Custodian
REIT PLC

Annual Report and Accounts 2021

Welcome to the Custodian REIT plc Annual Report and Accounts 2021

Sheffield, Foundry House

Custodian REIT plc ("Custodian REIT" or "the Company[1]") is a UK real estate investment trust ("REIT") with a portfolio comprising properties predominantly let to institutional grade tenants throughout the UK, principally characterised by properties with individual values of less than £10m at acquisition.

Contents

For more information, visit:
custodianreit.com

1. References to the Company in the Strategic report include the Company and its non-trading subsidiaries: Custodian Real Estate Limited, Custodian Real Estate (JMP4) Limited, Custodian Real Estate BL Limited, Custodian Real Estate (Beaumont Leys) Limited and Custodian Real Estate (Leicester) Limited.

Financial highlights and performance summary

Rent collected for the year

91%

91% of rent collected for the year, adjusted for contractual rent deferrals

EPRA[2] earnings per share[3]

5.6p

2021	5.6p
2020	7.0p

EPRA[2] earnings per share[3] 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[4]

0.9p

2021	0.9p
2020	0.5p

Basic and diluted earnings per share[4] of 0.9p (2020: 0.5p), impacted by property valuation decreases of £19.6m (2020: £25.9m)

Profit before tax

£3.7m

2021	£3.7m
2020	£2.1m

Profit before tax up 76.6%

Aggregate dividends per share

5.0p

2021	5.0p
2020	6.65p

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

5.0p

2022	Minimum 5.0p
2021	5.0p
2020	6.65p

Target dividend per share for the year ending 31 March 2022 of not less than 5.0p (2021: 5.0p), based on rent collection levels remaining in line with expectations

NAV total return per share[5]

0.9p

2021	0.9%
2020	1.1%

NAV total return per share[5] 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

£551.9m

2021	£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 £29m 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[6] invested in three property acquisitions
- Disposal of five properties for aggregate consideration of £4.4m[7]
- £2.3m capital expenditure incurred including £0.7m on construction of a drive-through restaurant on an existing site

2. The European Public Real Estate Association ("EPRA").
3. Profit after tax excluding net gains or losses on investment property divided by weighted average number of shares in issue.
4. Profit after tax divided by weighted average number of shares in issue.
5. Net asset value ("NAV") movement including dividends paid during the year on shares in issue at 31 March 2020.
6. Before acquisition costs of £0.7m.
7. Before disposal costs of £0.1m.

Share price total return[8]

2021	2.3%
2020	5.0%

Dividend cover[9]

2021	112.7%
2020	104.4%

Dividends per share[10] (p)

2021	5.0
2020	6.65

NAV and EPRA NTA[11] (£m)

2021	409.9
2020	426.7

NAV per share and NTA per share[11] (p)

2021	97.6
2020	101.6

Share price (p)

2021	91.8
2020	99.0

Market capitalisation (£m)

2021	385.6
2020	415.9

Discount of share price to NAV per share

2021	(5.9%)
2020	(2.6%)

Net gearing[12]

2021	24.9%
2020	22.4%

Ongoing charges ratio[13] ("OCR")

2021	2.48%
2020	1.55%

OCR excluding direct property expenses[14]

2021	1.12%
2020	1.12%

Weighted average energy performance certificate ("EPC") rating[15]

2021	(C) 63
2020	(C) 70

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.

8. Share price movement including dividends paid during the year.
9. Profit after tax, excluding net gains or losses on investment property, divided by dividends paid and approved for the year.
10. Dividends paid and approved for the year.
11. 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.
12. Gross borrowings less cash (excluding rent deposits) divided by property portfolio value.
13. Expenses (excluding operating expenses of rental property recharged to tenants) divided by average quarterly NAV.
14. Expenses (excluding operating expenses of rental property) divided by average quarterly NAV.
15. For properties in Scotland, English equivalent EPC ratings have been obtained.

Business model and strategy

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.

The Company's investment policy[16] 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[17], 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.

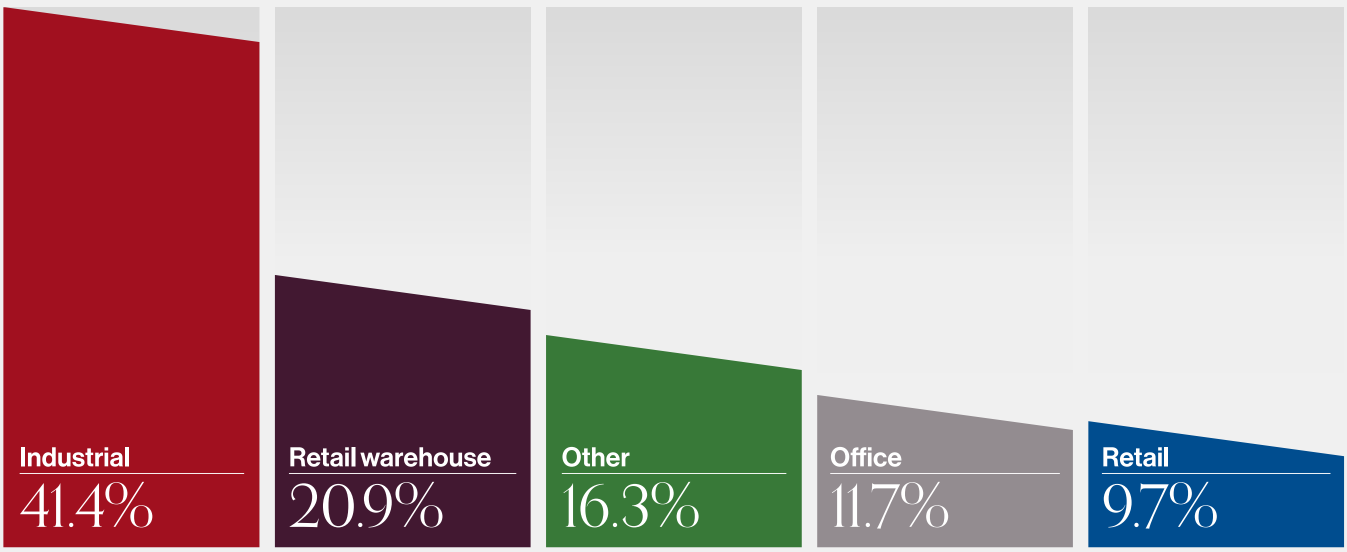
The Board reviews the Company's investment objectives at least annually to ensure they remain appropriate to the market in which the Company operates and in the best interests of shareholders.

Our portfolio

% of portfolio income

Total portfolio rent roll

£38.7m



16. A full version of the Company's Investment Policy is available at **custodianreit.com/wp-content/uploads/2021/02/CREIT-Investment-policy.pdf**
17. 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	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%

Our Environmental, Social and Governance (ESG) objectives

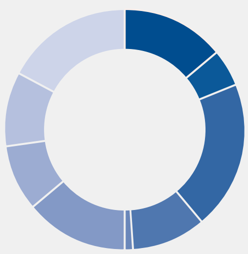
Minimising our environmental impact
Seek to reduce pollution and comply with all relevant environmental legislation, gather and analyse data on the environmental performance of our properties and measure environmental performance against targets.

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.

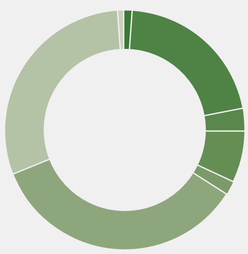
Transparent disclosure
The Investment Manager has been working with the Company's environmental consultants, Carbon Intelligence, to put in place an environmental vision and strategy including implementation of environmental key performance indicators, data collection and monitoring and long-term emissions targets.

Portfolio income split by region



- South East: 14%
- Eastern: 5%
- West Midlands: 20%
- South West: 10%
- Wales: 1%
- East Midlands: 14%
- Scotland: 9%
- North East: 10%
- North West: 17%

Other sub-sector income split



- Hotel: 1%
- Restaurant: 21%
- Healthcare: 3%
- Trade Counter: 7%
- Nursery: 2%
- Motor Trade: 35%
- Leisure: 30%
- Place of Worship: 1%

Financial resilience

Net gearing
24.9% — 31 Mar 2021
22.4% — 31 Mar 2020

Number of property assets
159 assets — 31 Mar 2021
161 assets — 31 Mar 2020

Debt facility average maturity
7.4 years — 31 Mar 2021
7.8 years — 31 Mar 2020

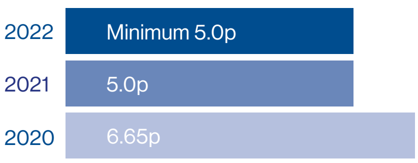
Chairman's statement

> The Company's absolute focus on income by maximising rent collection has enabled it to weather the storm imposed by the COVID-19 pandemic

David Hunter
Chairman

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.

Target dividend per share



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 rate allowed dividends per share of 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 the Company's peer group of listed property investment companies[18] 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.

18. 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[19] 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.

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.

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[20]	(4.9)	(20.6)
NAV at 31 March 2021	**97.6**	**409.9**

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 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.

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[21], 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.

> Relative to its close peer group of diversified property investment companies, Custodian REIT has endured lower volatility and its property portfolio continues to deliver asset management opportunities which are value accretive, discussed in the Asset management report.

The Company enjoys the support of a wide range of shareholders with the majority classified as private client or discretionary wealth management investors. The Company's investment and dividend strategy is well suited to investors looking for a close proxy to direct real estate investment but in a managed and liquid structure. 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.

19. 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%.
20. 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.
21. Source: Numis Securities Limited.

Chairman's statement continued

ESG achievements

EPRA Sustainability

The Company's 2020 Annual Report received an EPRA Sustainability Reporting 'most improved' award

GRESB

Made our first Global Real Estate Sustainability Benchmark ("GRESB") submission in 2020, which provided valuable insight into the Company's sustainability performance

Data management

Implemented a comprehensive environmental data management service using a dedicated software system that collects, verifies, stores and reports on the key carbon and ESG performance metrics

KPIs

Set target environmental KPIs to measure its success towards achieving its environmental objectives

TCFD

Undertook its first in-depth review of climate-related risks and opportunities to begin to align disclosures to the recommendations of the Task Force on Climate-related Financial Disclosures

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 fees paid to the 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[22] 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 considers 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

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.

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

> 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 stable dividends from well-diversified UK real estate

Farnborough

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 strategic 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 Task Force 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

> Real estate investment has been remarkably resilient

Richard Shepherd-Cross
Investment Manager

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 EPCs of 'F' and 'G' ahead of the target set of end of 2022 and all EPCs 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 a 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 have 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:

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.

> The financial resilience of the Company and the pragmatic approach of the Manager enabled the Company to take a longer-term view of rent collection

Watford

	2021 31 Mar £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%**

Investment Manager's report continued

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[23] 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[24]	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.

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

Acquisitions

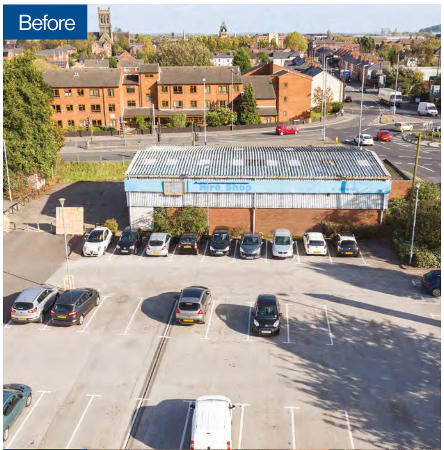
The Company invested £11.4m in three acquisitions during the year described below:

- 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) 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 (shown opposite) 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 has acquired an industrial asset in Knowsley for £3.5m.

Burton upon Trent



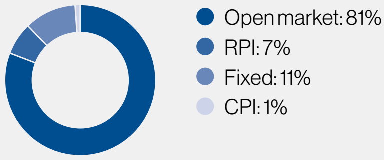
23. Current passing rent plus ERV of vacant properties.
24. Includes car showrooms, petrol filling stations, children's day nurseries, restaurants, health and fitness units, hotels and healthcare centres.

Property portfolio risk

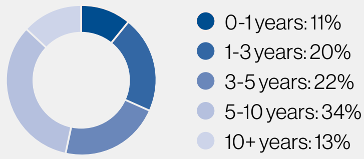
We have managed the property portfolio's income expiry profile through successful asset management activities with only 53% of aggregate income expiring within five years at 31 March 2021 (2020: 51%). Short-term income at risk is a relatively low proportion of the property portfolio's income, with only 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%**

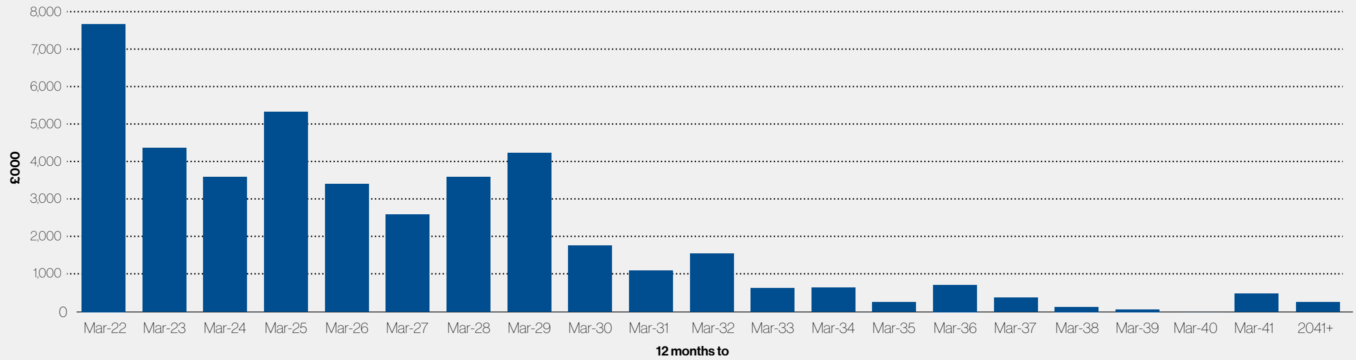
Rent review analysis



Income at risk



Lease expiry profile



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 has 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 our 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

> Many asset management initiatives currently under way are expected to come to fruition over the next 6-12 months

Alex Nix
Assistant Investment Manager

Valuation increases from asset management initiatives

Property portfolio summary

	2021	2020
Property portfolio value	**£551.9m**	£559.8
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)

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.

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;

1 Warrington

2 Perth

3 Nuneaton

4 Stoke

7 Team Valley

5 Daventry

8 Doncaster

6 Shrewsbury

9 Kilmarnock

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;

Asset management report continued

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;


10 Stockport


15 Gateshead


11 Speke


16 Leicester


12 Bedford

17 Southampton


13 Trafford Park


18 Sheffield


14 Bellshill


19 Leighton Buzzard

20 Evesham

21 Chester

24 Portsmouth

22 Plymouth

25 Nottingham


23 Lincoln

26 Portsmouth

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;

Asset management report continued

27 Weymouth

28 Burton upon Trent

29 Perth

30 Guildford

31 Carlisle

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;

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.

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.

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 (t/a Ibis) 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		

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.

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 Board recognises that its decisions have an impact on the environment, people and communities

Hazel Adam
Chair of the ESG Committee

ESG achievements

EPRA Sustainability
The Company's 2020 Annual Report received an EPRA Sustainability Reporting 'most improved' award

EPRA
EUROPEAN PUBLIC REAL ESTATE ASSOCIATION

GRESB
Made our first Global Real Estate Sustainability Benchmark ("GRESB") submission in 2020, which provided valuable insight into the Company's sustainability performance

GRESB®

KPIs
Set target environmental KPIs to measure its success towards achieving its environmental objectives

Data management
Implemented a comprehensive environmental data management service using a dedicated software system that collects, verifies, stores and reports on the key carbon and ESG performance metrics

Carbon Intelligence

TCFD
Undertook its first in-depth review of climate-related risks and opportunities to begin to align disclosures to the recommendations of the Task Force on Climate-related Financial Disclosures

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

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, and 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 opposite.

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.

ESG Committee report continued

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:

Energy consumption and management

- Comply with all applicable, relevant energy-related legislation and other requirements;
- Monitor energy consumption across our properties and tenant consumption, where possible;
- Undertake thorough environmental due diligence including obtaining an 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[25] clauses into our tenant leases.

Building materials

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

GHG emissions and management

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

25. 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.

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 ongoing 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.

GRESB® REAL ESTATE

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 refurbishment

Area

57,432 sq ft

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 of 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 directly 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.

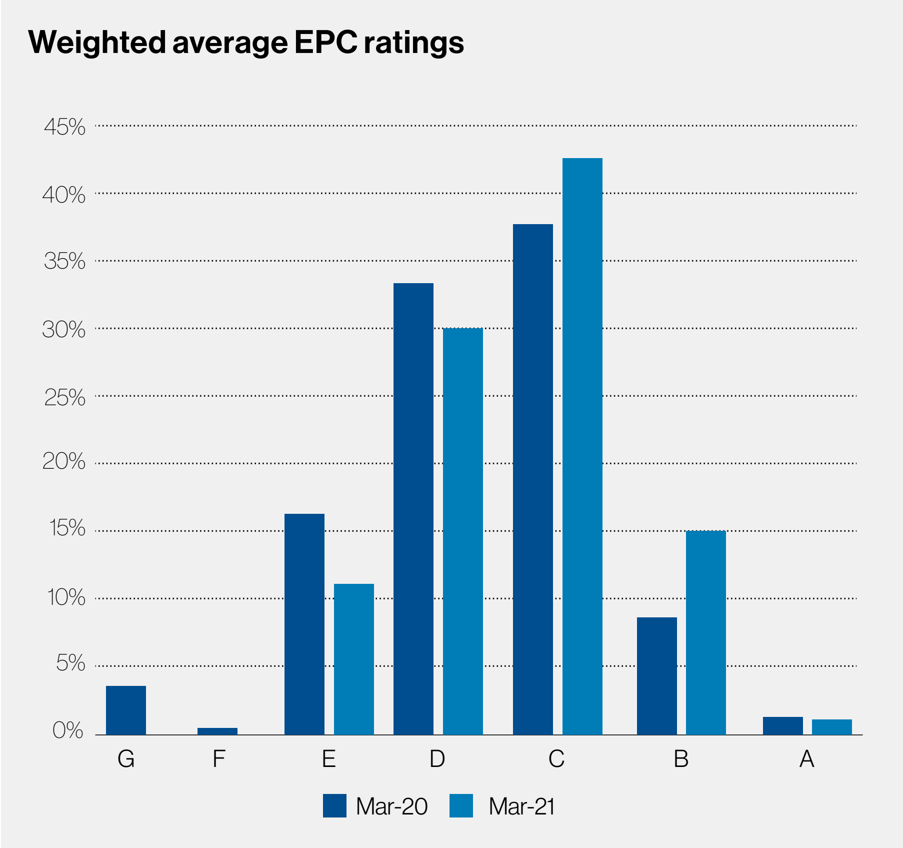
ESG Committee report continued

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[26]'. 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)

The Company's weighted average EPC score is illustrated in the chart on the right:



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 Task Force 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.

Portishead

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:

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

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

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's business model has remained resilient during the year and our lenders remain supportive of our ambition for continued growth

Ed Moore
Finance Director

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 opposite.

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

As illustrated opposite, 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.

Financial summary

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%

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

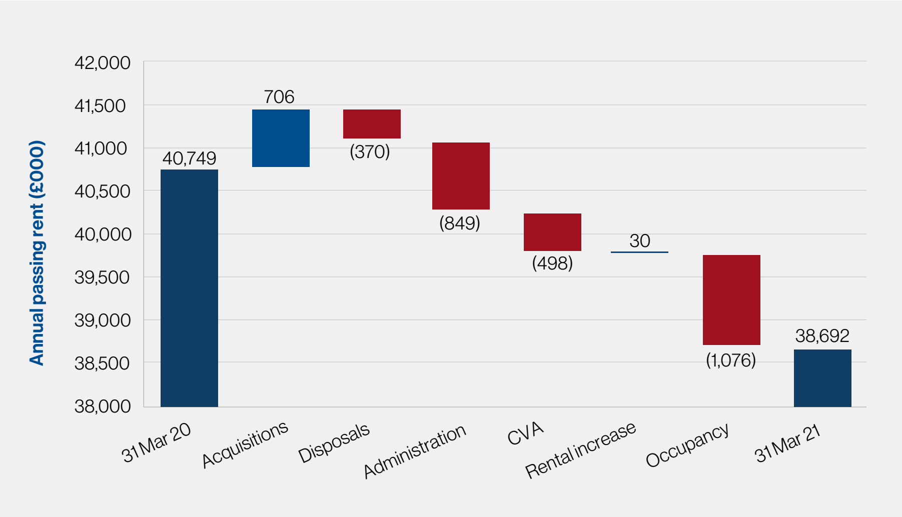
Despite the operational disruption caused by the COVID-19 pandemic, increasingly onerous compliance requirements and additional expenditure in ensuring the Company's environmental impact is minimised, the Investment Manager's focus on cost control and the Company's competitive management fee structure 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;

Changes in passing rent



- 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.

Financial review continued

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.

- 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 Net Reinstatement Value – assumes that entities hold assets and aims to represent the value required to rebuild the entity
  - » 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

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

EPRA
EUROPEAN PUBLIC REAL ESTATE ASSOCIATION

Further information can be found in our environmental disclosures.

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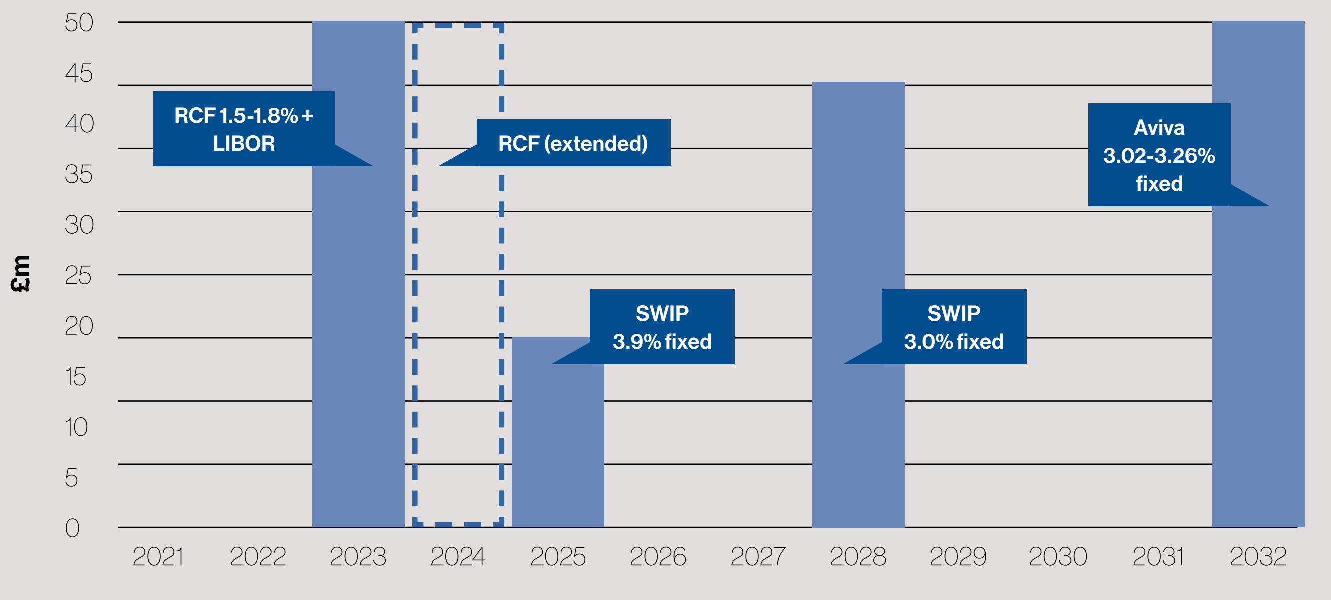
	2021	2020	Change
EPRA EPS (p)	**5.6**	7.0	(20.0%)
EPRA Net Tangible Assets ("NTA") per share (p)	**97.6**	101.6	(3.9%)
EPRA net initial yield ("NIY")	**6.0%**	6.2%	(0.2%)
EPRA 'topped up' NIY	**6.4%**	6.6%	(0.2%)
EPRA vacancy rate	**8.4%**	4.1%	4.3%
EPRA cost ratio (including direct vacancy costs)	**26.1%**	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%)

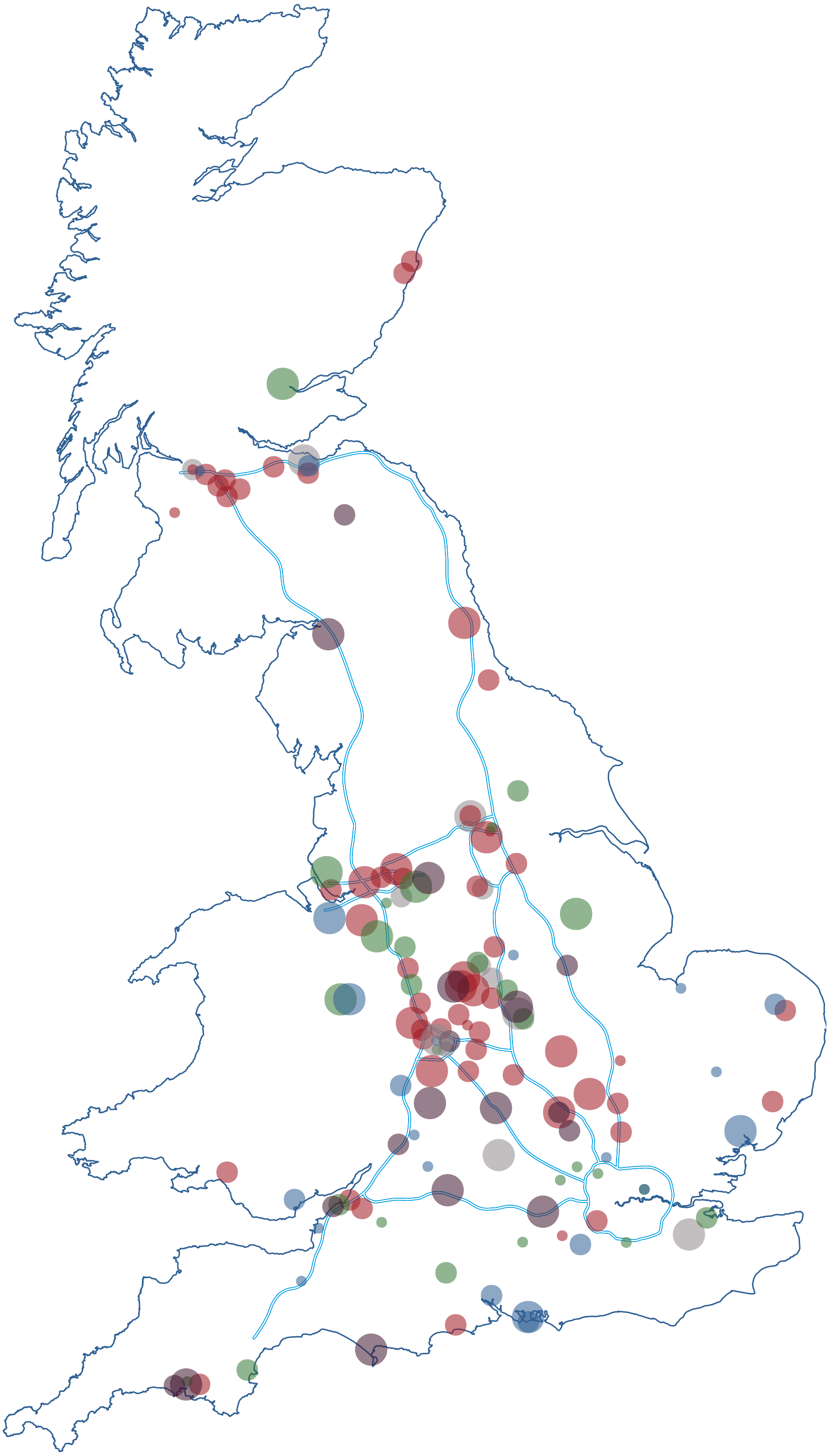
Debt expiry profile



Property portfolio

Our locations

A diverse portfolio consisting of properties let to institutional-grade tenants throughout the UK



Property Income

- <£100k
- £101-£350k
- £350k>

Our sectors

Industrial

Read more about this portfolio sector on page 32

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Office

Read more about this portfolio sector on page 44

44

Other

Read more about this portfolio sector on page 48

48

Retail warehouse

Read more about this portfolio sector on page 56

56

Retail

Read more about this portfolio sector on page 62

62

Property portfolio income %

Industrial
41.4%

Office
11.7%

Other
16.3%

Retail warehouse
20.9%

Retail
9.7%

Property portfolio continued

Industrial at a glance

Key metrics

2021 value

£270.2m

2020: £257.3m

Annual rental income

£16.2m

2020: £16.7m

Portfolio weighting by income

41%

2020: 40%

Occupancy

92.0%

2020: 96.8%

Number of properties

69

2020: 69

Teleperformance
Ashby

Area

71,098 sq ft

H&M
Winsford

Area
105,757 sq ft

Top 10 tenants by location

Tenant	Location	%
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%

JTF Wholesale
Warrington

Area
112,544 sq ft

Menzies Distribution
Various

Area
286,405 sq ft

Property portfolio continued


1


2


3


4


5


6

1. **Winsford**
   H&M
2. **Warrington**
   JTF Wholesale
3. **Ashby-de-la -Zouch**
   Teleperformance
4. **Burton upon Trent**
   ATL Transport
5. **Salford**
   Restore
6. **Bedford**
   Elma Electronics
   Vertiv Infrastructure
7. **Hilton**
   Daher Aerospace
8. **Stone**
   Revlon International
9. **Eurocentral**
   Next
10. **Warrington**
    Life Technologies
11. **Tamworth**
    ICT Express
12. **Doncaster**
    Silgan Closures
13. **Kettering**
    Multi-let


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Property portfolio continued

14


15

16



17


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19

14. Redditch
Vacant

15. Normanton
YESSS Electrical

16. Biggleswade
Turpin Distribution Services

17. Warrington
Procurri Europe
Synertec

18. Bellshill
Yodel

19. Redditch
Vacant

20. Daventry
Vacant

21. Gateshead
Multi-let

22. West Bromwich
Vacant

23. Edinburgh
Menzies Distribution

24. Cannock
HellermannTyton

25. Milton Keynes
Massmould

20

21

22

23

24

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Property portfolio continued

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26. Plymouth
Sherwin Williams

27. Team Valley
Worthington Armstrong

28. Nuneaton
DX

29. Milton Keynes
Saint-Gobain

30. Avonmouth
Superdrug

31. Trafford Park
Unilin Distribution

32. Bedford
Heywood Williams Components

33. Bristol
BSS Group

34. Glasgow
Menzies Distribution

35. Weybridge
Menzies Distribution

36. Coventry
Royal Mail

37. Aberdeen
Menzies Distribution

38. Hamilton
Ichor Systems

39. Stevenage
Morrison Utility Services

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Property portfolio continued


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40. Livingston
A Share & Sons (t/a SCS)

41. Oldbury
Sytner

42. Aberdeen
DHL Supply Chain

43. Christchurch
Tilbury Douglas Construction

44. Warwick
Semcon

45. Cambuslang
Brenntag

46. Farnborough
Vacant

47. Warrington
Dinex Exhausts

48. Norwich
Menzies Distribution

49. Leeds
Sovereign Air Movement
Tricel Composites

50. Coalville
MTS Logistics

51. Erdington
West Midlands Ambulance Service

52. Langley Mill
Warburton

53. Ipswich
Menzies Distribution

54. Irlam
Northern Commercials (Mirfield)

55. Sheffield
Synergy Health


50


51

52

53


54


55

Property portfolio continued


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58


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62


63


64


65

56. Castleford
Bunzl

57. Speke
Powder Systems

58. Swansea
Menzies Distribution

59. Hilton Harrison Court
Multi-let

60. Stockton
Menzies Distribution

61. Sheffield
Arkote

62. Sheffield
ITM Power
River Island

63. Kettering
Sealed Air

64. Atherstone
North Warwickshire Borough Council

65. Speke
DHL International

66. Huntingdon
PHS

67. Glasgow
DHL Global Forwarding (UK)

68. Normanton
Acorn Web Offset

69. Kilmarnock
Royal Mail

66

67

68

69

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	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%

Tenant	Location	% portfolio income
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	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	Speke	0.3%

Tenant	Location	% portfolio income
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%

Property portfolio continued

Office at a glance

Key metrics

2021 value
£54.8m
2020: £52.6m

Annual rental income
£4.2m
2020: £3.9m

Portfolio weighting
12%
2020: 10%

Occupancy
84.1%
2020: 90.3%

Number of properties
13
2020: 12

Wienerberger
Cheadle

Area
16,984 sq ft

First Title (t/a Enact Conveyancing)
Leeds

Area

35,910 sq ft

Top 10 tenants by location

Regus (Maidstone West Malling) West Malling	1.5%
First Title (t/a Enact Conveyancing) Leeds	1.5%
National Grid Castle Donington	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%

National Grid
Castle Donington

Area

25,471 sq ft

Regus (Maidstone West Malling)
West Malling

Area

29,065 sq ft

Property portfolio continued


1


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8

1. **Birmingham**
   Multi-let
2. **West Malling**
   Regus (Maidstone West Malling)
3. **Oxford**
   Multi-let
4. **Leicester**
   Regus (Leicester Grove Park)
5. **Sheffield**
   Health & Safety Executive Home Office
6. **Castle Donington**
   National Grid
7. **Leeds**
   First Title (t/a Enact Conveyancing)
8. **Cheadle**
   Wienerberger
9. **Leeds**
   First Title
10. **Leicester**
    Countryside Properties Erskine Murray
11. **Derby**
    Edwards Geldards
12. **Glasgow**
    Multi-let
13. **Solihull**
    Lyons Davidson


9


10


11


12

13

Office

Tenant	Location	% portfolio income
Regus (Maidstone West Malling)	West Malling	1.5%
First Title (t/a Enact Conveyancing)	Leeds	1.5%
National Grid	Castle Donington	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 at a glance

Key metrics

2021 value
£84.4m
2020: £87.4m

Annual rental income
£6.5m
2020: £7.1m

Portfolio weighting
16%
2020: 17%

Occupancy
94.3%
2020: 97.1%

Number of properties
36
2020: 35

MKM Building Supplies
Castleford

Area
13,034 sq ft

Williams Motor Co (Holdings)
Stockport

Area

42,289 sq ft

Top 10 tenants by location

Tenant	Location	%
VW Group	Derby/Shrewsbury/Stafford	2.0%
Williams Motor Co (Holdings)	Stockport	1.5%
Total Fitness Health Clubs	Lincoln	0.9%
MKM Building 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%

Total Fitness Health Clubs
Lincoln

Area

63,676 sq ft

VW Group
Shrewsbury

Area

20,231 sq ft

Property portfolio continued

1

2

3

4

5

6

1. **Stockport**
   Williams Motor Co (Holdings)
2. **Crewe**
   Multi-let
3. **Liverpool**
   Liverpool Community Health NHS Trust
   Royal Base
4. **Perth**
   Bannatyne Fitness
   Scotco Eastern (t/a KFC)
   TH UK & Ireland
5. **Lincoln**
   Total Fitness
6. **Derby**
   VW Group
7. **Stafford**
   VW Group
8. **Stoke**
   Nuffield Health
9. **Torquay**
   Multi-let
10. **Gillingham**
    Co-operative
11. **York**
    Pendragon Property
12. **Salisbury**
    Parkwood Health & Fitness

7

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Property portfolio continued

13

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18

13 Shrewsbury
VW Group

14. Lincoln
MKM Buildings Supplies

15. Gateshead
MTOR (t/a TruGym) Raven Valley

16. Crewe
Multi-let

17. Loughborough
Listers Group

18. Redhill
Vacant

19. Bath
Chokdee (t/a Giggling Squid)

20. Castleford
MKM Building Supplies

21. High Wycombe
Stonegate Pub Co

22. Maypole
Starbucks

23. Shrewsbury
TJ Vickers

24. Nottingham
KBeverage (t/a Starbucks)

19


20

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22


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Property portfolio continued


25

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32


33


34

25. Shrewsbury
Ask Italian Restaurants (t/a ASK)
Sam's Club (t/a House of the Rising Sun)

26. Carlisle
The Gym Group

27. Portishead
AGO Hotels (t/a Ibis)

28. Plymouth
McDonalds

29. Portishead
JD Wetherspoons

30. Kings Lynn
Loungers

31. Stratford
The Universal Church of the Kingdom of God

32. Basingstoke
Vacant

33. Chesham
Bright Horizons Family Solutions

34. Knutsford
Knutsford Day Nursery

35. Leicester
Pizza Hut

36. Watford
Pizza Hut

35

36

Other

Tenant	Location	% portfolio income
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%

Tenant	Location	% portfolio income
The Gym Group	Carlisle	0.3%
AGO Hotels (t/a Ibis)	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%

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

Property portfolio continued

Retail warehouse at a glance

Key metrics

2021 value
£99.7m
2020: £109.7m

Portfolio weighting
21%
2020: 22%

Annual rental income
£8.3m
2020: £8.8m

Occupancy
95.6%
2020: 96.3%

Number of properties
20
2020: 20

Matalan
Leicester

Area
44,901 sq ft

B&M
Ashton-under-Lyne

Area

30,404 sq ft

Top 10 tenants by location

B&Q	Banbury/Galashiels /Weymouth	**3.2%**
B&M	Various	**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%**

Wickes
Winnersh

Area

30,120 sq ft

B&Q
Banbury

Area

34,865 sq ft

Property portfolio continued

1


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1. **Evesham**
   Multi-let
2. **Carlisle**
   Multi-let
3. **Weymouth**
   B&Q
   Halfords
   Sports Direct
4. **Burton upon Trent**
   Wickes
   CDS
   (t/a The Range)
5. **Winnersh**
   Pets at Home
   Wickes
6. **Swindon**
   B&M
   Go Outdoors
   InstaVolt
7. **Leicester**
   Matalan
8. **Banbury**
   B&Q
9. **Ashton -under-Lyne**
   B&M
10. **Plymouth**
    Magnet
    B&M
11. **Plymouth**
    A Share & Sons
    (t/a SCS)
    Oak Furniture Land
12. **Gloucester**
    Magnet
    Smyths Toys
    InstaVolt
13. **Sheldon**
    Multi-let
14. **Leighton Buzzard**
    Homebase


ScS
Sofa · Carpet · Specialist
Lowest Carpet Prices
Welcome to ScS
Oak furnitureland
sofa store
SALE
ONE WAY
11


Magnet
SMYTHS
12


The Bed Specialist
Dreams
pets
13


HOMEBASE
14

Property portfolio continued

15

16

17

18

15. Milton Keynes
Vacant

16. Galashiels
B&Q

17. Leicester
Magnet

18. Grantham
Multi-let

19. Torpoint
Sainsbury's

20. Portishead
TJ Morris
(t/a Homebargains)
Majestic Wine
Warehouse

19

20

Retail warehouse

Tenant	Location	% portfolio income
B&Q	Banbury/Galashiels/ Weymouth	3.2%
B&M	Swindon/Ashton-under-Lyne/Plymouth/Carlisle	2.9%
Wickes	Burton upon Trent/ Winnersh	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%
Oak Furniture Land	Carlisle/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%

Tenant	Location	% portfolio income
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.

Property portfolio continued

Retail at a glance

Key metrics

2021 value
£42.8m
2020: £52.8m

Annual rental income
£3.5m
2020: £4.2m

Portfolio weighting
10%
2020: 11%

Occupancy
86.2%
2020: 95.3%

Number of properties
27
2020: 31

The Works
Portsmouth

Area
7,084 sq ft

Specsavers
Cardiff

Area
5,807 sq ft

Top 10 tenants by location

Superdrug Southsea/ Weston-super-Mare /Worcester	1.3%	**The Works** Bury St Edmunds/ Portsmouth	0.4%
Reiss Guildford	0.9%	**Phase Eight** Edinburgh	0.3%
Specsavers Cardiff/Norwich	0.8%	**Poundland** Portsmouth	0.3%
URBN UK Southampton	0.5%	**Nationwide** Shrewsbury	0.2%
Sportswift Cardiff/Portsmouth	0.5%	**Portsmouth City Council** Southsea	0.2%

URBN UK
Southampton

Area
7,880 sq ft

Superdrug
Worcester

Area
13,108 sq ft

Property portfolio continued

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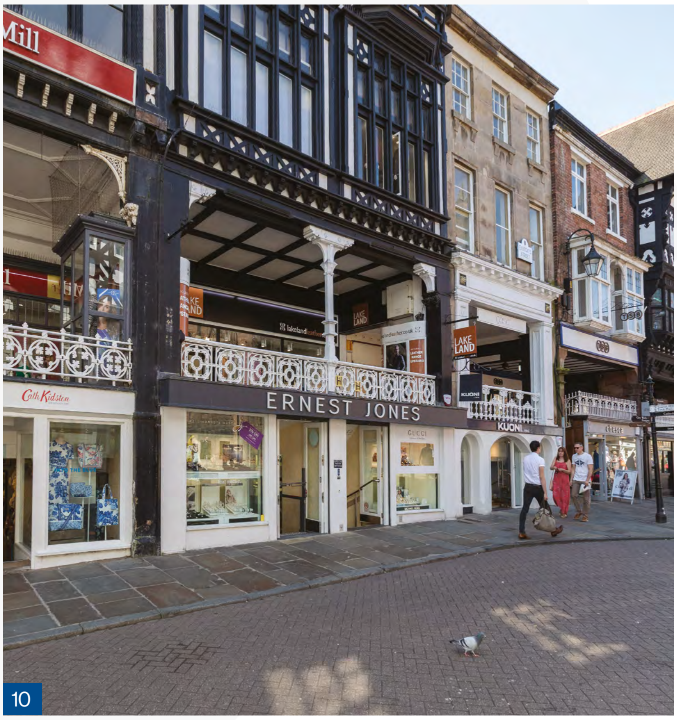
1. **Shrewsbury**
   Multi-let
2. **Worcester**
   Superdrug
3. **Cardiff**
   Multi-let
4. **Portsmouth**
   Multi-let
5. **Colchester**
   Multi-let
6. **Southampton**
   URBN UK
7. **Guildford**
   Reiss
8. **Southsea**
   Portsmouth City Council
   Superdrug
9. **Birmingham**
   Multi-let
10. **Chester**
    Felldale Retail (t/a Lakeland)
    Signet Trading (t/a Ernest Jones)


Southsea library
and customer service centre
Portsmouth City Council
Superdrug

8


CHAMBERLAIN BUILDING
TESCO
CORAL

9


ERNEST JONES
Cath Kidston
KUONI

10

Property portfolio continued

11

12


13


14

15

16

11. Norwich
Specsavers

12. Weston-super-Mare
Superdrug

13. Edinburgh
Phase Eight

14. Colchester
Kruidvat Real Estate (t/a Savers)

15. Chester
Asian Jewellery
Der Touristik (t/a Kuoni)

16. Portsmouth
The Works

17. Shrewsbury
Nationwide

18. Stratford
Foxtons

19. Taunton
Wilko

20. Bury St Edmunds
The Works


Nationwide
Building Society
17


Foxtons
MOVERS
18


wilko
19


The Works
What will you discover?
TheWorks.co.uk
BIG HALF PRICE ART EVENT!
Quality Art for Less!
20

Property portfolio continued

21

22

21. Chester
Ciel Concessions (t/a Chesca)
Lloyds TSB

22. St Albans
Crepeaffaire

23. Cirencester
The Danish Wardrobe Company and Brook Taverner

24. Nottingham
The White Company

25. Glasgow
Vacant

26. Bury St Edmunds
Savers
Health & Beauty

27. Cheltenham
Done Brothers (t/a Betfred)

23

24

25

26

27

Retail

Tenant	Location	% portfolio income
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%

Tenant	Location	% portfolio income
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%

Principal risks and uncertainties

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

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 TYPE	LIKELIHOOD	IMPACT	OVERALL CHANGE IN RISK FROM LAST YEAR	RISK	MITIGATING FACTORS
1. **Loss of revenue**	High	High	↔ Remains high	• Tenant default due to a cessation or curtailment of trade due to the COVID-19 pandemic • An increasing number of tenants exercising contractual breaks or not renewing at lease expiry • Enforced reduction in contractual rents through a CVA or legislative changes due to the COVID-19 pandemic • Decreases in ERVs resulting in decreases in passing rent to secure long-term occupancy • Expiries or breaks concentrated in a specific year • Unable to re-let void units • Low UK economic growth impacting the commercial property market	• Diverse property portfolio covering all key sectors and geographical areas • The Company has 265 individual tenancies with the largest tenant accounting for 3.8% of the rent roll • Investment policy limits the Company's rent roll to no more than 10% from a single tenant and 50% from a single sector • Primarily institutional grade tenants • Focused on established business locations for investment • Active management of lease expiry profile considered in forming acquisition decisions • Building specifications typically not tailored to one user • Strong tenant relationships have meant short-term rent deferrals have been agreed where necessary to address arrears caused by COVID-19 pandemic interruption

RISK TYPE	LIKELIHOOD	IMPACT	OVERALL CHANGE IN RISK FROM LAST YEAR	RISK	MITIGATING FACTORS
2. **Decreases in property portfolio valuation**	Moderate	High	↓ Decreased	• Decreases in sector-specific ERVs • Loss of contractual revenue • Tenants exercising contractual breaks or not renewing at lease expiry • Market pricing affecting value • Change in demand for space • Properties concentrated in a specific geographical location or sector • Reduced property market sentiment and investor demand • Lack of transactional evidence	• Active property portfolio diversification between office, industrial (distribution, manufacturing and warehousing), retail warehousing, high street retail and other • Investment policy limits the Company's property portfolio to no more than 50% in any specific sector or geographical region • Smaller lot-size business model limits exposure to individual asset values • High-quality assets in good locations should remain popular with investors
3. **Financial**	Moderate	High	↓ Decreased	• Reduced availability or increased cost of arranging or servicing debt • Breach of borrowing covenants • Significant increases in interest rates	• The Company has three lenders • Interest cover covenant waivers were in place during the year • Target net gearing of 25% LTV on property portfolio • 82% of drawn debt facilities at a fixed rate of interest • Significant unencumbered properties available to cure any potential breaches of LTV covenants • Ongoing monitoring and management of the forecast liquidity and covenant position
4. **Operational**	Low	High	↔ No change	• Inadequate performance, controls or systems operated by the Investment Manager	• Ongoing review of performance by independent Board of Directors • Outsourced internal audit function reporting directly to the Audit and Risk Committee • External depositary with responsibility for safeguarding assets and performing cash monitoring
5. **Regulatory and legal**	Moderate	High	↓ Decreased	• Adverse impact of new or revised legislation or regulations, or by changes in the interpretation or enforcement of existing government policy, laws and regulations • Non-compliance with the REIT regime[27] or changes to the Company's tax status	• Strong compliance culture • External professional advisers are engaged to review and advise upon control environment, ensure regulatory compliance and advise on the impact of changes due to the COVID-19 pandemic • Business model and culture embraces FCA principles • REIT regime compliance is considered by the Board in assessing the Company's financial position and setting dividends and by the Investment Manager in making operational decisions

27. As defined by the Corporation Tax Act 2010.

Principal risks and uncertainties continued

RISK TYPE	LIKELIHOOD	IMPACT	OVERALL CHANGE IN RISK FROM LAST YEAR	RISK	MITIGATING FACTORS
6. **Business interruption**	Moderate	High	↓ Decreased	• Cyber-attack results in the Investment Manager being unable to use its IT systems and/or losing data • Terrorism or pandemics interrupt the Company's operations through impact on either the Investment Manager or the Company's assets or tenants	• Investment Manager staff are all capable of working from home for an extended period • Data is regularly backed up and replicated and the Investment Manager's IT systems are protected by anti-virus software and firewalls that are regularly updated • Fire protection and access/security procedures are in place at all of the Company's managed properties • Comprehensive property damage and business interruption insurance is held, including three years' lost rent and terrorism • At least annually, a fire risk assessment and health and safety inspection is performed for each property in the Company's managed portfolio
7. **ESG**	Moderate	Moderate	↑ Increased	• 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 • ESG policies and targets being insufficient to meet the required standards of stakeholders • Non-compliance with environmental reporting requirements	• The Company engaged specialist environmental consultants in 2019 to advise the Board on compliance with requirements and adopting best practice where possible • The Company published its ESG policy in 2020 which seeks to improve energy efficiency and reduce emissions • 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 • At a property level an environmental assessment is undertaken which influences decisions regarding acquisitions, refurbishments and asset management initiatives
8. **Acquisitions**	Low	High	↔ No change	• Unidentified liabilities associated with the acquisition of new properties (whether acquired directly or via a corporate structure)	• Comprehensive due diligence is undertaken in conjunction with professional advisers and the provision of insured warranties and indemnities is 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 the 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.

Our stakeholder Groups

Tenants

The Investment Manager and its employees

Suppliers

Shareholders

Lenders

Government, local authorities and communities

Issues, factors and stakeholders

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

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

SECTION 172(1) FACTOR	APPROACH TAKEN	
a) **Likely consequences of any decision in the long term**	The business model and strategy of the Company is set out within the Strategic report. Any deviation from or amendment to that strategy is subject to Board and, if necessary, shareholder approval. The Company's Management Engagement Committee ensures that the Investment Manager is operating within the scope of the Company's investment objectives. At least annually, the Board considers a budget for the delivery of its strategic objectives based on a three-year forecast model. The Investment Manager reports non-financial and financial key performance indicators to the Board, set out in detail in the Business model and strategy section of the Strategic report, at least quarterly which are used to assess the outcome of decisions made.	The Board's commitment to keeping in mind the long-term consequences of its decisions underlies its focus on risk, including risks to the long-term success of the business. 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. 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. The Board gains an understanding of the views of the Company's key stakeholders from the Investment Manager, broker and Management Engagement Committee, and considers those stakeholders' interests and views in Board discussions and long-term decision-making.
b) **The interests of the Company's employees**	The Company has no employees as a result of its external management structure, but the Directors have regard to the interests of the individuals responsible for delivery of the property management and administration services to the Company to the extent that they are able to.	The Company's Nominations Committee is responsible for applying the diversity policy set out in the Nominations Committee report to Board recruitment.
c) **The need to foster the Company's business relationships with suppliers, customers and others**	Business relationships with suppliers, tenants and other counterparties are managed by the Investment Manager. Suppliers and other counterparties are typically professional firms such as lenders, property agents and other property professionals, accounting firms and legal firms and tenants with which the Investment Manager often has a longstanding relationship. Where material counterparties are new to the business, checks, including anti money laundering checks 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. Because the Investment Manager directly invoices most tenants and collects rent without using managing agents, it has open lines of communication with tenants and can understand and resolve any issues promptly.
d) **The impact of the Company's operations on the community and the environment**	The Board recognises the importance of supporting local communities where the Company's assets are located and seeks to invest in properties which will be fit for future purpose and which align with ESG targets. The Company also seeks to benefit local communities by creating social value through employment, viewing its properties as a key part of the fabric of the local economy.	The Board takes overall responsibility for the Company's impact on the community and the environment and its ESG policies are set out in the ESG report. The Company's approach to preventing bribery, money laundering, slavery and human trafficking is disclosed in the Governance report.

Section 172 statement and stakeholder relationships continued

SECTION 172(1) FACTOR	APPROACH TAKEN	
e) **The desirability of the Company maintaining a reputation for high standards of business conduct**	The Board believes that the ability of the Company to conduct its investment business and finance its activities depends in part on the reputation of the Board and Investment Manager's team. The risk of falling short of the high standards expected and thereby risking its business reputation is included in the Board's review of the Company's risk register, which is conducted periodically.	The principal risks and uncertainties facing the business are set out in that section of the Strategic report. The Company's requirements for a high standard of conduct and business ethics are set out in the Governance report.
f) **The need to act fairly as between members of the Company**	The Company's shareholders are a very important stakeholder group. The Board oversees the Investment Manager's formal investor relations programme which involves the Investment Manager engaging routinely with the Company's shareholders. The programme is managed by the Company's broker and the Board receives prompt feedback from both the Investment Manager and broker on the outcomes of meetings 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.	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;

Read more about the responsibilities of the Management Engagement Committee on page 91

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- 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 benefiting the local communities where the Company's assets are located;

Read more about the Company's ESG activities on page 20

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- 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;

Read more about the Board's risk management procedures on page 70

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- 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;

Read more about the Company's purpose, values and strategy on page 4

4

- 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.

Lancaster House, Birmingham

Section 172 statement and stakeholder relationships continued

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.

Stakeholders

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.

Tenants

The Investment Manager understands the businesses occupying the Company's assets and seeks to create long-term partnerships and understand their needs to deliver fit for purpose real estate and develop asset management opportunities to underpin long-term sustainable income growth and maximise occupier satisfaction.

Stakeholder interests

- High-quality assets
- Profitability
- Efficient operations
- Knowledgeable and committed landlord
- Flexibility to adapt to the changing UK commercial landscape
- Buildings with strong environmental credentials

Stakeholder engagement

- Regular dialogue through rent collection process
- Review published data, such as accounts, trading updates and analysts' reports
- Ensured buildings comply with the necessary safety regulations and insurance
- Most tenants contacted to request environmental performance data
- Occupancy has remained at over 90% during the year

The Investment Manager and its employees

As an externally managed fund the Company's key service provider is the Investment Manager and its employees are a key stakeholder. The Investment Manager's culture aligns with that of the Company and its long-standing reputation of operating in the smaller lot-size market is key when representing the Company.

Stakeholder interests

- Long-term viability of the Company
- Long-term relationship with the Company
- Well-being of the Investment Manager's employees
- Being able to attract and retain high-calibre staff
- Maintaining a positive and transparent relationship with the Board

Stakeholder engagement

- Board and Committee meetings
- Face-to-face and video-conference meetings with the Chairman and other Board Directors
- Monthly and quarterly KPI reporting to the Board
- External Board evaluation, including feedback from key Investment Manager personnel
- Informal meetings and calls

Suppliers

A collaborative relationship with our suppliers, including those to whom key services are outsourced, ensures that we receive high-quality services to help deliver strategic and investment objectives.

Stakeholder interests

- Collaborative and transparent working relationships
- Responsive communication
- Being able to deliver service level agreements

Stakeholder engagement

- Board and Committee meetings
- One-to-one meetings
- Annual review of key service providers for the Management Engagement Committee

Shareholders

Building a strong investor base through clear and transparent communication is vital to building a successful and sustainable business and generating long-term growth.

Stakeholder interests

- Sustainable growth
- Attractive level of income returns
- Strong Corporate Governance and environmental credentials
- Transparent reporting framework

Stakeholder engagement

- Annual and half year presentations
- AGM
- Market announcements and corporate website
- Regular investor feedback received from the Company's broker
- Ongoing dialogue with analysts

Lenders

Our lenders play an important role in our business. The Investment Manager maintains close and supportive relationships with this group of long-term stakeholders, characterised by openness, transparency and mutual understanding.

Stakeholder interests

- Stable cash flows
- Stronger covenants
- Being able to meet interest payments
- Maintaining agreed gearing ratios
- Regular financial reporting
- Proactive notification of issues or changes

Stakeholder engagement

- Regular covenant reporting
- Face-to-face meetings, when restrictions allow

Government, local authorities and communities

As a responsible corporate citizen the Company is committed to engaging constructively with central and local government and ensuring we support the wider community.

Stakeholder interests

- Openness and transparency
- Proactive compliance with new legislation
- Proactive engagement
- Support for local economic and environmental plans and strategies
- Playing its part in providing the real estate fabric of the economy, giving employers a place of business

Stakeholder engagement

- Engagement with local authorities where we operate
- 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

Board of Directors and key Investment Manager personnel

The Board comprises six Non-Executive Directors. A short biography of each Director is set out below:

David Hunter
Independent Chairman, age 67

David is a professional non-executive director and strategic adviser focused principally on UK and international real estate. He chairs the Company and its Nominations Committee and is on the boards of both listed and unlisted companies in the UK and overseas, as well as holding corporate advisory roles. He qualified as a chartered surveyor in 1978 and has over 25 years' experience as a fund manager, including as Managing Director of Aberdeen Asset Management's property fund business. David is a former President of the British Property Federation and was actively involved in the introduction of REITs to the UK. He is also Honorary Swedish Consul to Glasgow and an Honorary Professor of real estate at Heriot-Watt University.

On 1 May 2020 David was appointed as Non-Executive Director of GCP Student Living plc ("GCP"). On 9 March 2020 he was appointed as Non-Executive Director of Capital & Regional plc ("C&R") and was appointed as Chair of C&R on 20 May 2020. The Board perceives no material conflicts of interest between Custodian REIT and the activities of GCP and C&R due to their divergent property strategies.

David's other roles are not considered to impact his ability to allocate sufficient time to the Company to discharge his responsibilities effectively.

Committee membership
Chair **M N**
Member **R**

Elizabeth McMeikan
Senior Independent Director, age 59

Elizabeth joined the Board as Senior Independent Director ("SID") on 1 April 2021. Her substantive executive career was with Tesco plc where she was a Stores Board Director before embarking on a non-executive career in 2005.

Elizabeth is currently SID and Remuneration Committee Chair at The Unite Group plc, the UK's largest owner, manager and developer of purpose-built student accommodation, and Non-Executive Director and ESG Committee Chair of Dalata Hotel Group plc, the largest hotel group in the Republic of Ireland. Her other Board roles include Non-Executive Director and Remuneration Committee Chair at McBride plc, Europe's leading manufacturer of cleaning and hygiene products, and Non-Executive Director of Fresca Group Limited, a fruit and vegetable import/export company.

Previously she was SID of JD Wetherspoon plc, SID and Remuneration Committee Chair of Flybe plc and Chair of Moat Homes Limited.

Elizabeth's other roles are not considered to impact her ability to allocate sufficient time to the Company to discharge her responsibilities effectively.

Committee membership
Member **A M R N E**

Matthew Thorne FCA
Independent Director, age 68

Matthew chairs the Company's Audit and Risk Committee. Matthew qualified as a chartered accountant in 1978 with Price Waterhouse. He was an independent non-executive director for nine years of Bankers Investment Trust plc, retiring in 2018 having chaired the Audit Committee. Since May 2007 Matthew has been an adviser to Consensus Business Group (led by Vincent Tchenguiz). Matthew was also Audit Committee chair and the finance member of the Advisory Board and Advisory Panel of Greenwich Hospital, the Naval Charity, until January 2020. Matthew's previous executive roles have included Group Finance Director of McCarthy & Stone plc from 1993 to 2007, Finance Director of Ricardo plc from 1991 to 1992 and Investment Director of Beazer plc from 1983 to 1991.

Matthew's other roles are not considered to impact his ability to allocate sufficient time to the Company to discharge his responsibilities effectively.

Committee membership
Chair **A R**
Member **M N**

Ian Mattioli MBE
Director, age 58

Ian is CEO of Mattioli Woods plc ("Mattioli Woods") with over 35 years' experience in financial services, wealth management and property businesses and is the founder director of Custodian REIT. Together with Bob Woods, Ian founded Mattioli Woods, the AIM-listed wealth management and employee benefits business which is the parent company of the Investment Manager. Mattioli Woods now has over £9bn of assets under management, administration and advice. Ian is responsible for the vision and operational management of Mattioli Woods and instigated the development of its investment proposition, including the syndicated property initiative that developed into the seed portfolio for the launch of Custodian REIT. His personal achievements include winning the London Stock Exchange AIM Entrepreneur of the Year award and CEO of the year in the 2018 City of London wealth management awards.

Ian was awarded an MBE in the Queen's 2017 New Year's Honours list for his services to business and the community in Leicestershire and was appointed High Sheriff of Leicestershire in March 2021, an independent non-political Royal appointment for a single year. Ian is also Non-Executive Chair of K3 Capital Group plc, which is listed on AIM and specialises in business transfer, business brokerage and corporate finance across the UK.

Ian's other roles are not considered to impact his ability to allocate sufficient time to the Company to discharge his responsibilities effectively.

Committee membership
Member **N**

Hazel Adam
Independent Director, age 52

Hazel was an investment analyst with Scottish Life until 1996 and then joined Standard Life Investments. As a fund manager she specialised in UK and then Emerging Market equities. In 2005 Hazel joined Goldman Sachs International as an executive director on the new markets equity sales desk before moving to HSBC in 2012, holding a similar equity sales role until 2016.

Hazel is an independent non-executive director of Aberdeen Latin American Income Fund Limited and holds the CFA Level 4 certificate in ESG Investing and the Financial Times Non-Executive Directors Diploma.

Hazel's other role is not considered to impact her ability to allocate sufficient time to the Company to discharge her responsibilities effectively.

Committee membership
Chair **E**
Member **M A R N**

Chris Ireland FRICS
Independent Director, age 63

Chris was appointed as an Independent Director on 1 April 2021. Chris joined international property consultancy King Sturge in 1979 as a graduate and has worked his whole career across the UK investment property market. He ran the investment teams at King Sturge before becoming Joint Managing Partner and subsequently Joint Senior Partner prior to its merger with JLL in 2011.

Chris was appointed as Chief Executive Officer of JLL UK in 2016 and became its Chair in April 2021. He will continue to play an active role in the capital markets business and is committed to leading the property sector on sustainability and supporting the debate around the climate emergency.

Chris is a former Chair of the Investment Property Forum and is a Non-Executive Director of Le Masurier, a Jersey based family trust with assets across the UK, Germany and Jersey. Chris is also a keen supporter of the UK homelessness charity Crisis.

Chris' other roles are not considered to impact his ability to allocate sufficient time to the Company to discharge his responsibilities effectively.

Committee membership
Member **A M R N E**

Committee key
A Audit and Risk Committee
M Management Engagement Committee
R Remuneration Committee
N Nominations Committee
E ESG Committee

Board of Directors and key Investment Manager personnel continued

A short biography of the Investment Manager's key personnel and senior members of the Investment Manager's property team is set out below:

Richard Shepherd-Cross MRICS
Managing Director

Richard qualified as a Chartered Surveyor in 1996 and until 2008 worked for JLL, latterly running its national portfolio investment team.

Since joining Mattioli Woods in 2009, Richard established Custodian Capital as the Property Fund Management subsidiary to Mattioli Woods and in 2014 was instrumental in the establishment of Custodian REIT plc from Mattioli Woods' syndicated property portfolio and its 1,200 investors. Following the successful IPO of the Company, Richard has overseen the growth of the Company to its current property portfolio of over £0.5bn. Richard and his family own 371,381 shares in the Company.

Ian Mattioli MBE
Founder and Chairman

Ian's biography is set out set out on page 81

Ed Moore FCA
Finance Director

Ed qualified as a Chartered Accountant in 2003 with Grant Thornton, specialising in audit, financial reporting and internal controls across its Midlands practice. He is Finance Director of Custodian Capital with responsibility for all day-to-day financial aspects of its operations. Ed is also a member of the Custodian Capital Investment Committee.

Since IPO in 2014 Ed has overseen the Company raising over £300m of new equity, arranging or refinancing six loan facilities and completing three corporate acquisitions. Ed's key responsibilities for Custodian REIT are accurate external and internal financial reporting, ongoing regulatory compliance and maintaining a robust control environment. Ed was appointed Company Secretary of Custodian REIT on 17 June 2020 and is responsible for the Investment Manager's environmental reporting initiatives, attending Custodian REIT ESG Committee meetings.

Alex Nix MRICS
Assistant Investment Manager

Alex graduated from Nottingham Trent University with a degree in Real Estate Management before joining Lambert Smith Hampton, where he spent eight years and qualified as a Chartered Surveyor in 2006.

Alex is Assistant Investment Manager to Custodian REIT having joined Custodian Capital in 2012. Alex heads the Company's property management and asset management initiatives, assists in sourcing and executing new investments and is a member of the Investment Manager's Investment Committee.

Tom Donnachie MRICS
Portfolio Manager

Tom graduated from Durham University with a degree in Geography before obtaining an MSc in Real Estate Management from Sheffield Hallam University. Tom worked in London for three years where he qualified as a Chartered Surveyor with Workman LLP before returning to the Midlands first with Lambert Smith Hampton and then CBRE.

Tom joined Custodian Capital in 2015 as Portfolio Manager with a primary function to maintain and enhance the existing property portfolio and assist in the selection and due diligence process regarding new acquisitions. Tom also leads the Investment Manager's environmental initiatives and attends Custodian REIT ESG Committee meetings.

Javed Sattar MRICS
Portfolio Manager

Javed joined Custodian Capital in 2011 after graduating from Birmingham City University with a degree in Estate Management Practice. Whilst working as a trainee surveyor on Custodian REIT's property portfolio for Custodian Capital he completed a PGDip in Surveying via The College of Estate Management and qualified as a Chartered Surveyor in 2017.

Javed operates as Portfolio Manager managing properties predominantly located in the North-West of England.

Governance report

The Company is committed to the principles of corporate governance contained in the Code, for which the Board is accountable to shareholders. The Code is available from the FRC website at **www.frc.org.uk.**

The Company has complied with the principles and provisions set out in the Code during the year, so far as is possible, given the Company's size and nature of business.

The Board has also considered the principles and recommendations of the 2019 AIC Corporate Governance Code for Investment Companies ("AIC Code"). The AIC Code addresses all the principles set out in the Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company. We believe that reporting against the principles and recommendations of the AIC Code (which incorporates the Code), provides better information to shareholders, except where set out in this section.

Further explanation of how the main principles of the Code have been applied is set out below, in the Remuneration Committee report and in the Audit and Risk Committee report.

The areas of non-compliance with the Code since admission to trading on the London Stock Exchange in 2014 ("Admission") are:

- There is no chief executive position within the Company, which is not in accordance with provision 9 of the Code. As an investment company, the Company has no employees and therefore no requirement for a chief executive; and
- The Company's succession policy permits a tenure of longer than nine years where considered appropriate, in line with the AIC Code.

Role of the Board

The Board meets at least four times per year and is responsible to shareholders, tenants and other stakeholders for promoting the long-term sustainable success of the Company and generating shareholder value. Good governance is fundamental to the long-term success of the Company and the Board and Investment Manager work together to ensure the highest standards of governance are maintained by the Company and are central to every Board decision.

The Board comprises six Directors, all of whom have wide experience, are non-executive and, save for Ian Mattioli, are independent of the Investment Manager. Biographical information on each Director is set out earlier in the Governance report. The Directors are responsible for managing the Company's business in accordance with its Articles of Association ("the Articles") and the Investment Policy (as set out in the Strategic report), and have overall responsibility for the Company's activities. The Directors may delegate certain functions to other parties and in particular the Directors have delegated responsibility for management of the Company's property portfolio to the Investment Manager. The Board retains responsibility for reviewing the engagement of the Investment Manager and exercising overall control of the Company, reserving the following key matters:

- Setting the Company's values, standards, investment strategy, strategic aims and objectives;
- Approving the annual operating and capital expenditure budgets and external financial reporting;
- Approving valuations of the Company's property portfolio;
- Approving the Company's dividend policy and the interim dividends;
- Ensuring a satisfactory dialogue with shareholders and approving AGM resolutions and shareholder circulars;
- Reviewing and approving changes to the structure, size and composition of the Board, including succession planning, following recommendations from the Nominations Committee;
- Determining the remuneration policy for the Directors, following the recommendations of the Remuneration Committee;
- Undertaking a formal and rigorous annual review of its own performance, that of its Committees and individual Directors, and the division of responsibilities and independence;
- Considering the balance of interests between shareholders, employees, customers and the community; and
- Approving the appointment of the Company's principal professional advisers.

Meetings

The Board meets at least four times a year to consider the Company's quarterly trading performance and approve the Annual and Interim reports. The Board also meets on an ad hoc basis to discuss specific issues. Meetings are attended by the Directors, the Investment Manager, the Company Secretary and other attendees by invitation.

Due to the significant impact of the COVID-19 pandemic during the year, in addition to scheduled quarterly meetings, the Board has met regularly via video-conference to consider issues including the prevailing and expected levels of rent collection, requests from tenants for rent deferrals, potential property acquisitions and disposals and expected levels of capital expenditure, and the impact of these matters on the Company's liquidity position, borrowing covenants and dividend policy. At each meeting the Board has also considered how this information is most effectively reported to the market and how the Board's response to the pandemic promotes the long-term sustainable success of the Company and impacts its stakeholders and the communities in which it operates.

Division of responsibilities

The Company applies principles F – I of the Code in determining the division of responsibilities of the Board.

Chairman

David Hunter is the Chairman and is responsible for the leadership of the Board and ensuring its overall effectiveness on directing the Company. The Chairman is responsible for setting the Board's agenda and ensuring that adequate time is available for discussion of all agenda items, in particular strategic issues. The Chairman promotes a culture of openness and debate by facilitating the effective contribution of other Non-Executive Directors.

The Chairman is also responsible for ensuring that the Directors receive accurate, timely and clear information and ensuring effective communication with shareholders.

Senior Independent Director

Elizabeth McMeikan was appointed to the Board as the SID on 1 April 2021. Barry Gilbertson was the SID until his retirement from the Board on 1 January 2021, with Matthew Thorne acting as the interim-SID from 1 January 2021 until 1 April 2021.

The SID has a responsibility to be available as an alternative point of contact (other than the Chair) for shareholders and other stakeholders and to act as a sounding board for the Chairman.

Non-Executive Directors

On 1 April 2021 Elizabeth McMeikan and Chris Ireland were appointed as Non-Executive Directors of the Company. The Company has six Non-Executive Directors and no employees. The Board has delegated operational functions to the Investment Manager and other key service providers. The Non-Executive Directors provide constructive challenge, strategic guidance and offer specialist advice to the Investment Manager and hold it to account.

Company Secretary

The Company Secretary is available to support all Directors and is responsible for the efficient administration of the Company, particularly with regard to ensuring compliance with statutory and regulatory requirements and for ensuring that decisions of the Board are implemented. Its other roles include, developing Board and Committee agendas, advising on regulatory compliance and corporate governance, facilitating Director induction programmes and organising the AGM.

Board performance and evaluation

The Directors have annual appraisals as part of a Board Effectiveness Review ("BER"). The Chair reviews the performance of the other Independent Non-Executive Directors, and the Senior Independent Director reviews the Chair.

Separately, the Board undertook an internally-facilitated BER during March 2021 managed by Matthew Thorne. The individual Directors were all canvassed on the:

- Skills of the Board and succession planning;
- Board and sub-committee's mandate, responsibility and operation;
- Performance of the Chair;
- Strategic planning process;
- Risk management; and
- Capability and diversity.

The Board considered the output from the BER during May 2021 and specifically noted:

- The contribution from each Director; and
- The enhanced skillsets and diversity that the newly appointed Directors brought.

Board Committees

Audit and Risk Committee

The Audit and Risk Committee comprises the independent Directors, excluding the Board Chair, and is chaired by Matthew Thorne. Its responsibilities are set out in the Audit and Risk Committee report.

Management Engagement Committee

The Management Engagement Committee comprises the independent Directors and is chaired by David Hunter. Its responsibilities are set out in the Management Engagement Committee report. Chris Ireland is expected to take over as Chair on 1 July 2021 following completion of the current year process.

Nominations Committee

The Board as a whole is responsible for ensuring adequate succession planning to maintain an appropriate balance of skills on the Board to ensure it functions effectively and promotes the long-term sustainable success of the Company, whilst generating shareholder value. Changes to the structure, size and composition of the Board may be made following recommendations from the Nominations Committee, which operates under written terms of reference which are available on the Company's website. This includes the selection of the Chair of the Board, the Senior Independent Director and the Company Secretary. The letter of appointment of new Directors sets out the expected time commitment and the Directors must undertake that they will have sufficient time to meet what is expected of them. Their other significant commitments are disclosed to the Board before appointment, with a broad indication of the time involved, and they are required to inform the Board of subsequent changes.

The Nominations Committee comprises all six Directors and is chaired by David Hunter. Its responsibilities are set out in the Nominations Committee report.

Remuneration Committee

The Remuneration Committee comprises the independent Directors and is chaired by Matthew Thorne. Its responsibilities are set out in the Remuneration Committee report.

Governance report continued

ESG Committee

The ESG Committee comprises Hazel Adam as Chair, Elizabeth McMeikan and Chris Ireland, all of whom are independent Non-Executive Directors. The ESG Committee was constituted on 1 April 2021 and its key responsibilities are set out in the ESG Committee report.

Meeting attendance

The attendance of the Directors at scheduled Board and Board committee meetings held during the year was as follows:

	Board	Audit and Risk Committee	Remuneration Committee	Nominations Committee	Management Engagement Committee
David Hunter	4/4	n/a	2/2	2/2	1/1
Matthew Thorne	4/4	3/3	2/2	2/2	1/1
Hazel Adam	4/4	3/3	2/2	2/2	1/1
Ian Mattioli	4/4	n/a	n/a	2/2	n/a

Directors' interests are set out in the Remuneration Committee report.

The Investment Manager

The Company has appointed Custodian Capital Limited as Investment Manager and Alternative Investment Fund Manager ("AIFM") under an Investment Management Agreement ("IMA"). Under the IMA, the Investment Manager is due an annual fund and asset management fee and an annual administration fee. The IMA fee structure was varied on 22 June 2020 as detailed in Note 18.

The Investment Manager is a subsidiary of Mattioli Woods, a related party and a provider of specialist pension consultancy and administration, employee benefits and wealth management services. The Investment Manager is authorised and regulated by the Financial Conduct Authority ("FCA") and has an established market presence in the smaller lot-size property sector, with a proven track record of property syndication (external to the Company), investment and asset management.

Ian Mattioli is CEO of Mattioli Woods and is beneficially interested in the share capital of Mattioli Woods, the parent company of the Investment Manager, and therefore has an indirect interest in the Investment Manager. As a result, Ian Mattioli is not independent.

Key personnel

The Investment Manager's key personnel at 31 March 2021 were Richard Shepherd-Cross, Ed Moore, Alex Nix and Tom Donnachie.

AIFM Directive

The directive creates a European Union ("EU") wide framework for regulating an AIFM. The Company's activities fall within the scope of the directive and the Board has determined that the Investment Manager will act as AIFM for these purposes. The Board has put in place a system of regular reporting from the AIFM and the Company's depositary to ensure both are meeting their regulatory responsibilities in respect of the Company.

Non-mainstream pooled investments

The Company conducts its affairs so that its shares can be recommended by financial advisers to retail investors in accordance with the rules of the FCA in relation to non-mainstream pooled investments, and intends to continue to do so for the foreseeable future.

Directors' share dealings

The Directors have adopted a code for directors' share dealings, which is compliant with the EU's Market Abuse Regulation ("MAR"). The Board is responsible for taking all proper and reasonable steps to ensure compliance with the MAR.

Shareholders

The Board is responsible for ensuring a satisfactory dialogue with shareholders based on the mutual understanding of objectives. It approves the resolutions and corresponding documentation to be put forward to shareholders at the AGM, together with any circulars, prospectuses, listing particulars and press releases concerning matters decided by the Board.

The Company reports to shareholders at least twice each year in its interim and annual reports, and makes announcements, where any price sensitive or other information requires disclosure, to the London Stock Exchange and on the Company's website. Any material presentations to investors are made available on the Company's website. Where there has been contact with shareholders, feedback is presented to the Board by the Investment Manager and the Company's broker, Numis Securities Limited, to ensure it is aware of any issues raised by investors. The Company's shareholder profile and any material changes in shareholdings are reviewed by the Board at least quarterly and more often as appropriate.

All members of the Board are available to meet with investors as and when required. The Board considers that the provision of independent feedback to the Board through the Company's brokers and, where appropriate, directly from investors ensures that the whole Board remains well informed of investors' views.

Board members, including Chairs of the Audit and Risk, Management Engagement, Nominations and Remuneration Committees and representatives of the Investment Manager are available to meet with investors and to answer any questions at the Company's AGM. All shareholders have at least 20 clear working days' notice of the AGM, where all Directors and committee members are available to answer questions, subject to prevailing government COVID-19 guidance on attendance. At the AGM all votes are dealt with on a poll and the number of proxy votes cast is indicated. Votes on separate issues are proposed as separate resolutions.

Significant holdings of ordinary shares in the Company are set out in the Directors' report.

Conflicts of interest

The Articles allow the Board to authorise potential conflicts of interest that may arise, subject to imposing limits or conditions when giving authorisation if this is appropriate. Only independent Directors (who have no interest in the matter being considered) are able to take the relevant decision and, in taking the decision, the Directors must act in a way they consider will be most likely to promote the Company's success. Procedures have been established to monitor actual and potential conflicts of interest on a regular basis, and the Board is satisfied that these procedures are working effectively.

Internal control

The Investment Manager is responsible for operating the Company's system of internal control and reviewing its effectiveness. Such a system is designed to manage, rather than eliminate, the risk of fraud or the risks of not achieving some or all of the Company's business objectives and can provide only reasonable but not absolute assurance against material misstatement or loss. The Investment Manager outsources its internal audit function to RSM which has undertaken an assessment of the design effectiveness of internal controls during the year with no significant deficiencies reported.

The Board has an ongoing process to monitor the Company's risk management and internal control systems, including financial, operational and compliance controls, and to identify, evaluate and manage the significant risks faced by the Company in line with principle O of the Code. The process is regularly reviewed by the Board, based on reports from the Investment Manager, and accords with the Internal Control Guidance for Directors on the Combined Code produced by the Turnbull working party. Key features of the Company's system of internal control include:

- A detailed authorisation process and formal delegation of authority;
- A comprehensive financial reporting and forecasting system;
- A defined schedule of matters reserved for the Board; and
- An annual review of the effectiveness of internal controls and formal consideration of business risks. Issues are also raised at quarterly Board meetings as appropriate.

Investment Manager employees are covered by Mattioli Woods' whistleblowing policy.

Bribery, money laundering, slavery and human trafficking

The Board has considered the requirements of the Bribery Act 2010, the Criminal Finances Act 2017 and the Modern Slavery Act 2015 and has taken steps to ensure that it has adequate procedures in place to comply with their requirements.

The Board has a zero tolerance policy towards unethical behaviour and is committed to carrying out business fairly, honestly and openly and it expects the same of its business partners. The Investment Manager actively reviews and is responsible for monitoring perceived risks and responsibility for anti-bribery and corruption. The Investment Manager maintains a risk register where perceived risks and associated actions are recorded and this is shared annually with the Board for approval.

We believe that all efforts should be made to eliminate unethical behaviour from our supply chains. We seek to mitigate our exposure to any unethical activity by engaging with reputable third-party professional service firms based in the United Kingdom. We request formal governance information from our current or potential suppliers if there is a perceived risk of unethical behaviour to assess overall supply chain risk and conduct due diligence and risk assessment on potential new suppliers where considered necessary. We will continue to monitor and collaborate with our suppliers and tenants to ensure that they continue to adopt systems and controls that reduce the risk of facilitating bribery, money laundering, modern slavery and human trafficking.

Approval

This Governance report was approved by the Board of Directors and signed on its behalf by:

David Hunter
Chairman
15 June 2021

Audit and Risk Committee report

Composition and designation

The Audit and Risk Committee ("the Committee") comprises Matthew Thorne as Chair, Hazel Adam, Elizabeth McMeikan and Chris Ireland, all of whom are independent Non-Executive Directors. On 1 January 2021 Barry Gilbertson retired as a Director of the Company and left the Committee. On 1 April 2021 Elizabeth McMeikan and Chris Ireland became Directors of the Company and were appointed to the Committee.

Responsibilities

The Committee meets regularly to monitor the integrity of the Company's financial statements and to ensure they present a fair, balanced and understandable assessment of the Company's position and prospects in line with principle N of the Code. The Committee is also responsible for the appointment, performance and independence of the external auditor and the programme of work and reports of the internal auditor in line with principle M of the Code. In providing support to the Board in making this statement, the Committee has reviewed and approved a process undertaken by the Investment Manager to provide confirmation to the Board.

The Committee operates under written terms of reference which are available on the Company's website.

The key responsibilities and principal activities of the Committee are as follows:

- To monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, and review significant financial reporting judgements contained in them;
- To advise the Board on whether the Interim Report, Annual Report and financial statements are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model, strategy, risks, working capital requirements and longer-term viability;
- To advise the Board on whether the Investment Manager's working capital review supports assertions made in the Annual Report regarding going concern and longer-term viability;
- To monitor and review the effectiveness of the Company's internal control environment and monitoring processes, which were in place for the year under review and up to the date of approval of these financial statements;
- To review the significant risks faced by the Company;
- To review the internal audit programme and monitor the effectiveness of the internal audit process by reviewing reports, meeting with the internal auditor and identifying any matters it considers need action or improvement, making recommendations as to the steps to be taken;
- To make recommendations to the Board to be put to shareholders for their approval in general meeting in relation to the appointment, reappointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- To review the appointment of the external auditor, monitoring the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- To develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;
- To agree the scope of statutory audit work and any additional assurance work to be undertaken;
- To take an active part in discussions between the external auditor and the Investment Manager regarding the resolution of issues that impact the audited financial statements; and
- To have the opportunity to meet with the external property valuers at least once a year, to discuss the valuers' remit and any issues arising from the valuations.

The Committee also oversees and approves the calculation of fees payable to the Investment Manager set out in Note 18.

Meetings

The Committee meets no less than three times a year, typically in May to consider the Annual Report and external audit findings, in November to consider the Interim Report, interim announcement and external review findings, and in January to plan for the financial year ahead. Any other matters, including internal controls, are considered as and when necessary.

Meetings are attended by the Committee members, the Investment Manager, the external auditor and, periodically, the internal auditor. The Committee allows time to speak with the external auditor and internal auditor without the Investment Manager present for at least one meeting each year.

Primary areas of judgement in relation to the Annual Report and financial statements

The Committee considers the significant judgements made in the Annual Report and financial statements and receives reports from the Investment Manager and the external auditor on those judgements. The Committee pays particular attention to the matters it considers to be important by virtue of size, potential impact, complexity and level of judgement.

The principal issue considered by the Committee for the year was the valuation of the Company's property portfolio, which is fundamental to the Company's statement of financial position and reported results. The external auditor met with the valuers separately from the Audit and Risk Committee, using real estate specialists where applicable, and reported back to the Committee on its review. The Committee also gained comfort from the valuers' methodology and other supporting market information.

The Committee also reviewed the reports of the internal auditor and considered how best to resource the internal audit function. During the year, the internal auditor has reported on the design effectiveness and operational effectiveness of the internal control environment.

Loan covenant and REIT regime compliance are matters for the whole Board. The Company's assessment of the impact of the COVID-19 pandemic on the Company's loan covenant compliance is set out in the Principal risks and uncertainties section of the Strategic report. The Committee has considered reports to support the Company's REIT regime compliance, going concern status and longer-term viability statement, along with details of available undrawn facilities and financial forecasts.

The Committee was satisfied that these issues had been fully and adequately considered and addressed and that the judgements made were appropriate. The Committee discussed the issues with the external auditor, who had concurred with the judgement of the Investment Manager.

Audit

The Company's day-to-day operations are contracted to the Investment Manager. The Company's internal audit function, which assesses the systems and control framework of the Investment Manager and its parent company, Mattioli Woods, is carried out by RSM. The Committee agrees an appropriate annual internal audit programme with the Investment Manager, taking into consideration the current size of the Company and its relative lack of business complexity, and reviews the reports of the internal audit function.

The external audit, review of its effectiveness, auditor reappointment and audit tendering

The Committee reviews annually the external auditor's:

- Appointment;
- Relationship with the Company;
- Level of effectiveness;
- Audit and non-audit fees; and
- Independence.

The Committee notes the continuing engagement of Deloitte LLP ("Deloitte") as auditor of Mattioli Woods and of the Investment Manager but considering the separate Deloitte teams involved and the measures that Deloitte takes to ensure separation and independence of the teams, it is not deemed a conflict.

The Committee uses a framework to assess the effectiveness of the audit approach and considered the views of the Investment Manager. This framework includes:

- The auditor confirming its independence and compliance with the FRC's Ethical Standard and the Company's policy for the supply of non-audit services;
- How the auditor demonstrated professional scepticism and challenged assumptions where necessary; and
- Assessment of Deloitte's audit quality.

In assessing how the auditor demonstrated professional scepticism and challenged assumptions, the Committee considered the depth of discussions held with the auditor, particularly in respect to challenging the Company's approach to its significant judgements and estimates (set out in the Strategic report). The Committee was satisfied that a summary of findings from the Financial Reporting Council ("FRC") report on Audit Quality Inspections in July 2020 supported Deloitte's capability. After taking these matters into account, the Committee concluded that Deloitte had performed the audit effectively, efficiently and to a high quality.

Fees incurred by the Company from Deloitte during the year were as follows:

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000
Audit of the Company's Annual Report	**106**	96
Total audit related fees	**106**	96
Review of the Company's Interim Report	**20**	18
Other non-audit services	**–**	8
Total non-audit fees	**20**	26
Total fees	**126**	122

Other non-audit services relate to administrative assistance regarding Board effectiveness reviews.

Audit and Risk Committee report continued

Audit continued

Non-audit fees

A non-audit fee policy has been adopted by the Committee, which considers the appointment of the external auditor for non-audit work, after taking into account their suitability to perform the services, the potential impact on their independence and objectivity and the relationship of non-audit to audit fees. Fees for permissible non-audit fees payable to the external auditor are capped at 70% of the average audit fee over the three preceding financial years (or from appointment, if later) in line with the FRC's Revised Ethical Standard 2019. Where there are any doubts as to whether the external auditor has a conflict of interest, Committee approval is required in advance of the engagement.

Given the external auditor's detailed knowledge of the structure of the organisation, certain recurring services provided by them, subject to the amount of fee involved, are not considered to impair the external auditor's independence or objectivity. Services included in this category are: accounting advice, compliance and regulatory certificates and minor projects, where the fee involved per service will not exceed £10,000 without the prior consent of the Committee.

Other than the review of the Interim Report, the Committee will not normally allow the external auditor to be used for the following: tax services; compiling accounting records; payroll services; work on internal controls; valuation work; legal services; internal audit services; corporate finance services; share brokerage or human resources. Non-audit fees incurred during the year related to a review of Board effectiveness.

The Committee has reviewed the level of fees due to Deloitte for permitted non-audit services and is satisfied the independence and objectivity of Deloitte as the Company's auditor is not impaired.

As a 'public interest entity', the Company is required at the latest to re-tender the external audit by 2024 and rotate audit firms by 2034. The Committee intends to re-tender the external audit within the timeframe set by the Financial Reporting Council and adopt its specific requirements for the tendering process.

Deloitte has confirmed its willingness to continue in office and ordinary resolutions reappointing Deloitte as auditor and authorising the Committee to set the auditor's remuneration will be proposed at the AGM.

Approval

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

Matthew Thorne
Chair of the Audit and Risk Committee
15 June 2021

Management Engagement Committee report

Composition

The Management Engagement Committee ("the Committee") comprises David Hunter as Chair, Matthew Thorne, Hazel Adam, Elizabeth McMeikan and Chris Ireland, all of whom are independent Non-Executive Directors. On 1 January 2021 Barry Gilbertson retired as a Director of the Company and left the Committee, being replaced as Chair by David Hunter. On 1 April 2021 Elizabeth McMeikan and Chris Ireland became Directors of the Company and were appointed to the Committee. Chris Ireland is expected to take over as Chair of the Committee on 1 July 2021 following completion of the current year's process.

Meetings

The Committee meets at least once a year and otherwise as required.

Responsibilities

The key responsibilities of the Committee are:

- Monitor and annually review the independence, expertise and performance of the Investment Manager and its compliance with the terms of the IMA;
- Ensure the terms of the IMA comply with all relevant regulatory requirements, conform with market practice and remain in the best interests of shareholders;
- Oversee the relationship with the external property valuers considering changes, re-appointment and tendering, their remuneration, terms of engagement, independence and expertise; and
- Review annually the remuneration, any points of conflict and the Manager's views on the effectiveness of the Company's other key service providers.

During the year, the Committee has considered:

- The capability and resources of the Investment Manager to deliver satisfactory investment performance;
- The length of the notice period of the IMA; and
- The fees payable to the Investment Manager.

The Directors are satisfied with the Investment Manager's ability to deliver investment performance that meets the agreed objectives, such that the continuing appointment of the Investment Manager, on the revised terms set out in Note 18, was considered in the best interest of the Company and its shareholders.

The Committee has also considered its external valuer engagements with Lambert Smith Hampton Group Limited ("LSH") and Knight Frank LLP, which began in 2014 and 2019 respectively. Following a tender process for the portion of the portfolio valued by LSH, triggered by LSH's engagement exceeding five years, the Committee recommended to the Board that Savills be appointed as valuer on that part of the portfolio from the quarter ending 30 June 2021.

Approval

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

David Hunter
Chair of the Management Engagement Committee
15 June 2021

Nominations Committee report

Composition

The Nominations Committee ("the Committee") consists of David Hunter as Chair, Matthew Thorne, Hazel Adam, Elizabeth McMeikan, Chris Ireland and Ian Mattioli. On 1 January 2021 Barry Gilbertson retired as a Director of the Company and left the Committee. On 1 April 2021 Elizabeth McMeikan and Chris Ireland became Directors of the Company and were appointed to the Committee.

Meetings

The Committee meets at least once a year and otherwise as required.

Responsibilities

The key responsibilities of the Committee, which take into account principles J, K and L of the Code, are:

- Review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and make recommendations to the Board with regard to any changes;
- Consider succession planning for Directors, taking into account the challenges and opportunities facing the Company, and the skills and expertise needed on the Board in the future;
- Keep under review the leadership needs of the organisation, with a view to ensuring the continued ability of the Company to compete effectively in the marketplace; and
- Identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise.

Before any appointment is made by the Board, the Committee is required to evaluate the balance of skills, knowledge, experience and diversity on the Board, and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment. In identifying suitable candidates the Committee shall:

- Use open advertising or the services of external advisers to facilitate the search;
- Consider candidates from a wide range of backgrounds; and
- Consider candidates on merit and against objective criteria and with due regard for the benefits of diversity on the Board, including gender, social and ethnic backgrounds and cognitive and personal strengths, taking care that appointees have enough time available to devote to the position.

The Committee also makes recommendations to the Board concerning:

- Formulating plans for succession for the Non-Executive Directors;
- Suitable candidates for the role of Senior independent Director;
- Membership of the Audit and Risk Committee, Remuneration Committee and the Management Engagement Committee, and any other Board Committees as appropriate and formed in due course, in consultation with the chairs of those Committees;
- The re-appointment of any Non-Executive Director at the conclusion of their specified term of office having given due regard to their performance and ability to continue to contribute to the Board in the light of knowledge, skills and experience required; and
- The annual re-election by shareholders of Directors or the retirement by rotation provisions in the Company's Articles of Association, having due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required and the need for progressive refreshing of the Board.

Policy on tenure and succession planning

The Committee considers the ongoing independence of each of the Non-Executive Directors, their respective skills and experience and whether each Non-Executive Director is able to commit sufficient time to the Company, as well as any other external appointments held. We consider that each Non-Executive Director has contributed an appropriate amount of time during the year.

Pursuant to the Articles of Association of the Company, at every AGM of the Company, one third of the Non-Executive Directors who are subject to the requirement to retire by rotation (not including any Non-Executive Director who was appointed by the Board since the last AGM and is standing for election) will retire from office and may offer themselves for re-election. However, notwithstanding the provisions of the Articles, all the Non-Executive Directors will offer themselves for re-election at each AGM in accordance with the provisions of the AIC Code.

Non-Executive Directors are appointed for an initial period of three years. It is the Company's policy of tenure to review individual appointments after six years of service to consider whether the Non-Executive Director is still independent and still fulfils the role. However, in accordance with the principles of the AIC Code, we do not consider it necessary to mandatorily replace a Director, including the Chair, after a predetermined period of tenure.

Reflecting the retirement of Barry Gilbertson during the year and the Company's succession policy, the Committee recommended the appointment of Elizabeth McMeikan and Chris Ireland as additional Non-Executive Directors during the year. Granger Reis was engaged to assist with the recruitment.

Approval

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

David Hunter
Chair of the Nominations Committee
15 June 2021

Remuneration Committee report

Composition

The Remuneration Committee ("the Committee") comprises Matthew Thorne as Chair, David Hunter, Hazel Adam, Elizabeth McMeikan and Chris Ireland, all of whom are independent Non-Executive Directors. On 1 January 2021 Barry Gilbertson retired as a Director of the Company and left the Committee, being replaced as Chair by Matthew Thorne. On 1 April 2021 Elizabeth McMeikan and Chris Ireland became Directors of the Company and were appointed to the Committee.

Meetings

The Committee meets at least once a year and otherwise as required.

Responsibilities

The key responsibilities of the Committee are:

- To set the Remuneration Policy for all the Directors, taking into account relevant legal and regulatory requirements and the provisions and recommendations of the Code and the AIC Code;
- To review the ongoing appropriateness and relevance of the Remuneration Policy; and
- Within the terms of the agreed policy, to determine the individual remuneration of each Director, taking into account information about remuneration in other companies of comparable scale and complexity.

The Committee operates under written Terms of Reference which are available on the Company's website.

Directors and officers

The Non-Executive Directors and Company Secretary are the only officers of the Company. The Company Secretary is engaged under the terms of the IMA with the Investment Manager. The Company has no employees.

Under the terms of their appointment, each Director is required to retire by rotation and seek re-election at least every three years. The Company's Articles require one third of Directors to retire and seek re-election each year. However, notwithstanding the provisions of the Articles, all the Non-Executive Directors will offer themselves for re-election at each AGM in accordance with the provisions of the AIC Code.

Remuneration Policy

The Company's objective is to have a simple and transparent remuneration structure, aligned with the Company's strategy and comparable with similar companies. The Company offers Directors, including any new Directors, an annual fee with no pension contributions, allowances or variable elements. Directors are engaged under Letters of Appointment (rather than service contracts with the Company), which do not allow for any payments on the termination of office. Each Director's appointment under their respective Letter of Appointment is terminable immediately by either party (the Company or the Director) giving written notice. Letters of Appointment are kept available for inspection at the Company's registered office. Shareholders last approved the remuneration policy at the AGM in 2020. As such, the Company is required to renew that approval at the AGM in 2023, from which date the new policy will apply.

During the year, the Committee reviewed the Company's Remuneration Policy, which is designed to attract, retain and motivate Non-Executive Directors with the skills and experience necessary to maximise shareholder value on a long-term basis, and determined that it remains fit for purpose. The Remuneration Policy was approved at the AGM held on 1 September 2020 with 99.95% of votes cast for the resolution, 0.05% of votes cast against the resolution with no votes withheld.

The Remuneration Policy has been prepared in accordance with Schedule 8 of The Large and Medium-sized Companies and Group's (Accounts and Reports) Regulations 2008 ("the Regulations") as amended in August 2013 and 2019, the Companies (Miscellaneous Reporting) Regulations 2018 and with the Code and the AIC Code.

Any major decisions on Directors' remuneration are taken by the Committee, as delegated by the Board in the Committee's Terms of Reference, and subsequently reported to the Board. There have been no major decisions, substantial changes or discretion applied relating to Directors' remuneration during the year, other than the fees payable to Elizabeth McMeikan and Chris Ireland whose appointments were approved during the year. The Remuneration Policy has operated as intended.

The Committee takes into account any views in respect of Directors' remuneration expressed by shareholders in the formulation of the Remuneration Policy.

Directors' remuneration (audited)

	2021			2020		
	Fees £	**Er's NIC £**	**Total £**	Fees £	Er's NIC £	Total £
David Hunter	**51,500**	**6,703**	**58,203**	51,500	6,710	58,210
Matthew Thorne	**41,200**	**5,281**	**46,481**	41,200	5,289	46,489
Barry Gilbertson*	**30,000**	**3,837**	**33,837**	40,000	5,123	45,123
Ian Mattioli	**34,500**	**4,357**	**38,857**	34,500	4,364	38,864
Hazel Adam**	**36,000**	**4,564**	**40,564**	10,973	1,415	12,388
	193,200	**24,742**	**217,942**	178,173	22,901	201,074

* Barry Gilbertson retired from the Board on 1 January 2021.

** Hazel Adam was appointed to the Board on 12 December 2019.

Elizabeth McMeikan and Chris Ireland joined the Board on 1 April 2021.

In March 2020 the Committee determined that there would be no increase in level of Directors' annual fees for the year ending 31 March 2021 due to the uncertainty caused by the COVID-19 pandemic. The Committee agreed annual fees of £40,000 for both Elizabeth McMeikan and Chris Ireland on their appointment to the Board on 1 April 2021.

In June 2021 the Committee reviewed Directors' remuneration against comparable entities taking into account the performance of the Company, the nature of each Director's duties, their responsibilities and the time spent discharging their duties during the year. The Board also recognises that an increasingly onerous legislative environment is likely to continue to have a substantial impact on the time commitment of the Directors, particularly for the Chair. As a result the Board has approved the following annual fees for existing Directors for the year ending 31 March 2022: David Hunter – £57,500; Matthew Thorne – £42,650; Hazel Adam – £40,000; and Ian Mattioli – £37,500.

The Board is mindful of the need to attract suitably experienced members and offer candidates competitive levels of remuneration when Board refreshment is required in line with the Company's succession and diversity planning, and expects to commission an external report during the year ending 31 March 2022 to benchmark Directors' fee levels.

No pension benefits accrued to any of the Directors during the year (2020: £nil).

The Directors and the key Investment Manager personnel are considered to be the Company's key management personnel defined by IAS 24 'Related Party Disclosures'. The terms and conditions of the IMA and the amounts due to the Investment Manager are set out in Note 18.

Directors' interests (audited)

The Directors had the following interests in the ordinary shares of the Company:

	2021		2020	
	No. shares	**% holding**	No. shares	% holding
David Hunter	**29,000**	**0.01%**	29,000	0.01%
Matthew Thorne	**29,000**	**0.01%**	29,000	0.01%
Ian Mattioli[28]	**2,710,087**	**0.65%**	2,650,587	0.58%
Hazel Adam	**–**	**–**	–	–
Elizabeth McMeikan	**–**	**–**	–	–
Chris Ireland	**–**	**–**	–	–
	2,768,087	**0.67%**	2,708,587	0.60%

There have been no changes in Directors' interests since the year end.

No Director has or has had any interest in any transactions which are or were unusual in their nature or conditions, or significant to the business of the Company and which were affected by the Company or remain in any respect outstanding or unperformed. No loan or guarantee has been granted or provided by any member of the Company for the benefit of any Director. There are no restrictions agreed by any Director on the disposal within a certain period of time of their holdings in the Company's securities. Restrictions on other transfers of ordinary shares are set out in the Directors' report.

There are no requirements or guidelines for the Directors to own shares in the Company.

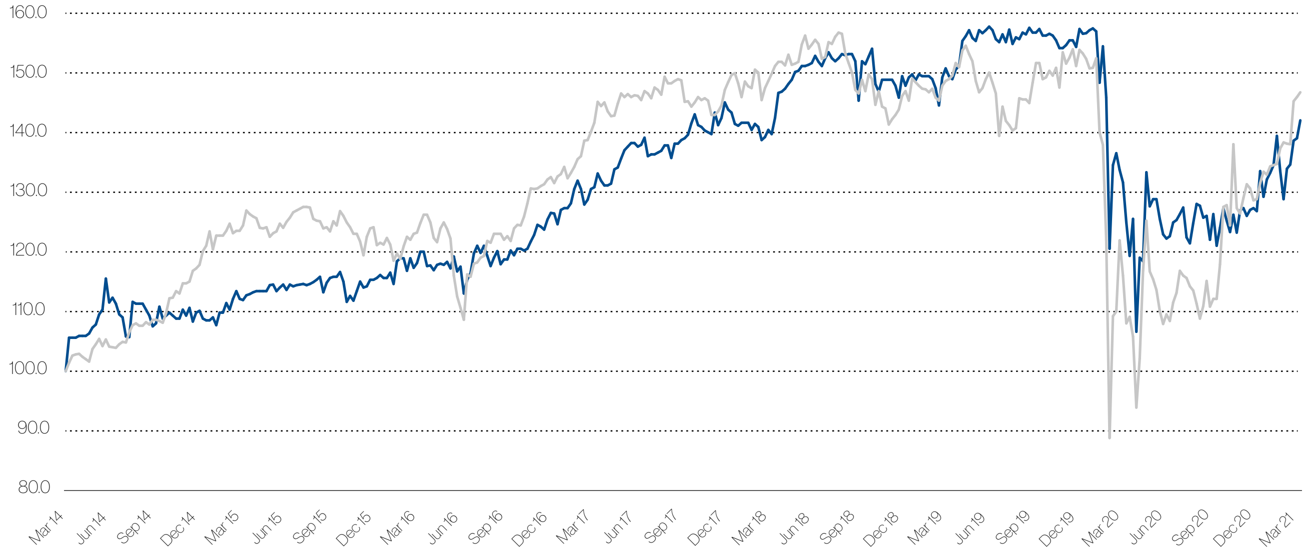
28. Including his wife and a charitable trust under his control.

Remuneration Committee report continued

Total shareholder return

The graph below illustrates the total shareholder return over the period from Admission on 26 March 2014 to 31 March 2021 in terms of the change in value of an initial investment of £100 invested on 26 March 2014 in a holding of the Company's shares against the corresponding total shareholder returns from a hypothetical basket of shares in similar ('peer group') listed property investment companies[29].

Total shareholder return



Peers: FCPT, FCRE, PCTN, SREI, SLI, UKCM, EPIC — Peer group — Company

Benchmarking performance against the performance of the Company's peers is considered to be the most appropriate method of measuring the Company's relative performance, as required by the Regulations. The performance of the Company relative to its peers is discussed in the Investment Manager's report.

The Companies Act 2006 requires the Auditor to report to the shareholders on certain parts of the Remuneration Committee report and to state whether, in their opinion, those parts of the report have been properly prepared in accordance with the Regulations. The parts of the Remuneration Committee report that are subject to audit are shown in this report as ("audited").

Approval

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

Matthew Thorne
Chair of the Remuneration Committee
15 June 2021

29. The Company's peer group comprises: BMO Commercial Property Trust Limited, BMO Real Estate Investments Limited, Picton Property Income Limited, Schroder Real Estate Investment Trust Limited, Standard Life Investments Property Income Trust Limited, UK Commercial Property Trust Limited and Ediston Property Investment Company plc.

Directors' report

Report and financial statements

The Directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 March 2021. The Governance report forms part of this report. For the purposes of this report, the Directors' responsibilities statement and the Independent auditor's report, the expression 'Company' means Custodian REIT plc and the expression 'Group' means the Company and its subsidiaries.

The Company's principal activity is commercial property investment. The Strategic report includes further information about the Company's principal activity, financial performance during the year and indications of likely future developments. The Company's subsidiaries were all non-trading at the year end.

Details of significant events since the year end are contained in Note 20 to the financial statements.

The Directors believe they have discharged their responsibilities under section 414C of the Companies Act 2006 to provide a balanced and comprehensive review of the development and performance of the business.

Results and dividends

The Group profit for the year after taxation is set out in the consolidated statement of comprehensive income.

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).

The Company's dividend policy is set out in the Financial review section of the Strategic report.

Going concern

At 31 March 2021 the Company's forecasts indicate that over the next 12 months:

- The Company has surplus cash to continue in operation and meet its liabilities as they fall due;
- Borrowing covenants are complied with; and
- REIT tests are complied with.

The forecast is subject to sensitivity analysis, which involves flexing a number of key assumptions and judgements included in the financial projections, over 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:

- At a portfolio level, following expiry of interest cover covenant waivers, the rate of loss or deferral of contractual rent would need to deteriorate by a further 38% from the levels included in the Company's prudent forecasts to breach interest cover covenants; and
- 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 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 Directors consider preparing the financial statements on a going concern basis to be appropriate because the sensitivity headroom set out above indicates that the Company can continue in operation for at least the next 12 months.

Directors' report continued

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.

Directors and officers
A list of the directors and their short biographies are shown in the Board of Directors and key Investment Manager personnel section of the Governance report.

The appointment and replacement of Directors is governed by the Articles, the Code, the Companies Act and related legislation. The Articles themselves may be amended by special resolution of the shareholders.

Directors' fees and beneficial interests in the shares of the Company are disclosed in the Remuneration Committee report. During the year, no Director had a material interest in a contract to which the Company or its subsidiary was a party (other than their own letter of appointment), requiring disclosure under the Companies Act 2006 other than in respect of Custodian Capital Limited and the IMA as disclosed in Note 18 to the financial statements.

On 17 June 2020 Nathan Imlach resigned as Company Secretary and Ed Moore was appointed as Company Secretary. On 1 January 2021 Barry Gilbertson retired as a Director. On 1 April 2021 Elizabeth McMeikan and Chris Ireland were appointed as Directors.

Directors' indemnity
All directors and officers of the Company have the benefit of a qualifying third party indemnity provision contained in the Articles, which was in force throughout the year and is currently still in force. The Company also purchased and maintained directors' and officers' liability insurance in respect of itself, its Directors and officers and the directors and officers of its subsidiaries as permitted by Section 234 of the Companies Act 2006, although no cover exists in the event directors or officers are found to have acted fraudulently or dishonestly.

Conflicts of interest
There are procedures in place to deal with any Directors' conflicts of interest arising under section 175 of the Companies Act 2006 and such procedures have operated effectively.

Donations
No political or charitable donations were made during the year.

Capital structure
The Company's authorised and issued share capital is shown in Note 16 to the financial statements.

The ordinary shares rank pari passu in all respects. Save as may be agreed at each AGM, the ordinary shares have pre-emption rights in respect of any future issues of ordinary shares to the extent conferred by section 561 of the Companies Act 2006.

There are no restrictions on the transfer of ordinary shares in the Company, other than certain restrictions that may be imposed from time to time by laws and regulations and pursuant to the Listing Rules of the FCA and the Company's share dealing code, whereby certain Directors and officers require approval to deal in ordinary shares of the Company.

The Directors are not aware of any other agreements between holders of securities that may result in restrictions on the transfer of ordinary shares.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles and prevailing legislation. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

CREST
Custodian REIT plc share dealings are settled in CREST, the computerised system for the settlement of share dealings on the London Stock Exchange. CREST reduces the amount of documentation required and makes the trading of shares faster and more secure. CREST enables shares to be held in an electronic form instead of traditional share certificates. CREST is voluntary and shareholders can keep their share certificates if they wish. This may be preferable for shareholders who do not trade in shares on a frequent basis.

Substantial shareholdings
At 29 April 2021 the Directors were aware that the following shareholders each owned[30] 3% or more of the issued share capital:

Shareholder	Number of ordinary shares	Percentage holding[31]
Mattioli Woods	24,395,822	5.8%
BlackRock	23,497,066	5.6%

On 26 May 2021 the Company was notified that BlackRock's holding had fallen below the 5% threshold.

No other changes in substantial shareholding were disclosed between 29 April 2021 and 15 June 2021.

Close company provisions
The Company is not a close company within the provisions of the Income and Corporation Taxes Act 1988.

30. Ownership incorporates the control of voting rights through acting as discretionary investment manager on behalf of retail investors holding the beneficial interest.
31. Based on the issued share capital on 31 March 2021.

Change of control

The Company has borrowing facilities provided by its bankers which include provisions which may require any outstanding borrowings to be repaid, altered or terminated upon the occurrence of a change of control in the Company.

Related party transactions

Details of related party transactions are given in Note 18 to the financial statements.

Environmental performance and strategy

Custodian REIT is committed to monitoring the performance of its assets, and using this information to develop robust strategies to minimise its environmental impact. This year, we have continued to collect data to monitor the performance of our property portfolio and implemented a centralised data management platform, hosted by the Company's environment consultants, to automate data collection and improve our understanding of building performance. This data is fundamental for the industry reporting frameworks we adhere to each year which are European Public Real Estate ("EPRA") and GRESB. Further to this, the Company supports the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD") and strives to improve our reporting against climate risk. This year we examined the Company's material climate risks and opportunities, and will use this information to shape our strategies. The Company expects to seek to set Science Based Targets[32] ("SBTs") and create a Net Zero[33] pathway.

The following information summarises our actual environmental performance over the year. Our environmental impacts include the consumption of fuels, electricity and water, and the production of waste. Our environmental impacts have been derived from both landlord obtained and tenant obtained consumption data.

GHG emissions

This section has been prepared in accordance with our regulatory obligation to report greenhouse gas ("GHG") emissions pursuant to The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 which implement the government's policy on Streamlined Energy and Carbon Reporting.

Data collected relates to the calendar years 2020 and 2019 but has been disclosed as 2021 and 2020 respectively due to the Company's March accounting reference date.

Methodology

We quantify and report our organisational GHG emissions according to the Greenhouse Gas Protocol. Consumption data has been collated by our sustainability consultant, Carbon Intelligence, and has been converted into carbon dioxide equivalent ("CO_2e") using the UK Government 2020 Conversion Factors for Company Reporting in order to calculate emissions from corresponding activity data. The EPRA guidance on the approach to floor areas was also used in calculating emissions intensity. We have also used GRESB guidance on estimating the common parts areas of assets where there are landlord-controlled premises. We reported to GRESB for the first time last year and as a result now have more accurate common parts floor areas. We have therefore restated comparative figures where necessary to reflect these floor areas in the below table.

This report has been prepared in accordance with the GHG Protocol's Scope 2 Guidance; we have therefore reported both a location-based and market-based Scope 2 emissions figure. The Scope 2 market-based figure reflects emissions from electricity purchasing decisions that the Company has made (landlord obtained). When quantifying emissions using the market-based approach we have used a supplier specific emissions factor where possible. If these factors were unavailable, a residual mix emissions factor was then used, and as a final alternative the location-based grid emissions factor was used.

To collect consumption data, the Investment Manager contacted the Company's tenants and managing agents to request the provision of data for their property. Creating strong tenant relationships is key for generating good data flows. The Investment Manager actively provides tenant benchmarking reports to illustrate how tenants are performing in terms of kWh and tCO_2e.

We have calculated both absolute performance and like-for-like performance to allow for more accurate comparison between the datasets. Like-for-like information includes assets which the Company has owned for at least two years and assets where data is available for both reporting years, but does not adjust for properties being vacant or let which impacts the proportion of emissions which are landlord controlled.

As part of our data collection, the Company undertook a materiality assessment in line with EPRA guidelines in order to determine which EPRA indicators were relevant to our organisation. Based on our professional judgement, we assessed each indicator in terms of its impact on the business and its importance to stakeholders. All environmental sustainability performance measures were considered material which includes disclosing electricity, fuel, water and waste consumption as well as GHG emissions.

32. As defined by the Science Based Targets initiative.
33. As defined by the Committee on Climate Change.

Directors' report continued

Performance

During the year the Company has put in place environmental KPI targets that will be used to assess and improve our performance across ESG issues and cover a range of initiatives including energy efficiency, green energy procurement, tenant engagement and ESG due diligence. On 1 April 2021 an ESG Committee was constituted to create a robust environmental governance structure, monitoring overall progress towards these KPI targets and ensuring the Investment Manager seeks to identify new opportunities to further embed sustainability across the portfolio and in our operations. The key responsibilities of the ESG Committee are set out in the ESG Committee report.

The Company is also currently undertaking a Scope 3 screening exercise for the first time, calculating emissions for relevant Scope 3 categories including capital goods and upstream transportation and distribution. This work will establish an emissions baseline footprint which is key for setting SBTs, a Net Zero pathway as well as monitoring emission reductions.

Some properties within the Company's property portfolio source energy from renewable sources. Out of total absolute energy consumption in 2021, 74% of total electricity consumption is from renewables, up from 12% in 2020.

The table below shows absolute energy consumption for the past two years as well as year-on-year change. Overall, we have observed a 5% increase and 18% increase in absolute electricity and gas consumption respectively from 2020 to 2021.

Absolute energy consumption (MWh)		**2021**	2020	Year-on-year % change
Fuels	Landlord obtained	**89**	97	(8%)
	Tenant obtained	**16,052**	13,590	18%
		16,141	13,687	18%
Electricity	Landlord obtained	**758**	887	(15%)
	Tenant obtained	**9,287**	8,723	6%
		10,045	9,610	5%
		26,186	23,297	12%

Overall, our absolute emissions intensity for Scope 1 and 2 emissions (location-based) has decreased by 5% from 2020 to 2021, and our absolute emissions intensity for Scope 3 emissions has decreased by 24%. We have also chosen to voluntarily disclose a selection of our Scope 3 emissions which includes water and waste emissions, as well as our tenant consumption emissions.

Reporting boundaries and limitations

The GHG sources that constitute our operational boundary for the reporting period are:

- Scope 1: Natural gas combustion within boilers, gas oil combustion within generators, road fuel combustion within owned and leased vehicles, and fugitive emissions from refrigerants in air-conditioning equipment
- Scope 2: Purchased electricity consumption for our own use
- Scope 3: Water and waste consumption, and any natural gas and electricity consumption from tenants

This year has been the second time tenants' consumption data has been collected. Of the Company's entire property portfolio, our environmental data covers 29% of the total floor area (combined landlord and tenant data), compared to last year's total coverage of 32%[34]. The impact of the COVID-19 pandemic has affected a number of our tenants, particularly those from the retail sector, and it was not unexpected that a lower coverage was obtained with some tenants' priorities lying elsewhere this year.

One of our targets is to engage with our tenants on a quarterly basis on ESG issues, which will be fundamental to improving the data coverage of our portfolio, helping us to identify key opportunities to minimise our environmental impact and work collaboratively with tenants to improve the performance of assets.

34. 2020 floor area coverage figure has been restated using our latest common parts floor area calculations using GRESB guidance.

Assumptions and estimations

In some instances where data is missing estimations have been applied to fill the gaps, calculated either through extrapolation of available data from the reporting period or through data from previous years as a proxy. We have maintained detailed records of all instances of estimation which are stored within our reporting evidence pack.

The table below shows absolute performance and like-for-like performance of our Scope 1, 2 and 3 emissions:

GHG emissions (tCO_2e)		Absolute performance **2021**	2020	% change	Like-for-like performance[35] **2021**	2020	% change
Scope 1	Landlord fuel consumption (MWh)	**89**	97	(8%)	**89**	54	65%
	GHG emissions	**16**	16	–	**16**	15	–
Scope 2 (market-based)	Landlord electricity consumption (MWh)	**718**	721	0.5%	**718**	443	62%
	GHG emissions	**177**	197	(10%)	**177**	126	40%
Scope 2 (location-based)	Landlord electricity consumption (MWh)	**758**	887	(15%)	**758**	492	54%
	GHG emissions	**177**	197	(10%)	**177**	126	40%
	Total Scope 1 & 2 emissions (market-based)	**183**	200	(9%)	**183**	142	29%
	Total Scope 1 & 2 emissions (location-based)	**193**	213	(9%)	**193**	142	36%
	Scope 1 & 2 (market-based) emissions intensity ($tCO_2e/m^2/yr$)	**0.04**	0.04	–	**0.04**	0.03	36%
	Scope 1 & 2 (location-based) emissions intensity ($tCO_2e/m^2/yr$)	**0.04**	0.05	(9%)	**0.04**	0.03	36%
Scope 3	Tenant fuel consumption (MWh)	**16,052**	13,590	18%	**13,353**	10,440	28%
	Tenant electricity consumption (MWh)	**9,287**	8,723	6%	**4,679**	4,438	2%
	Water consumption (dam^3)	**51**	35	47%	**14**	11	21%
	Total waste sent to landfill (tonnes)	**162**	371	(56%)	**25**	158	(84%)
	Total waste diverted from landfill (tonnes)	**2,591**	1,266	105%	**416**	176	136%
	Total Scope 3 emissions	**5,426**	4,698	16%	**3,667**	3,102	18%
	Scope 3 emissions intensity ($tCO_2e/m^2/yr$)	**0.02**	0.03	(24%)	**0.05**	0.04	18%
	Gross Scope 1, 2 and 3 emissions (market-based)	**5,600**	4,898	14%	**3,841**	3,231	19%
	Gross Scope 1, 2 and 3 emissions (location-based)	**5,619**	4,911	14%	**3,860**	3,244	19%

The emissions intensity calculation is based upon the floor area metrics available relative to the Scope 1, 2 and 3 emissions.

Financial risk management

The Company's financial risk management is based upon sound economic objectives and good corporate practice. The Board has overall responsibility for risk management and internal control, with the assistance of the Audit and Risk Committee. The Board's process for identifying and managing risks is set out in more detail in the Governance report.

Since Admission, the Company has sought to manage financial risk to ensure sufficient liquidity is available to meet its identifiable needs and to invest cash assets safely and profitably. Short-term flexibility is achieved through the use of bank facilities. The Company does not undertake any trading activity in financial instruments. All activities are transacted in pounds sterling. The Company does not engage in any hedging activities.

The Company reviews the credit quality of potential tenants and limits credit exposures accordingly. All trade receivables are subject to credit risk exposure. However, there is no specific concentration of credit risk as the amounts recognised represent income from a wide range of the Company's tenants.

The Company's financial risk management policy is further detailed in Note 19 to the financial statements.

Auditor

Deloitte, which has been the Company's auditor since 20 May 2014, has confirmed its willingness to continue in office as auditor in accordance with Section 489 of the Companies Act 2006. The Group is satisfied that Deloitte is independent and there are adequate safeguards in place to safeguard its objectivity. A resolution to reappoint Deloitte as the Group's auditor will be proposed at the forthcoming AGM.

35. Like-for-like information includes assets which the Company has owned for at least two years and assets where data is available for both reporting years, but does not adjust for properties being vacant or let which impacts the proportion of emissions which are landlord controlled.

Directors' report continued

Directors' statement as to disclosure of information to the auditor

The Directors who were members of the Board at the time of approving the Directors' report are listed in the Governance report. Having made enquiries of fellow Directors and of the Company's auditor, each of these Directors confirms that:

- To the best of each Director's knowledge and belief, there is no relevant audit information of which the Company's auditor is unaware; and
- Each Director has taken all steps they might reasonably be expected to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Annual General Meeting

The AGM of the Company will be held on 25 August 2021 at 10:00am. The results of the meeting will be published on the Company's website following the meeting.

At the AGM the votes will be dealt with on a poll, using the proxy votes submitted prior to the meeting. Every member entitled to vote shall have one vote for every ordinary share held. None of the ordinary shares carry any special voting rights with regard to control of the Company. The Notice of AGM specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the AGM. The relevant proxy votes are counted and the number for, against or withheld in relation to each resolution will be published on our website following the AGM.

Engagement with suppliers, customers and others

The Company's approach to engagement with suppliers, customers and other stakeholders is set out in the s172 statement and stakeholder relationships section of the Strategic report.

Events since 31 March 2021

Details of significant events occurring after the end of the reporting year are given in Note 20 to the financial statements.

Approval

This Directors' report was approved by the Board of Directors and signed on its behalf by:

David Hunter
Chairman
15 June 2021

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements 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 also comply with International Financial Reporting Standards (IFRSs) as issued by the IASB. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- The Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- The Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Approval

This responsibility statement was approved by the Board of Directors and is signed on its behalf by:

David Hunter
Chairman
15 June 2021

Independent auditor's report to the members of Custodian REIT plc

Report on the audit of the financial statements

1 Opinion

In our opinion:

- the financial statements of Custodian REIT plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2021 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- the parent company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated statement of comprehensive income;
- the consolidated and parent company's statements of financial position;
- the consolidated and parent company's statements of cash flows;
- the consolidated and parent company's statements of changes in equity; and
- the related Notes 1 to 21.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law, and international accounting standards in conformity with the requirements of the Companies Act 2006, and IFRSs as issued by the IASB. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006.

2 Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the group and parent company for the year are disclosed in Note 5 to the financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3 Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was: • Valuation of investment property. Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the group financial statements was £8.4m, which was determined on the basis of 1.5% of gross assets.
Scoping	The group audit team performed full scope audit procedures giving a coverage of 100% of the group's net assets value and net profit for the year.
Significant changes in our approach	In the current year the financial performance of the group demonstrated higher than forecast rent collection, strength within the industrial portfolio valuation and compliance with all covenants. Both management actions and the recovery of the economy following vaccination rollout and reopening of businesses, resulted in stronger than forecast results for the group. In the previous year, impact of COVID-19 on going concern was identified as a key audit matter based on a combined assessment of forecast covenant and REIT regime compliance, liquidity and ability to pay dividends. Since the group continued to perform strongly and met all bank covenants and REIT regime compliance and its reverse stress testing represents a highly unlikely scenario, we no longer consider the impact of COVID-19 on going concern as a key audit matter in the current year.

4 Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- obtaining an understanding, of the relevant controls relating to the going concern assumption;
- testing the clerical accuracy of the model used to prepare the going concern forecasts;
- assessing the historical accuracy of forecasts prepared by management and actual performance in the subsequent period;
- evaluating management's assessment of the impact of COVID-19 and Brexit within the forecast;
- agreeing the available financing facilities to underlying agreements and assessed accuracy of covenant calculation forecasts performed by management;
- assessing the accuracy of the REIT regime calculation forecasts performed by management;
- assessing the reasonableness of management's reverse-stress testing; and
- assessing the adequacy of disclosures made in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5 Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor's report to the members of Custodian REIT plc continued

5 Key audit matters continued

5.1. Valuation of investment property

Risk

Key audit matter description	The group's principal activity is to invest in commercial properties and secure income from tenants of those properties. As disclosed in Note 10 the group's investment property portfolio is valued at £551.9m as at 31 March 2021 (2020: £559.8m). The group's accounting policy in Note 2 states that investment property is held at fair value and Note 2.4 describes key judgements made in valuation of investment properties. In determining the fair value, the external valuers make a number of key estimates and significant assumptions, in particular assumptions in relation to market comparable yields and estimates in relation to future rental income increases or decreases. Certain of these estimates and assumptions require input from management. Estimates and assumptions are subject to market forces and will change over time. Valuation of investment property is an area of judgement which could materially affect the financial statements. The valuations were carried out by third party valuers. The valuers were engaged by those charged with governance and performed their work in accordance with the Royal Institute of Chartered Surveyors (RICS) Valuation – Professional Standards. The estimation of yields and estimated rental values (ERVs) in the property valuation is a significant judgement area, underpinned by a number of assumptions relating to the size and location of the property as well as certain attributes of the lease. Given the high level of judgement involved, we determined that there was a potential for possible manipulation of these key inputs to the valuation. The inherent subjectivity in relation to estimation of yields and ERVs, coupled with the fact that only a small percentage difference in individual property valuations, when aggregated, could result in a material misstatement on the Statement of Comprehensive Income and the Statement of Financial Position, warrants specific audit focus in this area and we have considered it as a key audit matter. The Audit and Risk Committee report on pages 88-90 discloses this as a primary area of judgement.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over the valuation process, including assessing management's process and control for reviewing and challenging the work of the external valuers including management's experience and knowledge to undertake this activity. With the involvement of our real estate specialists who are Chartered Surveyors we identified items subject to testing and met with the third party valuers appointed by those charged with governance with the aim of challenging the valuation methodology adopted. We assessed the competence, capabilities and objectivity of the external valuers and read their terms of engagement with the group to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations on their work. We assessed and challenged the reasonableness of the significant judgements and assumptions applied in the valuation model for each property in our sample, focusing in particular on the yields and ERVs assumed and assessing the sensitivity of the valuation to changes in assumptions. We assessed the completeness and accuracy of the data provided by the group to the valuers for the purposes of their valuation exercise. With the assistance of members of our audit team who are Chartered Surveyors, we reviewed the significant assumptions in the valuation process, tested a sample of properties by benchmarking against external appropriate property indices and understood the valuation methodology and the wider market analysis. We reviewed the information provided by the valuers both in the meetings and contained in the detailed valuation report; and we undertook our own research into the relevant markets to evaluate the reasonableness of the valuation inputs and the resulting fair values. We have also tested the integrity of the model which is used by the external valuers. We also considered the adequacy of the group's disclosures around the degree of the estimation and sensitivity to key assumptions made when valuing these properties, including the impact of the COVID-19 pandemic.
Key observations	The results of our tests were satisfactory and we concluded that the key assumptions applied in determining the property valuations were appropriate. The testing performed in relation to the final property valuations proved satisfactory.

6 Our application of materiality

6.1 Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£8.4m (2020: £8.7m)	£8.39m (2020: £8.69m)
Basis for determining materiality	1.5% of gross assets (2020: 1.5% of gross assets) for the Statement of financial position testing. This percentage takes into account our knowledge of the group and parent company, our assessment of audit risks and the reporting requirements for the financial statements.	
Rationale for the benchmark applied	We have used the gross assets value as at 31 March 2021 as the benchmark for determining materiality, as this benchmark is deemed to be one of the key drivers of business value, and is a critical component of the financial statements and is a focus for users of those financial statements for property companies. In addition to gross assets, we consider EPRA earnings as a critical performance measure for the group that is applied to underlying earnings. We have also benchmarked these percentages and our approach to materiality to other listed REITs based on information publicly disclosed in the audit reports and found them to be consistent.	

A lower materiality of £1.9m (2020: £2.9m) which was determined on the basis of 8% (2020: 10%) EPRA earnings was used for amounts in the statement of comprehensive income. We consider EPRA earnings to be the most appropriate benchmark due to it being one of the key focus areas for both investors and management. Refer to Note 21 for a reconciliation to IFRS earnings. We reduced the percentage applied to EPRA earnings for the purpose of determination of lower focused materiality in response to uncertainties brought by COVID-19.

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	70% (2020: 70%) of group materiality and parent company materiality (respectively).	
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: a. our cumulative knowledge of the group and its environment, including industry wide pressure on valuation of property portfolio; and b. our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.	

6.3. Error reporting threshold

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £420,000 (2020: £435,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Independent auditor's report to the members of Custodian REIT plc continued

7 An overview of the scope of our audit

7.1. Identification and scoping of components

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. All audit work to respond to the risks of material misstatement was performed directly by the group audit engagement team.

The group consists of the parent company and subsidiaries that were inactive by the year end. We carried out a full scope audit of the group.

7.2. Our consideration of the control environment

We obtained an understanding of the relevant controls in relation to key business processes as well as IT systems that were relevant to the audit. We however did not rely on controls due to nature of the group's business and processes.

8 Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.	We have nothing to report in this regard.

9 Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

10 Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11 Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the group's own assessment of the risks that irregularities may occur either as a result of fraud or error that was approved by the board on 26 May 2021;
- results of our enquiries of management , internal audit, investment manager and the Audit and Risk Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including real estate specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: valuation of investment property. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, and REIT legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the environmental regulations.

11.2. Audit response to risks identified

As a result of performing the above, we identified the valuation of investment property as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit and Risk Committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance and reviewing internal audit reports; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Independent auditor's report to the members of Custodian REIT plc continued

Report on other legal and regulatory requirements

12 Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report or the Directors' report.

13 Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 97;
- the directors' explanation as to its assessment of the group's prospects, the period this assessment covers and why the period is appropriate set out on page 73;
- the directors' statement on fair, balanced and understandable set out on page 103;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 73;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 70; and
- the section describing the work of the Audit and Risk Committee set out on pages 88-90.

14 Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion: • we have not received all the information and explanations we require for our audit; or • adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or • the parent company financial statements are not in agreement with the accounting records and returns.	We have nothing to report in respect of these matters.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.	We have nothing to report in respect of these matters.

15 Other matters which we are required to address

15.1 Auditor tenure

Following the recommendation of the Audit and Risk Committee, we were appointed as auditor by the directors in 2014 to audit the financial statements for the period ended 24 March 2014 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is eight years, covering the periods ended 24 March 2014 to 31 March 2021.

15.2 Consistency of the audit report with the additional report to the Audit and Risk Committee

Our audit opinion is consistent with the additional report to the Audit and Risk Committee we are required to provide in accordance with ISAs (UK).

16 Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

James Wright (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Crawley, United Kingdom
15 June 2021

Financial Statements

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

		Group		Company	
	Note	**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.

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

2. Basis of preparation and accounting policies continued

2.4. Significant accounting policies continued

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 the 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

Notes to the financial statements continued

for the year ended 31 March 2021

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.

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

10. Investment property continued
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 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 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	**Year ended 31 March 2021 £000**	Year ended 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.

12. Trade and other receivables continued

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	Year ended 31 March 2021 £000	Year ended 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 tenants 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.

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

14. Cash and cash equivalents

Group and Company	Year ended 31 March 2021 £000	Year ended 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 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 repayable on 13 August 2025;
- A £45m term loan with Scottish Widows plc with interest fixed at 2.987% and 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 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	Share premium account £000	Retained earnings £000
Other reserves		
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.

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

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	Year ended 31 March 2021 £000	Year ended 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	Year ended 31 March 2021 £000	Year ended 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.

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

19. Financial risk management continued

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 cash flow assumptions.

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

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 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

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

21. Alternative performance measures continued

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 ("NRV")

NRV 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 NRV	**409,865**	426,751
Closing number of shares in issue (thousands)	**420,053**	420,053
EPRA NRV 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[36]	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%
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%

36. Assumed at 6.5% of investment property valuation.

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

21. Alternative performance measures continued

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.

	31 March 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**

	31 March 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**

Environmental disclosures (unaudited)

EPRA Sustainability Best Practice Recommendations ("sBPR") Guidelines

Custodian REIT recognises the importance of disclosing its ESG information as it creates transparency to potential investors and sets a direction towards improving the integration of ESG into the management of the Company's property portfolio. The Company has chosen to report in alignment with the European Public Real Estate (EPRA) guidelines to achieve this which are considered best practice and are utilised across the real estate industry, enabling a comparison against our peers and helping set clear benchmarks for the Company moving forwards.

Materiality

The scope of our EPRA sBPR data disclosure was influenced by our application of materiality. Custodian REIT undertook a materiality assessment to review the applicability of the full set of EPRA indicators. Based on professional judgement, each indicator was assessed in terms of its impact on the Company and its importance to stakeholders.

This calculation resulted in an overall score which determined if an issue was material.

As part of our EPRA disclosures and associated materiality assessment, we have defined Custodian REIT's organisational boundary in line with the Greenhouse Gas (GHG) Protocol. We have taken the operational control approach and this has played a fundamental role in the materiality assessment. Custodian REIT is an externally managed real estate investment trust which has no direct employees. The Investment Manager is Custodian Capital Limited which has 17 employees and Custodian REIT has operational control over neither Custodian Capital nor its employees. The Social Performance indicators determined immaterial are in relation to employees, thus they are not relevant for reporting at the Custodian REIT level.

Using this organisational boundary, our materiality assessment determined the following Sustainability Performance measures immaterial for Custodian REIT:

- Employee gender and diversity
- Employee gender pay ratio
- Employee training and development
- Employee performance appraisals
- New hires and turnover
- Employee health and safety

However, as Custodian REIT does have its own board, which consists of six Non–Executive Directors, we have chosen to report on gender, diversity and the gender pay ratio of Custodian REIT's board members, to be as transparent as possible with our stakeholders.

Environmental disclosures (unaudited) continued

Asset level reporting

Absolute Portfolio – Energy

Impact Area	EPRA Sustainability Performance Measures (Environment)				Total Portfolio		
	EPRA Code	**Units of measure**	**Indicator**	**Metric**	**2021**	**2020**	**% Change**
Energy	Elec-Abs	mWh	Electricity	Total Electricity Consumption – landlord obtained	**758**	887	(15%)
				Percentage (%) of floor area coverage	**95%**	100%	(5%)
				Total Electricity Consumption – tenant obtained	**9,287**	8,723	6%
				Percentage (%) of floor area coverage	**31%**	31%	–
				Proportion of landlord obtained electricity from renewable sources	**5%**	6%	(1%)
				Proportion of tenant obtained electricity from renewable sources	**54%**	12%	42%
				Total electricity consumption	**10,045**	9,610	5%
				Percentage (%) of floor area coverage	**32%**	32%	0%
				Proportion of electricity estimated (%)	**1%**	12%	(11%)
	DH&C-Abs	mWh	District Heating and Cooling	Total Heating & Cooling – landlord obtained	**N/A**	N/A	N/A
				Total Heating & Cooling – tenant obtained	**N/A**	N/A	N/A
				Proportion of landlord obtained Heating & Cooling from renewable sources	**N/A**	N/A	N/A
				Proportion of tenant obtained Heating & Cooling from renewable sources	**N/A**	N/A	N/A
	Fuels-Abs	mWh	Fuels	Total fuels – landlord obtained	**89**	97	(8%)
				Percentage (%) of floor area coverage	**95%**	100%	(5%)
				Total fuels – tenant obtained	**16,052**	13,590	18%
				Percentage (%) of floor area coverage	**31%**	31%	–
				Proportion of landlord obtained fuels from renewable sources	**–**	–	–
				Proportion of tenant obtained fuels from renewable sources	**–**	–	–
				Total fuel consumption	**16,141**	13,687	18%
				Percentage (%) of floor area coverage	**32%**	32%	0%
				Proportion of fuel estimated (%)	**0%**	13%	(13%)
	Energy-Int	$mWh/m^2/year$	Energy intensity	Energy intensity per m^2	**0.18**	0.16	12%

2020 floor area coverage figures and intensity figures have been restated using our latest common parts floor area calculations using GRESB guidance.

Industrial			Retail		
2021	**2020**	**% Change**	**2021**	**2020**	**% Change**
No data available	279	N/A	**150**	107	40%
–	100%	(100%)	**100%**	100%	–
6,690	5,755	16%	**2,017**	1,503	34%
42%	36%	6%	**28%**	37%	(9%)
No data available	–	N/A	**–**	–	–
56%	9%	47%	**49%**	36%	13%
6,690	6,034	11%	**2,167**	1,610	35%
42%	37%	5%	**30%**	39%	(9%)
1%	8%	(7%)	**1%**	13%	(12%)
N/A	N/A	N/A	**N/A**	N/A	N/A
N/A	N/A	N/A	**N/A**	N/A	N/A
N/A	N/A	N/A	**N/A**	N/A	N/A
N/A	N/A	N/A	**N/A**	N/A	N/A
No data available	–	N/A	**–**	–	–
–	100%	(100%)	**100%**	100%	–
13,970	9,946	40%	**1,700**	2,192	(22%)
42%	36%	6%	**28%**	37%	(9%)
No data available	–	N/A	**–**	–	–
–	–	–	**–**	–	–
13,970	9,946	40%	**1,700**	2,192	(22%)
42%	37%	5%	**30%**	39%	(9%)
0%	10%	(10%)	**–**	25%	(25%)
0.18	0.16	12%	**0.18**	0.16	12%

Environmental disclosures (unaudited) continued

Asset level reporting continued

Like-for-Like Portfolio – Energy

Impact Area	EPRA Code	Units of measure	Indicator	Metric	2021	2020	% Change
Energy	Elec-Lfl	mWh	Electricity	Total Electricity Consumption – landlord obtained	**758**	492	54%
				Percentage (%) of floor area coverage	**95%**	95%	–
				Total Electricity Consumption – tenant obtained	**4,679**	4,584	2%
				Percentage (%) of floor area coverage	**19%**	19%	–
				Proportion of landlord obtained electricity from renewable sources	**5%**	10%	(5%)
				Proportion of tenant obtained electricity from renewable sources	**67%**	12%	55%
				Total electricity consumption	**5,437**	5,076	7%
				Percentage (%) of floor area coverage	**19%**	19%	–
				Proportion of electricity estimated (%)	**0%**	10%	(10%)
	DH&C-Lfl	mWh	District Heating and Cooling	Total Heating & Cooling – landlord obtained	**N/A**	N/A	N/A
				Total Heating & Cooling – tenant obtained	**N/A**	N/A	N/A
				Proportion of landlord obtained Heating & Cooling from renewable sources	**N/A**	N/A	N/A
				Proportion of tenant obtained Heating & Cooling from renewable sources	**N/A**	N/A	N/A
	Fuels-Lfl	mWh	Fuels	Total fuels – landlord obtained	**89**	97	(8%)
				Percentage (%) of floor area coverage	**95%**	95%	–
				Total fuels – tenant obtained	**13,353**	10,440	28%
				Percentage (%) of floor area coverage	**19%**	19%	–
				Proportion of landlord obtained fuels from renewable sources	**–**	–	–
				Proportion of tenant obtained fuels from renewable sources	**–**	–	–
				Total fuel consumption	**13,443**	10,536	28%
				Percentage (%) of floor area coverage	**19%**	19%	–
				Proportion of fuel estimated (%)	**–**	12%	(12%)
	Energy-Int	mWh / m^2 / year	Energy intensity	Energy intensity per m^2	**0.23**	0.19	21%

2020 floor area coverage figures and intensity figures have been restated using our latest common parts floor area calculations using GRESB guidance.

Industrial			Retail		
2021	**2020**	**% Change**	**2021**	**2020**	**% Change**
No data available	No data available	N/A	**150**	107	40%
No data available	No data available	N/A	**100%**	100%	–
3,066	3,248	(6%)	**1,613**	1,083	49%
24%	24%	–	**25%**	25%	–
No data available	No data available	N/A	**–**	–	–
81%	10%	71%	**41%**	31%	10%
3,066	3,248	(6%)	**1,763**	1,190	48%
24%	24%	–	**26%**	26%	–
–	–	–	**–**	–	–
N/A	N/A	N/A	**N/A**	N/A	N/A
N/A	N/A	N/A	**N/A**	N/A	N/A
N/A	N/A	N/A	**N/A**	N/A	N/A
N/A	N/A	N/A	**N/A**	N/A	N/A
No data available	No data available	N/A	**–**	–	–
No data available	No data available	N/A	**100%**	100%	–
11,671	8,184	43%	**1,683**	2,192	(23%)
24%	24%	–	**25%**	25%	–
No data available	No data available	N/A	**–**	–	–
–	–	–	**–**	–	–
11,671	8,184	43%	**1,683**	2,192	(23%)
24%	24%	–	**26%**	26%	–
–	6%	(6%)	**–**	19%	(19%)
0.24	0.19	26%	**0.18**	0.18	–

Environmental disclosures (unaudited) continued

Asset level reporting continued

Absolute Portfolio – Greenhouse Gas Emissions

Impact Area	EPRA Code	Units of measure	Indicator	Metric	2021	2020	% Change
Greenhouse Gas Emissions	GHG-Dir-Abs	tonnes CO_2e	Direct	Scope 1	**16**	16	0%
				Percentage (%) of floor area coverage	**95%**	100%	(5%)
	GHG-Indir-Abs	tonnes CO_2e	Indirect	Scope 2	**177**	197	(10%)
				Percentage (%) of floor area coverage	**95%**	100%	(5%)
			Indirect	Scope 3	**5,426**	4,698	(16%)
				Percentage (%) of floor area coverage	**29%**	34%	(5%)
	GHG-Int	$tCO_2e/m^2/yr$	GHG emissions intensity	Scope 1 and 2	**0.04**	0.04	0%
				Scope 3	**0.02**	0.03	(33%)

Like-for-Like Portfolio – Greenhouse Gas Emissions

Impact Area	EPRA Code	Units of measure	Indicator	Metric	2021	2020	% Change
Greenhouse Gas Emissions	GHG-Dir-Abs	tonnes CO_2e	Direct	Scope 1	**16**	16	0%
				Percentage (%) of floor area coverage	**95%**	95%	–
	GHG-Indir-Abs	tonnes CO_2e	Indirect	Scope 2	**177**	126	40%
				Percentage (%) of floor area coverage	**95%**	95%	–
			Indirect	Scope 3	**3,667**	3,102	18%
				Percentage (%) of floor area coverage	**16%**	16%	–
	GHG-Int	$tCO_2e/m^2/yr$	GHG emissions intensity	Scope 1 and 2	**0.04**	0.03	33%
				Scope 3	**0.05**	0.04	25%

2020 floor area coverage figures and intensity figures have been restated using our latest common parts floor area calculations using GRESB guidance.

Industrial			Retail		
2021	**2020**	**% Change**	**2021**	**2020**	**% Change**
No data available	–	N/A	**–**	–	–
–	100%	(100%)	**100%**	100%	–
No data available	71	N/A	**35**	20	75%
–	100%	(100%)	**100%**	100%	–
4,332	3,386	28%	**804**	691	16%
38%	36%	2%	**30%**	37%	(7%)
No data available	0.33	N/A	**0.02**	0.01	100%
0.04	0.03	33%	**0.04**	0.03	33%

Industrial			Retail		
2021	**2020**	**% Change**	**2021**	**2020**	**% Change**
No data available	No data available	N/A	**–**	–	–
–	–	–	**100%**	100%	–
No data available	No data available	N/A	**35**	20	75%
–	–	–	**100%**	100%	–
2,941	2,513	170%	**706**	547	29%
36%	36%	–	**30%**	30%	–
No data available	No data available	N/A	**–**	–	–
0.05	0.04	25%	**0.04**	0.03	33%

Environmental disclosures (unaudited) continued

Asset level reporting continued

Absolute Portfolio – Water and Waste

Impact Area	EPRA Sustainability Performance Measures (Environment)						Total Portfolio
	EPRA Code	Units of measure	Indicator	Metric	2021	2020	% Change
Water	Water-Abs	dam³	Water	Total water consumption	**50.9**	34.7	47%
				Percentage (%) of floor area coverage	**20%**	27%	(7%)
				Proportion of water estimated (%)	**1%**	10%	(9%)
	Water-Int	L / m² / yr	Water intensity	Building water intensity	**561**	290	94%
Waste	Waste-Abs	tonnes	Waste	Total waste sent to landfill	**162**	371	(56%)
				Total waste diverted from landfill	**2,591**	1,266	105%
				Percentage (%) of floor area coverage	**21%**	15%	6%
	Waste-Abs	%	Waste	Proportion of waste sent to landfill estimated (%)	**–**	28%	(28%)
				Proportion of waste diverted from landfill estimated (%)	**–**	11%	(11%)

Like-for-Like Portfolio – Water and Waste

Impact Area	EPRA Sustainability Performance Measures (Environment)						Total Portfolio
	EPRA Code	Units of measure	Indicator	Metric	2021	2020	% Change
Water	Water-Lfl	dam³	Water	Total water consumption	**13.8**	11.4	21%
				Percentage (%) of floor area coverage	**10%**	10%	–
				Proportion of water estimated (%)	**–**	–	–
	Water-Int	L / m² / yr	Water intensity	Building water intensity	**312**	257	21%
Waste	Waste-Lfl	tonnes	Waste	Total waste sent to landfill	**25**	158	(84%)
				Total waste diverted from landfill	**416**	176	136%
				Percentage (%) of floor area coverage	**19%**	19%	–
	Waste-Lfl	%	Waste	Proportion of waste sent to landfill estimated (%)	**–**	–	–
				Proportion of waste diverted from landfill estimated (%)	**–**	3%	(3%)

2020 floor area coverage figures and intensity figures have been restated using our latest common parts floor area calculations using GRESB guidance.

	Industrial			Retail		
	2021	**2020**	**% Change**	**2021**	**2020**	**% Change**
	16.7	19.7	(15%)	**13.1**	5.8	126%
	27%	18%	9%	**15%**	4%	11%
	2%	–	2%	**–**	54%	(54%)
	220	238	(8%)	**1,254**	287	337%
	161	341	(53%)	**1**	3	67%
	2,301	1,059	117%	**60**	24	150%
	29%	32%	(3%)	**14%**	11%	3%
	–	32%	(32%)	**–**	–	–
	–	10%	(10%)	**–**	100%	(100%)

	Industrial			Retail		
	2021	**2020**	**% Change**	**2021**	**2020**	**% Change**
	8.7	5.4	61%	**2.8**	3.8	(26%)
	13%	13%	–	**13%**	13%	–
	–	–	–	**–**	–	–
	259	162	60%	**298**	403	(26%)
	25	154	(84%)	**–**	3	(100%)
	327	176	86%	**49**	–	N/a
	28%	28%	–	**10%**	10%	–
	–	–	–	**–**	–	–
	–	–	–	**–**	100%	(100%)

Environmental disclosures (unaudited) continued

Asset level reporting continued

Absolute Portfolio – Certifications

Impact Area	EPRA Code	Units of measure	Indicator	Metric	2021	2020	% Change
					Total Portfolio		
Certifications	Cert-Tot	BREEAM	% of portfolio certified by floor area	Number of buildings which are BREEAM rated	**1%**	1%	–
				Outstanding	**–**	–	–
				Excellent	**–**	–	–
				Very Good	**1%**	1%	–
				Good/Pass	**–**	–	–
		EPC	% of portfolio certified by floor area	Number of buildings with an EPC Rating	**99%**	97%	2%
				A	**4%**	5%	(1%)
				B	**15%**	11%	4%
				C	**48%**	46%	2%
				D	**23%**	25%	(2%)
				E	**8%**	9%	(1%)
				F	**–**	–	–
				G	**1%**	1%	–

Like-for-Like Portfolio – Certifications

Impact Area	EPRA Code	Units of measure	Indicator	Metric	2021	2020	% Change
					Total Portfolio		
Certifications	Cert-Tot	BREEAM	% of portfolio certified by floor area	Number of buildings which are BREEAM rated	**1%**	1%	–
				Outstanding	**–**	–	–
				Excellent	**–**	–	–
				Very Good	**1%**	1%	–
				Good/Pass	**–**	–	–
		EPC	% of portfolio certified by floor area	Number of buildings with an EPC Rating	**99%**	96%	3%
				A	**4%**	5%	(1%)
				B	**15%**	11%	4%
				C	**49%**	47%	2%
				D	**22%**	22%	–
				E	**8%**	9%	(1%)
				F	**–**	–	–
				G	**1%**	1%	–

2020 floor area coverage figures and intensity figures have been restated using our latest common parts floor area calculations using GRESB guidance.

Industrial			Retail		
2021	2020	% Change	2021	2020	% Change
1%	1%	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
1%	1%	–	–	–	–
–	–	–	–	–	–
100%	99%	1%	99%	99%	–
5%	6%	(1%)	–	–	–
11%	9%	2%	6%	2%	4%
54%	54%	–	59%	33%	26%
21%	21%	–	23%	38%	(15%)
9%	9%	–	10%	19%	(9%)
–	–	–	–	–	–
–	–	–	1%	1%	–

Industrial			Retail		
2021	2020	% Change	2021	2020	% Change
1%	1%	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
1%	1%	–	–	–	–
–	–	–	–	–	–
100%	99%	1%	99%	99%	–
6%	7%	(1%)	–	–	–
12%	10%	2%	6%	–	6%
57%	56%	1%	59%	32%	27%
17%	19%	(2%)	23%	40%	(17%)
9%	7%	2%	10%	20%	(10%)
–	–	–	–	–	–
–	–	–	1%	1%	–

Financial Statements continued

Environmental disclosures (unaudited) continued

Asset level reporting continued

Social Performance Measures

Impact Area	EPRA Code	Indicator	Unit		Absolute performance 2021	Absolute performance 2020
Diversity	Diversity-Emp	Governance body gender diversity	% male		**80**	94
			% female		**20**	6
	Diversity-Pay	Governance body gender pay ratio	Male		**82**	93
			Female		**18**	7
Health & Safety	H&S-Asset	Asset health and safety assessments	Percentage of assets of which H&S impacts are assessed or reviewed	Landlord-controlled	**100%**	100%
				Tenant-controlled	**7%**	–
	H&S-Comp	Asset health and safety compliance	Number of incidents of non-compliance		**–**	–
Community Engagement	Comty-Eng	Community engagement, impact assessments and development programmes	Percentage of assets that have implemented local community engagement, impact assessments and/or development programmes		**2%**	–

Governance Performance Measures

Impact Area	EPRA Code	Indicator	Narrative	
Governance	Gov-Board	Composition of the highest governance body	Number of executive board members	–
			Number of independent/non-executive board members	5
			Average tenure on the governance body (years)	6
			Number of independent/non-executive board members with competencies relating to environmental and social topics	1
	Gov-Select	Nominating and selecting the highest governance body	Custodian REIT has a Nominations Committee with published terms of reference	
	Gov-Col	Process for managing conflicts of interest	CREIT has no employees. Its operations are outsourced to the Investment Manager whose staff operate under its conflict of interest policy.	

2020 floor area coverage figures and intensity figures have been restated using our latest common parts floor area calculations using GRESB guidance.

Historical performance summary (unaudited)

Income statement	2021 £000	2020 £000	2019 £000	2018 £000	2017 £000
Revenue	**39,578**	40,903	39,974	34,813	27,610
Expenses and net finance costs	**(15,904)**	(12,230)	(11,688)	(9,646)	(7,917)
EPRA earnings	**23,674**	28,673	28,286	25,167	19,693
Property valuation movements	**(19,611)**	(25,850)	(5,499)	11,859	9,016
Acquisition costs	**(707)**	(599)	(3,391)	(6,212)	(6,103)
Profit/(loss) on disposal	**393**	(101)	4,250	1,606	1,599
Property (losses)/gains	**(19,925)**	(26,550)	(4,640)	7,253	4,512
Profit after tax	**3,749**	2,123	23,646	32,420	24,205
Dividends relating to the year	**21,006**	27,464	25,767	23,847	19,664
Statement of financial position					
Investment property	**551,922**	559,817	572,745	528,943	418,548
Net borrowings	**(137,259)**	(125,512)	(137,897)	(111,282)	(60,500)
Other assets and liabilities	**(4,797)**	(7,553)	(8,225)	(2,459)	(6,171)
NAV	**409,866**	426,752	426,623	415,202	351,877
Financial highlights					
NAV per share total return	**0.9%**	1.1%	5.9%	9.6%	8.6%
NAV per share (p)	**97.6**	101.6	107.1	107.3	103.8
EPRA earnings per share (p)	**5.6**	7.0	7.3	6.9	6.6
Dividends per share (p)	**5.0**	6.65	6.55	6.45	6.35
Dividend cover	**117.2%**	104.4%	110.4%	105.5%	101.0%
Share price total return	**(2.3%)**	(5.0%)	4.2%	6.7%	10.3%
New equity raised	**–**	25.3	13.4	54.7	92.4
Net gearing	**24.9%**	22.4%	24.1%	21.0%	14.5%
OCR excluding direct property expenses	**1.12**	1.12	1.12	1.15	1.20

Financial calendar

13 May 2021	Ex-dividend date for fourth interim dividend
14 May 2021	Record date for fourth interim dividend
20 May 2021	Ex-dividend date for fifth interim dividend
21 May 2021	Record date for fifth interim dividend
28 May 2021	Payment of fourth interim dividend
16 June 2021	Announcement of results for the year ended 31 March 2021
30 June 2021	Payment of fifth interim dividend
25 August 2021	AGM

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Independent Non-Executive Chairman

Elizabeth McMeikan
Senior Independent Non-Executive Director

Matthew Thorne
Independent Non-Executive Director

Hazel Adam
Independent Non-Executive Director

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Independent Non-Executive Director

Ian Mattioli MBE
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