate of interest<br>• Significant unencumbered properties available to cure any potential breaches of LTV covenants<br>• Ongoing monitoring and management of the forecast liquidity and covenant position |
| ***Operational*** | | |
| • Inadequate performance, controls or systems operated by the Investment Manager | Likelihood: Low<br><br>Impact: High<br><br>Overall change in risk from last year: No change | • Ongoing review of performance by independent Board of Directors<br>• Outsourced internal audit function reporting directly to the Audit and Risk Committee<br>• 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<br>• Non-compliance with the REIT regime[26] or changes to the Company's tax status | Likelihood: Moderate<br><br>Impact: High<br><br>Overall change in risk from last year: Decreased | • Strong compliance culture<br>• 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<br>• Business model and culture embraces FCA principles<br>• 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 |

26 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<br>• Terrorism or pandemics interrupt the Company's operations through impact on either the Investment Manager or the Company's assets or tenants | Likelihood: Moderate<br><br>Impact: High<br><br>Overall change in risk from last year: Decreased | • Investment Manager staff are all capable of working from home for an extended period<br>• 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<br>• Fire protection and access/security procedures are in place at all of the Company's managed properties<br>• Comprehensive property damage and business interruption insurance is held, including three years' lost rent and terrorism<br>• At least annually, a fire risk assessment and health and safety inspection is performed for each property in the Company's managed portfolio |
| ***ESG*** | | |
| • Failure to appropriately manage the environmental performance of the property portfolio, resulting in it not meeting the required standards of environmental legislation and making properties unlettable or unsellable<br>• ESG policies and targets being insufficient to meet the required standards of stakeholders<br>• Non-compliance with environmental reporting requirements | Likelihood: Moderate<br><br>Impact: Moderate<br><br>Overall change in risk from last year: Increased | • The Company engaged specialist environmental consultants in 2019 to advise the Board on compliance with requirements and adopting best practice where possible<br>• The Company published its ESG policy in 2020 which seeks to improve energy efficiency and reduce emissions<br>• In April 2021 the Company constituted an ESG Committee to ensure compliance with environmental requirements, the ESG policy and environmental KPIs, detailed in the ESG Committee report<br>• At a property level an environmental assessment is undertaken which influences decisions regarding acquisitions, refurbishments and asset management initiatives |
| **Acquisitions** | | |
| • Unidentified liabilities associated with the acquisition of new properties (whether acquired directly or via a corporate structure) | Likelihood: Low<br><br>Impact: High<br><br>Overall change in risk from last year: No change | • Comprehensive due diligence is undertaken in conjunction with professional advisers 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 is continuing to monitor the potential longer-term risks associated with Brexit. The main potential negative impact of Brexit is a deterioration of the macro-economic environment, potentially leading to further political uncertainty and the investment and occupier markets. The Board believes the Company is well placed to weather any longer-term impact of Brexit because the Company has a diverse portfolio by sector and location with an institutional grade tenant base and low gearing.

No 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.

The Directors note that the Company has performed better than expected over the course of the COVID-19 pandemic disruption, with rent collection rates ahead of forecast and industrial asset valuations and rents in particular improving over the last 12 months.

*Results of the assessment*

Based on prudent assumptions within the Company's forecasts regarding the recovery of deferred rent, 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 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 recovery 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 2021 the Company had significant headroom on lender covenants at a portfolio level with:

- Company net gearing of 24.9% compared to a maximum LTV covenant of 35% and £165.0m (30% of the property portfolio) unencumbered by the Company's borrowings; and
- Covenant waivers in place on its fixed-rate debt facilities for the quarter ended 31 March 2021 to mitigate risk on each individual security pool.

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:

- The rate of loss or deferral of contractual rent on the borrowing facility with least headroom would need to deteriorate by a further 38% from the levels included in the Company's prudent forecasts to breach interest cover covenants; and
- At a portfolio level property valuations would have to decrease by 28% from the 31 March 2021 position to risk breaching the overall 35% LTV covenant.

The Board notes that the May 2021 IPF Forecasts for UK Commercial Property Investment survey suggests an average 0.4% increase in rents during 2021 with capital value increases of 1.8%. 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 159 assets and over 201 typically 'institutional grade' tenants across all commercial sectors.

Liquidity

At 31 March 2021 the Company has:

- £3.9m of cash-in-hand and £10m undrawn RCF, with gross borrowings of £140m 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 £38.7m, with interest costs on drawn loan facilities of only c. £4.7m per annum; and
- Received 90% of rents due relating to the April – June 2021 quarter.

The Company's forecast model projects it will have sufficient cash and undrawn facilities to settle its target dividends and its expense and interest liabilities for a period of at least 12 months.

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 10% from the levels included in the Company's prudent three-year forecasts. 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 2023 but can be extended by a further year 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 2023 in the unlikely event of lender support being withdrawn.

*Impact of the COVID-19 pandemic*

The Board believes it too early to understand fully the longer-term impact of the COVID-19 pandemic, in particular on the future use of office and the impact of the acceleration of retail sales moving online, but the Board believes the Company is well placed to weather any shorter-term impacts due to the reasons set out in the Principal risks and uncertainties section.

## 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 |
|---|---|
| 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. The Company's Management Engagement Committee ensures that the Investment Manager is operating within the scope of the Company's investment objectives.<br><br>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.<br><br>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. This approach resulted in the change to dividend policy during the year to preserve cash resources by broadly paying dividends from net rental income, in response to the political and market uncertainty caused by the COVID 19 pandemic.<br><br>The investment strategy of the Company is focused 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.<br><br>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. |
| 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.<br><br>The Company's Nominations Committee is responsible for applying the diversity policy set out in the Nominations Committee Report to Board recruitment. |
| 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 where appropriate, 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.<br><br>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. |
| 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.<br><br>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 ESG report.<br><br>The Company's approach to preventing bribery, money laundering, slavery and human trafficking is disclosed in the Governance report. |
| 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. |

| | |
|---|---|
| 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 and presentations. 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 attend the Company's AGM.<br><br>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 ESG Committee 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:

- Liaising with the Investment Manager to implement measures to ameliorate the effects of the COVID-19 pandemic;
- Extending the term of the RCF as detailed in Note 15;
- Renewing the Investment Management Agreement as detailed in Note 18;
- Appointing two new Directors as detailed in the Chairman's statement;
- Changing one of the Company's independent valuers from the quarter ending 30 June 2021 as detailed in the Investment Manager's report; and
- Constituting an ESG Committee as detailed in the ESG Committee report.

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***<br>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<br>• Profitability<br>• Efficient operations<br>• Knowledgeable and committed landlord<br>• Flexibility to adapt to the changing UK commercial landscape<br>• Buildings with strong environmental credentials | • Regular dialogue through rent collection process<br>• Review published data, such as accounts, trading updates and analysts' reports<br>• Ensured buildings comply with the necessary safety regulations and insurance<br>• Most tenants contacted to request environmental performance data<br>• Occupancy has remained at over 90% during the year |
| ***The Investment Manager and its employees***<br>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 smaller lot-size market is key when representing the Company | • Long-term viability of the Company<br>• Long-term relationship with the Company<br>• Well-being of the Investment Manager's employees<br>• Being able to attract and retain high-calibre staff<br>• Maintaining a positive and transparent relationship with the Board | • Board and Committee meetings<br>• Face-to-face and video-conference meetings with the Chairman and other Board Directors<br>• Monthly and quarterly KPI reporting to the Board<br>• External Board evaluation, including feedback from key Investment Manager personnel<br>• Informal meetings and calls |
| ***Suppliers***<br>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<br>• Responsive communication<br>• Being able to deliver service level agreements | • Board and Committee meetings<br>• One-to-one meetings<br>• Annual review of key service providers for the Management Engagement Committee |
| ***Shareholders***<br>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<br>• Attractive level of income returns<br>• Strong Corporate Governance and environmental credentials<br>• Transparent reporting framework | • Annual and half year presentations<br>• AGM<br>• Market announcements and corporate website<br>• Regular investor feedback received from the Company's broker<br>• On-going dialogue with analysts |

| Stakeholder | Stakeholder interests | Stakeholder engagement |
|---|---|---|
| ***Lenders***<br>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<br>• Stronger covenants<br>• Being able to meet interest payments<br>• Maintaining agreed gearing ratios<br>• Regular financial reporting<br>• Proactive notification of issues or changes | • Regular covenant reporting<br>• Face-to-face meetings, when restrictions allow |
| ***Government, local authorities and communities***<br>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<br>• Proactive compliance with new legislation<br>• Proactive engagement<br>• Support for local economic and environmental plans and strategies<br>• 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<br>• Two way dialogue with regulators and HMRC |

**Approval of Strategic report**

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

**David Hunter**
Chairman
15 June 2021

**Consolidated statement of comprehensive income**
For the year ended 31 March 2021

| | Note | **Year ended 31 March 2021 £000** | Year ended 31 March 2020 £000 |
|---|---|---|---|
| **Revenue** | 4 | **39,578** | 40,903 |
| Investment management | | **(3,331)** | (3,517) |
| Operating expenses of rental property | | | |
| - rechargeable to tenants | | **(914)** | (880) |
| - directly incurred | | **(5,559)** | (1,883) |
| Professional fees | | **(489)** | (445) |
| Directors' fees | | **(218)** | (200) |
| Administrative expenses | | **(551)** | (620) |
| **Expenses** | | **(11,062)** | (7,545) |
| **Operating profit before financing and revaluation of investment property** | | **28,516** | 33,358 |
| Unrealised losses on revaluation of investment property: | | | |
| - relating to property revaluations | 10 | **(19,611)** | (25,850) |
| - relating to costs of acquisition | 10 | **(707)** | (599) |
| Valuation decrease | | **(20,318)** | (26,449) |
| Profit/(loss) on disposal of investment property | | **393** | (101) |
| Net loss on investment property | | **(19,925)** | (26,550) |
| **Operating profit before financing** | | **8,591** | 6,808 |
| Finance income | 6 | **61** | 36 |
| Finance costs | 7 | **(4,903)** | (4,721) |
| Net finance costs | | **(4,842)** | (4,685) |
| **Profit before tax** | | **3,749** | 2,123 |
| Income tax expense | 8 | **-** | - |
| **Profit for the year and total comprehensive income for the year, net of tax** | | **3,749** | 2,123 |
| **Attributable to:** | | | |
| Owners of the Company | | **3,749** | 2,123 |
| **Earnings per ordinary share:** | | | |
| Basic and diluted (p) | 3 | **0.9** | 0.5 |
| EPRA (p) | 3 | **5.6** | 7.0 |

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

**Consolidated and Company statements of financial position**
As at 31 March 2021
Registered number: 08863271

| | Note | Group | | Company | |
|---|---|---|---|---|---|
| | | **31 March 2021 £000** | 31 March 2020 £000 | **31 March 2021 £000** | 31 March 2020 £000 |
| **Non–current assets** | | | | | |
| Investment property | 10 | **551,922** | 559,817 | **551,922** | 559,817 |
| Investments | 11 | **-** | - | **3,405** | 3,405 |
| Total non-current assets | | **551,922** | 559,817 | **555,327** | 563,222 |
| **Current assets** | | | | | |
| Trade and other receivables | 12 | **6,001** | 5,297 | **6,001** | 5,297 |
| Cash and cash equivalents | 14 | **3,920** | 25,399 | **3,920** | 25,399 |
| Total current assets | | **9,921** | 30,696 | **9,921** | 30,696 |
| **Total assets** | | **561,843** | 590,513 | **565,248** | 593,918 |
| **Equity** | | | | | |
| Issued capital | 16 | **4,201** | 4,201 | **4,201** | 4,201 |
| Share premium | 16 | **250,469** | 250,469 | **250,469** | 250,469 |
| Retained earnings | 16 | **155,196** | 172,082 | **155,196** | 172,082 |
| **Total equity attributable to equity holders of the Company** | | **409,866** | 426,752 | **409,866** | 426,752 |
| **Non-current liabilities** | | | | | |
| Borrowings | 15 | **138,604** | 148,323 | **138,604** | 148,323 |
| Other payables | | **572** | 576 | **572** | 576 |
| Total non-current liabilities | | **139,176** | 148,899 | **139,176** | 148,899 |
| **Current liabilities** | | | | | |
| Trade and other payables | 13 | **6,185** | 7,794 | **9,590** | 11,199 |
| Deferred income | | **6,616** | 7,068 | **6,616** | 7,068 |
| Total current liabilities | | **12,801** | 14,862 | **16,206** | 18,267 |
| **Total liabilities** | | **151,977** | 163,761 | **155,382** | 167,166 |
| **Total equity and liabilities** | | **561,843** | 590,513 | **565,248** | 593,918 |

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 £3,749,000 (2020: £2,123,000).

These consolidated and Company financial statements of Custodian REIT plc were approved and authorised for issue by the Board of Directors on 15 June 2021 and are signed on its behalf by:

**David Hunter**
Chairman

**Consolidated and Company statements of cash flows**
For the year ended 31 March 2021

| Group and Company | Note | Year ended 31 March 2021 £000 | Year ended 31 March 2020 £000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit for the year | | **3,749** | 2,123 |
| Net finance costs | | **4,842** | 4,685 |
| Valuation decrease of investment property | 10 | **20,318** | 26,449 |
| Impact of rent free | 10 | **(1,932)** | (1,402) |
| Amortisation of right-of-use asset | | **7** | 7 |
| (Profit)/loss on disposal of investment property | | **(393)** | 101 |
| **Cash flows from operating activities before changes in working capital and provisions** | | **26,591** | 31,963 |
| Increase in trade and other receivables | | **(704)** | (1,623) |
| (Decrease)/increase in trade and other payables and deferred income | | **(2,065)** | 702 |
| **Cash generated from operations** | | **23,822** | 31,042 |
| Interest and other finance charges | | **(4,556)** | (4,435) |
| **Net cash flows from operating activities** | | **19,266** | 26,607 |
| **Investing activities** | | | |
| Purchase of investment property | | **(11,443)** | (24,048) |
| Capital expenditure and development | | **(2,308)** | (2,804) |
| Acquisition costs | | **(707)** | (599) |
| Disposal of investment property | | **4,422** | 15,383 |
| Costs of disposal of investment property | | **(69)** | (159) |
| Interest and finance income received | 6 | **61** | 36 |
| **Net cash used in investing activities** | | **(10,044)** | (12,191) |
| **Financing activities** | | | |
| Proceeds from the issue of share capital | 16 | **-** | 25,300 |
| Costs of share issue | | **-** | (292) |
| New borrowings net of origination costs | 15 | **(10,066)** | 10,505 |
| Dividends paid | 9 | **(20,635)** | (27,002) |
| **Net cash from financing activities** | | **(30,701)** | 8,511 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(21,479)** | 22,927 |
| Cash and cash equivalents at start of the year | | **25,399** | 2,472 |
| **Cash and cash equivalents at end of the year** | | **3,920** | 25,399 |

## Consolidated and Company statements of changes in equity
For the year ended 31 March 2021

| | Note | Issued capital £000 | Share premium £000 | Retained earnings £000 | Total equity £000 |
|---|---|---|---|---|---|
| As at 1 April 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 |
| Profit for the year | | - | - | 3,749 | 3,749 |
| Total comprehensive income for year | | - | - | 3,749 | 3,749 |
| **Transactions with owners of the Company, recognised directly in equity** | | | | | |
| Dividends | 9 | - | - | (20,635) | (20,635) |
| Issue of share capital | 16 | - | - | - | - |
| **As at 31 March 2021** | | **4,201** | **250,469** | **155,196** | **409,866** |

**Notes to the financial statements for the year ended 31 March 2021**

## 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 15 June 2021.

## 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 accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The financial statements have also been prepared in accordance with International Financial Reporting Standards as issued by the IASB.

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*

During the year the Company adopted the following new standards with no impact on reported financial performance or position:

- COVID-19-related rent concessions amendment to IFRS 16
- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendments to IAS 1 and IAS 8 Definition of material
- Amendments to IAS 1 Classification of Liabilities as Current or Non-current

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.
- Annual Improvements to IFRS Standards 2018-2020

The Company has not completed its review of the impact of these new standards but does not anticipate them 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.

*Non-listed equity investments*

Non-listed equity investments are classified at fair value through profit and loss and are subsequently measured using level 3 inputs, meaning valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

*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 make 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 were subject to a 'material uncertainty' clause in line with RICS guidance. Valuation assumptions also include, for certain assets occupied by tenants currently not trading or with trade significantly curtailed at the year end, a three-month rental void and a yield increase of 10-75bps.

*Estimates*

Areas where accounting estimates are significant to the financial statements are:

- *Doubtful debt provisioning* – the approach to providing for 'expected credit losses' is detailed in Note 12 and uses estimates within a matrix of how much the credit risk of trade receivables has increased since initial recognition based on a number of days overdue, taking into account qualitative and quantitative supportable information. Due to the impact of the COVID-19 pandemic on collection rates, there has been a significant increase in assessed credit risk during the year. Each individual property rental receivable is reviewed to assess whether there is a probability of default and expected credit loss given the Investment Manager's knowledge of the specific tenant over and above the provision calculated from the matrix.

**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 2021** | Year ended 31 March 2020 |
|---|---|---|
| Net profit and diluted net profit attributable to equity holders of the Company (£000) | **3,749** | 2,123 |
| Net loss on investment property (£000) | **19,925** | 26,550 |
| EPRA net profit attributable to equity holders of the Company (£000) | **23,674** | 28,673 |
| Weighted average number of ordinary shares: | | |
| Issued ordinary shares at start of the year (thousands) | **420,053** | 398,203 |
| Effect of shares issued during the year (thousands) | **-** | 11,508 |
| Basic and diluted weighted average number of shares (thousands) | **420,053** | 409,711 |
| Basic and diluted EPS (p) | **0.9** | 0.5 |
| EPRA EPS (p) | **5.6** | 7.0 |

## 4. Revenue

| | **Year ended 31 March 2021 £000** | Year ended 31 March 2020 £000 |
|---|---|---|
| Gross rental income from investment property | **38,664** | 40,022 |
| Income from recharges to tenants | **914** | 881 |
| | **39,578** | 40,903 |

## 5. Operating profit

Operating profit is stated after (crediting)/charging:

| | **Year ended 31 March 2021 £000** | Year ended 31 March 2020 £000 |
|---|---|---|
| (Profit)/loss on disposal of investment property | **(393)** | 101 |
| Investment property valuation decrease | **20,318** | 26,449 |
| Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements | **106** | 96 |
| Fees payable to the Company's auditor and its associates for other services | **20** | 26 |
| Administrative fee payable to the Investment Manager | **416** | 434 |
| Directly incurred operating expenses of vacant rental property | **822** | 910 |
| Directly incurred operating expenses of let rental property | **1,142** | 600 |
| Increase in doubtful debt provision, write offs due to tenant business failure and rent concessions | **3,591** | 336 |
| Amortisation of right-of-use asset | **7** | 7 |

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 2021 £000** | Year ended 31 March 2020 £000 |
|---|---|---|
| Bank interest | **28** | 36 |
| Finance income | **33** | - |
| | **61** | 36 |

## 7. Finance costs

| | **Year ended 31 March 2021 £000** | Year ended 31 March 2020 £000 |
|---|---|---|
| Amortisation of arrangement fees on debt facilities | **347** | 286 |
| Other finance costs | **287** | 200 |
| Bank interest | **4,269** | 4,235 |
| | **4,903** | 4,721 |

## 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 2021 £000** | Year ended 31 March 2020 £000 |
|---|---|---|
| Profit before income tax | **3,749** | 2,123 |
| Tax charge on profit at a standard rate of 19.0% (2020: 19.0%) | **712** | 403 |
| Effects of: | | |
| REIT tax exempt rental profits and gains | **(712)** | (403) |
| 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 2021 £000** | Year ended 31 March 2020 £000 |
|---|---|---|
| Interim dividends paid on ordinary shares relating to the quarter ended: | | |
| **Prior year** | | |
| - 31 March 2020: 1.6625p (2019: 1.6375p) | **6,983** | 6,521 |
| **Current year** | | |
| - 30 June 2020: 0.95p (2019: 1.6625p) | **3,990** | 6,786 |
| - 30 September 2020: 1.05p (2019: 1.6625p) | **4,411** | 6,828 |
| - 31 December 2020: 1.25p (2019: 1.6625p) | **5,251** | 6,867 |
| | **20,635** | 27,002 |

The Company paid a fourth interim dividend relating to the quarter ended 31 March 2021 of 1.25p per ordinary share (totalling £5.3m) on 28 May 2021 to shareholders on the register at the close of business on 14 May 2021. The Company has approved a fifth interim dividend per share relating to the year of 0.5p totalling £2.1m payable on 30 June 2021 to shareholders on the register at the close of business on 21 May 2021. These dividends have not been included as liabilities in these financial statements.

## 10. Investment property

| Group and Company | £000 |
|---|---|
| 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 |
| Impact of lease incentives | 1,932 |
| Additions | 12,150 |
| Amortisation of right-of-use asset | (7) |
| Capital expenditure and development | 2,308 |
| Disposals | (3,960) |
| Valuation decrease before acquisition costs | (19,611) |
| Acquisition costs | (707) |
| Valuation decrease including acquisition costs | (20,318) |
| **At 31 March 2021** | **551,922** |

£391.9m (2020: £375.1m) of investment property has been charged as security against the Company's borrowings. £0.6m (2020: £0.6m) of investment property comprises right-of-use assets.

The carrying value of investment property at 31 March 2021 comprises £444.1m freehold (2020: £447.9m) and £107.8m leasehold property (2020: £111.9m).

Investment property is stated at the Directors' estimate of its 31 March 2021 fair value. Lambert Smith Hampton Group Limited and Knight Frank LLP, professionally qualified independent valuers, each valued approximately half of the property portfolio as at 31 March 2021 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 were subject to a 'material uncertainty' clause in line with 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 4.3% to 12.3%. 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 at the year end, 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<br>Name | Company number | Country of registration and incorporation | Principal activity | Ordinary shares held | **31 March 2021 £000** | 31 March 2020 £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 – in liquidation | 100% | **2,904** | 2,904 |
| | | | | | **3,405** | 3,405 |

* Held indirectly

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.

*Non-listed equity investments*

| Group and Company<br>Name | Company number | Country of registration and incorporation | Principal activity | Ordinary shares held | **31 March 2021 £000** | 31 March 2020 £000 |
|---|---|---|---|---|---|---|
| AGO Hotels Limited | 12747566 | England and Wales | Operator of hotels | 4.5% | **-** | - |
| | | | | | **-** | - |

The Company was allotted 4.5% of the ordinary share capital of AGO Hotels Limited on 31 January 2021 as part of a new letting of its hotel asset in Portishead.

## 12. Trade and other receivables

| Group and Company | **31 March 2021 £000** | 31 March 2020 £000 |
|---|---|---|
| Falling due in less than one year: | | |
| Trade receivables | **4,192** | 4,359 |
| Other receivables | **1,706** | 217 |
| Prepayments and accrued income | **103** | 721 |
| | **6,001** | 5,297 |

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.

Such balances are provided for in full. For remaining balances the Company has applied an expected credit loss ("ECL") matrix based on its experience of collecting rent arrears and deferred rents since the onset of COVID-19 disruption. The ECL matrix fully provides for receivable balances more than 90 days past due, partially provides against receivable balances between one and 90 days past due and partially provides against receivable balances not yet due because of a contractual deferral.

The movement in the expected credit loss provision, set out below, is recognised within directly incurred operating expenses of rental property of £5,559k (2020: £1,883k) in the income statement.

| Group and Company | **31 March 2021 £000** | 31 March 2020 £000 |
|---|---|---|
| Expected credit loss provision | | |
| Opening balance | **341** | 18 |
| Increase in provision relating to trade receivables that are credit-impaired | **2,689** | 323 |
| **Closing balance** | **3,030** | 341 |

The increase in provision during the year is due to tenant's not settling their contractual rental obligations on a timely basis, primarily due to a cessation or curtailment of trade due to the COVID-19 pandemic.

Tenant rent deposits of £0.9m (2020: £0.7m) are held as collateral against certain trade receivable balances.

## 13. Trade and other payables

| | Group | | Company | |
|---|---|---|---|---|
| | **31 March 2021 £000** | 31 March 2020 £000 | **31 March 2021 £000** | 31 March 2020 £000 |
| Falling due in less than one year: | | | | |
| Trade and other payables | **1,730** | 2,091 | **1,730** | 2,091 |
| Social security and other taxes | **882** | 2,462 | **882** | 2,462 |
| Accruals | **2,665** | 2,563 | **2,665** | 2,563 |
| Rental deposits | **908** | 678 | **908** | 678 |
| Amounts due to subsidiary undertakings | **-** | - | **3,405** | 3,405 |
| | **6,185** | 7,794 | **9,590** | 11,199 |

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 2021 £000** | 31 March 2020 £000 |
|---|---|---|
| Cash and cash equivalents | **3,920** | 25,399 |

Cash and cash equivalents at 31 March 2021 include £2.6m (2020: £0.9m) of restricted cash comprising: £1.5m (2020: £nil) interest ‘prepayments’ in connection with arranging interest cover covenant waivers, £0.9m (2020: £0.7m) rental deposits held on behalf of tenants and £0.2m (2020: £0.2m) retentions held in respect of development fundings.

## 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 2020 | 150,000 | (1,677) | 148,323 |
| Net repayment of borrowings | (10,000) | (66) | (10,066) |
| Amortisation of arrangement fees | - | 347 | 347 |
| **At 31 March 2021** | **140,000** | **(1,396)** | **138,604** |

During the year the Company and Lloyds agreed to extend the term of the RCF by one year to expire in 2023, and an option remains to extend the term by a further year to 2024.

The Company has the following facilities available:

- A £35m RCF with Lloyds Bank plc ("Lloyds") with interest of between 1.5% and 1.8% above three-month LIBOR and is repayable on 17 September 2023. The RCF limit can be increased to £50m with Lloyds' consent;
- 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:
  - £35m Tranche 1 repayable on 6 April 2032 attracting fixed annual interest of 3.02%; and
  - £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<br>Issued share capital | Ordinary shares of 1p | £000 |
|---|---:|---:|
| At 1 April 2019 | 398,203,344 | 3,982 |
| Issue of share capital | 21,850,000 | 219 |
| At 31 March 2020 | 420,053,344 | 4,201 |
| Issue of share capital | - | - |
| **At 31 March 2021** | **420,053,344** | **4,201** |

During the prior 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 1 September 2020, the Board was given authority to issue up to 140,017,781 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. No ordinary shares have been issued under the Authority since 1 September 2020, leaving an unissued balance of 140,017,781 at 31 March 2021. The Authority expires on the earlier of 15 months from 1 September 2020 and the subsequent AGM, due to take place on 25 August 2021.

In addition, the Company was granted authority to make market purchases of up to 42,005,300 ordinary shares under section 701 of the Companies Act 2006. No market purchases of ordinary shares have been made.

| Group and Company<br>*Other reserves* | Share premium account £000 | Retained earnings £000 |
|---|---:|---:|
| At 1 April 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 |
| Shares issued during the year | - | - |
| Costs of share issue | - | - |
| Profit for the year | - | 3,749 |
| Dividends paid | - | (20,635) |
| **At 31 March 2021** | **250,469** | **155,196** |

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 2021 £000** | 31 March 2020 £000 |
|---|---|---|
| Not later than one year | **36,191** | 37,519 |
| Year 2 | **31,771** | 34,941 |
| Year 3 | **27,987** | 29,335 |
| Year 4 | **23,875** | 25,810 |
| Year 5 | **19,300** | 22,403 |
| Later than five years | **72,428** | 75,893 |
| | **211,552** | 225,901 |

The following table presents amounts reported in revenue:

| Group and Company | **31 March 2021 £000** | 31 March 2020 £000 |
|---|---|---|
| Lease income on operating leases | **38,621** | 39,833 |
| Therein lease income relating to variable lease payments that do not depend on an index or rate | **152** | 189 |
| | **38,773** | 40,022 |

## 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 to extend the appointment of the Investment Manager for a further three years, with a further year's notice, 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;
- 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;
- 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% (2020: 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 £3.75m (2020: £4.01m) comprising £3.33m (2020: £3.52m) in respect of annual management fees, £0.42m (2020: £0.43m) in respect of administrative fees and £nil (2020: £0.06m) in respect of marketing fees.

## 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 24.9% (2020: 22.4%).

*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 2021, the RCF was drawn at £25m. 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 2021 would decrease/increase by £0.1m 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 29% (2020: 35%).

*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 2021 was £4.2m (2020: £4.4m).

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 2021 0-3 months £000 | 31 March 2021 3 months – 1 year £000 | 31 March 2021 1-5 years £000 | 31 March 2021 5 years + £000 |
|---|---|---|---|---|---|
| Trade and other payables | N/a | 6,185 | - | 151 | 421 |
| Borrowings: | | | | | |
| Variable rate | 1.888 | 118 | 354 | 25,692 | - |
| Fixed rate | 3.935 | 197 | 590 | 2,656 | - |
| Fixed rate | 2.987 | 336 | 1,008 | 5,377 | 47,939 |
| Fixed rate | 3.020 | 264 | 793 | 4,228 | 41,362 |
| Fixed rate | 3.260 | 122 | 367 | 1,956 | 18,227 |
| | | 7,222 | 3,112 | 40,060 | 107,949 |

| Company | *Weighted average effective interest rate %* | 31 March 2021 0-3 months £000 | 31 March 2021 3 months – 1 year £000 | 31 March 2021 1-5 years £000 | 31 March 2021 5 years + £000 |
|---|---|---|---|---|---|
| Trade and other payables | N/a | 9,590 | - | 151 | 421 |
| Borrowings: | | | | | |
| Variable rate | 1.888 | 118 | 354 | 25,692 | - |
| Fixed rate | 3.935 | 197 | 590 | 2,656 | - |
| Fixed rate | 2.987 | 336 | 1,008 | 5,377 | 47,939 |
| Fixed rate | 3.020 | 264 | 793 | 4,228 | 41,362 |
| Fixed rate | 3.260 | 122 | 367 | 1,956 | 18,227 |
| | | 10,627 | 3,112 | 40,060 | 107,949 |

| 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 | N/a | 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 | N/a | 11,199 | - | 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 |
| | | 12,292 | 3,280 | 52,273 | 131,133 |

*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 liabilities 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 2021, the fair value of the Company's investment properties was £551.9m (2020: £559.8m).

*Interest bearing loans and borrowings – level 3*

As at 31 March 2021 the value of the Company's loans with Lloyds, SWIP and Aviva all held at amortised cost was £140.0m (2020: £150.0m). The difference between the carrying value of Company's loans and their fair value is detailed in Note 21.

*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 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 longer-term impact of the COVID-19 pandemic, 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 7 May 2021 the Company raised £0.6m (before costs and expenses) through the issue of 550,000 new ordinary shares of 1p each in the capital of the Company at a price of 101.5p per share.

On 24 May 2021 the Company the Company sold a high street retail property at auction in Nottingham for £0.7m, in line with the most recent valuation.

On 8 June 2021 the Company acquired an industrial asset in Knowsley, Liverpool for £3.5m.

## 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.

| Group and Company | **Year ended 31 March 2021** | Year ended 31 March 2020 |
|---|---|---|
| Net assets (£000) | **409,866** | 426,752 |
| Shares in issue at 31 March (thousands) | **420,053** | 420,053 |
| NAV per share at the start of the year (p) | **101.6** | 107.1 |
| Dividends per share paid during the year (p) | **4.9125** | 6.625 |
| NAV per share at the end of the year (p) | **97.6** | 101.6 |
| **NAV per share total return** | **0.9%** | 1.1% |

*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.

| Group and Company | **Year ended 31 March 2021** | Year ended 31 March 2020 |
|---|---|---|
| Share price at the start of the year (p) | **99.0** | 111.2 |
| Dividends per share paid during the year (p) | **4.9125** | 6.625 |
| Share price at the end of the year (p) | **91.8** | 99.0 |
| **Share price total return** | **(2.3%)** | (5.0%) |

*Dividend cover*

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

| Group and Company | **Year ended 31 March 2021 £000** | Year ended 31 March 2020 £000 |
|---|---|---|
| Dividends paid relating to the year | **13,652** | 20,481 |
| Dividends approved relating to the year | **7,354** | 6,983 |
| | **21,006** | 27,464 |
| Profit after tax | **3,749** | 2,123 |
| One-off costs | **-** | - |
| Net loss on investment property | **19,925** | 26,550 |
| | **23,674** | 28,673 |
| **Dividend cover** | **112.7%** | 104.4% |

*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.

| Group and Company | **Year ended 31 March 2021** | Year ended 31 March 2020 |
|---|---|---|
| NAV per share (p) | **97.6** | 101.6 |
| Share price at the end of the year (p) | **91.8** | 99.0 |
| **Discount** | **(5.9%)** | (2.6%) |

*Net gearing*

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

| Group and Company | **Year ended 31 March 2021 £000** | Year ended 31 March 2020 £000 |
|---|---|---|
| Gross borrowings | **140,000** | 150,000 |
| Cash | **(3,920)** | (25,399) |
| Cash held on behalf of tenants | **1,179** | 911 |
| Net borrowings | **137,259** | 125,512 |
| Investment property | **551,922** | 559,817 |
| **Net gearing** | **24.9%** | 22.4% |

*Ongoing charges*

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

| Group and Company | **Year ended 31 March 2021 £000** | Year ended 31 March 2020 £000 |
|---|---|---|
| Average quarterly NAV during the year | **408,703** | 428,979 |
| Expenses | **11,062** | 7,545 |
| Operating expenses of rental property rechargeable to tenants | **(914)** | (880) |
| | **10,148** | 6,665 |
| Operating expenses of rental property directly incurred | **(5,559)** | (1,883) |
| One-off costs | **-** | - |
| | **4,589** | 4,782 |
| OCR | **2.48%** | 1.55% |
| 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;

| Group and Company | **Year ended 31 March 2021 £000** | Year ended 31 March 2020 £000 |
|---|---|---|
| Profit for the year after taxation | **3,749** | 2,123 |
| Net loss on investment property | **19,925** | 26,550 |
| EPRA earnings | **23,674** | 28,673 |
| Weighted average number of shares in issue (thousands) | **420,053** | 409,711 |
| **EPRA earnings per share (p)** | **5.6** | 7.0 |

*EPRA NAV per share metrics*

EPRA NAV metrics make adjustments to the IFRS NAV to provide stakeholders with the most relevant information on the fair value of the assets and liabilities of a real estate investment company, under different scenarios.

*EPRA Net Reinstatement Value ("NRA")*

NRA assumes the Company never sells its assets and aims to represent the value required to rebuild the entity.

| Group and Company | **31 March 2021 £000** | 31 March 2020 £000 |
|---|---|---|
| IFRS NAV | **409,865** | 426,751 |
| Fair value of financial instruments | **-** | - |
| Deferred tax | **-** | - |
| **EPRA NRA** | **409,865** | 426,751 |
| Closing number of shares in issue (thousands) | **420,053** | 420,053 |
| **EPRA NRA per share (p)** | **97.6** | 101.6 |

*EPRA Net Tangible Assets ("NTA")*

Assumes that the Company buys and sells assets for short-term capital gains, thereby crystallising certain deferred tax balances.

| Group and Company | **31 March 2021 £000** | 31 March 2020 £000 |
|---|---|---|
| IFRS NAV | **409,865** | 426,751 |
| Fair value of financial instruments | **-** | - |
| Deferred tax | **-** | - |
| **EPRA NTA** | **409,865** | 426,751 |
| Closing number of shares in issue (thousands) | **420,053** | 420,053 |
| **EPRA NTA per share (p)** | **97.6** | 101.6 |

*EPRA Net Disposal Value ("NDV")*

Represents the shareholders' value under a disposal scenario, where deferred tax, financial instruments and certain other adjustments are calculated to the full extent of their liability, net of any resulting tax.

| Group and Company | **31 March 2021 £000** |
|---|---|
| IFRS NAV | **409,865** |
| Fair value of fixed rate debt | **(9,468)** |
| Deferred tax | **-** |
| **EPRA NDV** | **400,397** |
| Closing number of shares in issue (thousands) | **420,053** |
| **EPRA NDV per share (p)** | **95.3** |

The fair value of the Company's interest-bearing loans included in the balance sheet at amortised cost has been calculated based on prevailing swap rates, and excludes 'break' costs chargeable should the Company settle loans ahead of their contractual expiry. This information is not retrospectively available for the year ended 31 March 2021.

*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).

| Group and Company | **31 March 2021 £000** | 31 March 2020 £000 |
|---|---|---|
| Investment property | **551,922** | 559,817 |
| Allowance for estimated purchasers' costs[27] | **35,875** | 36,388 |
| Gross up property portfolio valuation | **587,797** | 596,205 |
| Annualised cash passing rental income | **36,314** | 38,196 |
| Property outgoings | **(1,004)** | (1,115) |
| Annualised net rents | **35,310** | 37,109 |
| Impact of expiry of current lease incentives | **2,378** | 2,553 |
| | **37,688** | 39,634 |
| **EPRA NIY** | **6.0%** | 6.2% |

27 Assumed at 6.5% of investment property valuation.

| | | |
|---|---|---|
| **EPRA 'topped-up' NIY** | **6.4%** | 6.6% |

*EPRA vacancy rate*

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

| Group and Company | **31 March 2021 £000** | 31 March 2020 £000 |
|---|---|---|
| Annualised potential rental value of vacant premises | **3,562** | 1,745 |
| Annualised potential rental value for the property portfolio | **42,554** | 42,600 |
| **EPRA vacancy rate** | **8.4%** | 4.1% |

*EPRA cost ratios*

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

| Group and Company | **Year ended 31 March 2021 £000** | Year ended 31 March 2020 £000 |
|---|---|---|
| Directly incurred operating expenses and administrative fees | **10,147** | 6,667 |
| Ground rent costs | **(37)** | (37) |
| EPRA costs (including direct vacancy costs) | **10,110** | 6,630 |
| Property void costs | **(888)** | (836) |
| EPRA costs (excluding direct vacancy costs) | **9,222** | 5,794 |
| Gross rental income | **38,698** | 40,022 |
| Ground rent costs | **(37)** | (37) |
| Rental income net of ground rent costs | **38,661** | 39,985 |
| **EPRA cost ratio (including direct vacancy costs)** | **26.1%** | 16.6% |
| **EPRA cost ratio (excluding direct vacancy costs)** | **23.9%** | 14.5% |

*EPRA capital expenditure*

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

| Group and Company | **31 March 2021 £000** | 31 March 2020 £000 |
|---|---|---|
| Acquisitions | **12,150** | 24,647 |
| Development | **691** | 79 |
| Like-for-like portfolio | **1,617** | 2,725 |
| **Total capital expenditure** | **14,458** | 27,451 |

*EPRA like-for-like rental growth*

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

**2021**

| Group and Company | Industrial £000 | Retail warehouse £000 | Retail £000 | Other £000 | Office £000 | **Total £000** |
|---|---|---|---|---|---|---|
| Like-for-like rent | 16,085 | 7,739 | 3,449 | 5,845 | 3,454 | **36,572** |
| Acquired properties | 38 | - | - | 59 | 127 | **225** |
| Sold properties | 18 | - | 144 | - | - | **162** |
| | 16,141 | 7,739 | 3,593 | 5,904 | 3,581 | **36,958** |

**2020**

| Group and Company | 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 |

**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 2021 or 2020, but is derived from those accounts. Statutory accounts for 2020 have been delivered to the Registrar of Companies and those for 2021 will be delivered following the Company's AGM. The auditor has reported on the 2021 accounts: their report was 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 -**