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LXI REIT PLC - LXI Annual Results
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LXi REIT plc

(the "Company" or the "Group")

MAIDEN ANNUAL RESULTS FOR THE PERIOD FROM INCORPORATION TO 31 MARCH 2018

The Board of LXi REIT plc (ticker: LXI), the specialist inflation-protected very long income REIT, is pleased to report its maiden annual results for the period from incorporation to 31 March 2018 (the 'Period').

Financial highlights

	31 March 2018	Comment
Total return	11.91%	49% above IPO target of 8%+
EPRA NAV per share	107.67 pence	9.87% growth from IPO NAV per share of 98.00 pence
Dividend per share target 2019	5.50 pence	10% increase on IPO 2019 target of 5.00 pence
Dividend per share 2018	4.00 pence	33% increase on IPO 2018 target of 3.00 pence
Adjusted earnings per share	5.12 pence	Fully covers dividend per share
EPRA earnings per share	4.20 pence	Fully covers dividend per share
Total expense ratio	1.14%	
Portfolio valuation	£278.92 million	9.18% increase on portfolio cost of £255.47 million
Total equity raised	£198.35 million	
Loan to value ratio	30%	500 bps below IPO maximum LTV of 35%
Average fixed cost of debt	2.90%	313 bps below average NIY
Average debt maturity	11.3 years	

- Total return for the Period of 11.91%, comprising the increase in NAV since IPO and dividends paid in the Period
- The EPRA NAV per share has increased 9.87% to 107.67 pence (at IPO in February 2017: 98.00 pence)

- Portfolio independently valued at £278.92 million across 84 assets against portfolio costs of £255.47 million, representing a 9.18% increase
 - The valuation does not include three forward funded/committed assets that have exchanged as conditions of their completion remained outstanding at the Period end, providing further asset value growth potential
 - The valuation includes capital commitments on forward funded assets. A reconciliation to the fair value of the portfolio is included in Note 9 to the consolidated financial statements
- The increased annual dividend per share target for the Period of 4.00 pence, representing a 33.33% increase on the 3.00 pence target set at IPO:
 - will be met by payment of the final dividend proposed by the Board of 2.00 pence per share in respect of the Period; and
 - is fully covered by the Group's EPRA and Adjusted earnings per share, a reconciliation of these performance measures to EPS is included in Note 25 to the consolidated financial statements
- The annual dividend target for the year ending 31 March 2019 was increased 10% to 5.50 pence per share* from the 5.00 pence set at IPO
- A contracted annual rent roll of £16.98 million, including pre-let forward funded properties
 - 96% is index-linked or contains fixed rental uplifts
- Adjusted earnings per share of 5.12 pence for the Period, which fully covered the dividend
- EPRA earnings per share of 4.20 pence for the Period, which fully covered the dividend
- A low total expense ratio of 1.14%, being operating expenses and management fees as a percentage of NAV
- Aggregate average all-in debt cost across the portfolio of 2.90% pa, fully fixed for the 11.3 years remaining loan term (expiring July 2029)
- A low loan to value ('LTV') ratio of 30%, 500 bps below our maximum LTV at IPO of 35%
- Raised total gross proceeds of £198.35 million during the Period, £138.15 million at IPO in February 2017 and £60.20 million in a further placement of new Ordinary Shares in the Company in October 2017

* These are targets only and not a profit forecast and there can be no assurance that they will be met.

Operational highlights

	31 March 2018
Average NIY	6.03%
Blended valuation NIY	5.37%
Rents containing index-linked or fixed uplifts	96%
WAULT to first break	24.4 years
Portfolio let or pre-let	100%
Property sectors	9
Tenants	25
Acquisitions made 'off market'	84%
Separate acquisitions	34

- Attractive average acquisition net initial yield ('NIY') of 6.03%, against a blended valuation NIY of 5.37% and average fixed cost of debt of 2.90% pa
- 96% of the contracted rental income is index-linked or contains fixed uplifts
- The rental income is secured against 25 strong tenants, including Aldi, Costa Coffee, General Electric, Home Bargains, Lidl, Motorpoint, Mears Group plc, Premier Inn, The Priory Group, Prime Life, Q-Park, QHotels, SIG, Specialist Housing Associations, Starbucks, Stobart Group and Travelodge
- Assets are broadly diversified across nine different defensive and robust sectors: hotels (23%), care homes (22%), supported living (21%), industrial (9%), student (7%), car parks (7%), discount retail (6%), leisure (3%) and automotive (2%)
- 100% of the portfolio is let or pre-let
- 87 properties with significant geographic diversification across the UK, of which three had exchanged but not completed at the period end
- Long weighted average unexpired lease term ('WAULT') to first break of 24.4 years

- The properties have been acquired via 34 separate purchase transactions, with an average lot size of £8 million and a good mix of pre-let forward funded, forward committed and built asset structures
 - 84% of acquisitions have been 'off-market'
- Achieved practical completion on one forward funded and two forward commitment development projects and on schedule with a further five forward funded and two forward committed projects in the course of development
- Equity and debt proceeds fully deployed (totalling £272.80 million (excluding acquisition costs) including forward funded commitments)

Post period end highlights

- Achieved practical completion on the forward funded asset pre-let to GE Oil & Gas in Cramlington
- Proposed final dividend for the Period of 2.00 pence per share due to be paid on 2 July 2018, bringing the total dividends per share to 4.00 pence, in line with our increased dividend target for the Period
- Progressive annual dividend target set for the year ending 31 March 2019 of 5.50 pence per share*
- 55% of contracted income, by rental value, to experience fixed or index-linked rent reviews in the year ending 31 March 2019

* These are targets only and not a profit forecast and there can be no assurance that they will be met.

Stephen Hubbard, Chairman of LXI REIT plc commented:

"The Group's performance in its maiden annual period has been strong, meeting, and in many areas exceeding, our targets at the time of the Company's IPO. The Board believes that, with a backdrop of continuing economic and geopolitical uncertainty, the Group's portfolio is resilient and increasingly attractive to investors seeking stable income and capital growth. The Company offers investors a secure, diversified and growing index-linked income stream as well as attractive capital appreciation from our long-let, high quality and robust portfolio across defensive sectors with strong tenant covenants.

Despite a rising interest rate environment, there remains, and we expect there to continue to be, a very significant and positive spread between the Company's index-linked portfolio yield and bond rates. Furthermore, the Board remains confident about delivering further value to our shareholders through the Investment Advisor's strategies of acquiring selectively across a wide range of robust sectors on an 'off-market' basis and forward funding pre-let developments in smaller lot sizes."

FOR FURTHER INFORMATION, PLEASE CONTACT:

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The Company's LEI is: 2138008YZGXOKAXQV145

NOTES:

The Company invests in UK commercial property assets let, or pre-let, on very long (typically 20 to 30 years to expiry or first break), inflation-linked leases to a wide range of strong tenant covenants across a diverse range of property sectors.

The Company may invest in fixed-price forward funded developments, provided they are pre-let to an acceptable tenant and full planning permission is in place. The Company will not undertake any direct development activity nor assume direct development risk.

The Company is targeting an annual dividend of 5.50 pence per ordinary share, starting from the financial period commencing 1 April 2018, with the potential to grow the dividend in absolute terms through upward-only inflation-protected long-term lease agreements, and is targeting a net total shareholder return of a minimum of 8 per cent. plus per annum over the medium term.*

The Company, a real estate investment trust ("**REIT**") incorporated in England and Wales, is listed on the premium listing segment of the Official List of the UK Listing Authority and was admitted to trading on the

main market for listed securities of the London Stock Exchange in February 2017.

Further information on the Company is available at www.lxireit.com

* These are targets only and not a profit forecast and there can be no assurance that they will be met.

Meeting for investors and analysts and audio recording of results available

A meeting for investors and analysts will be held at 9.30am today at:

Newgate Communications
Sky Light City Tower
50 Basinghall Street
London, EC2V 5DE

In addition, later in the day an audio recording of this meeting and the presentation will also be available to download from the Company's website: www.lxireit.com.

Hard copies of the Annual Report and Accounts will be sent to shareholders, along with the notice for Annual General Meeting to be held on 26 June 2018. The Annual Report and Accounts will also be made available on the Company's website at www.lxireit.com. In accordance with Listing Rule 9.6.1, copies of these documents will be submitted to the UK Listing Authority via the National Storage Mechanism and will be available for viewing shortly at www.morningstar.co.uk/uk/NSM.

CHAIRMAN'S STATEMENT

I am pleased to present the maiden annual results of LXi REIT plc for the period from incorporation on 21 December 2016 to 31 March 2018.

The Group commenced business operations on 27 February 2017 when its Ordinary Shares were admitted to trading on the main market for listed securities of the London Stock Exchange and has enjoyed an active and successful period. Since then, and up to the Period end, LXi REIT Advisors Limited (the '**Investment Advisor**') has sourced over 700 potential deals and exercised robust capital discipline. We, as the Board, have approved the execution of 34 separate transactions to acquire 87 separate properties all let, or pre-let, on very long, inflation-linked leases to a wide range of strong tenant covenants across diverse and robust property sectors.

In accordance with our investment policy, the Group's equity and debt capital raised during the Period have been fully deployed in a portfolio of commercial property assets that delivers on our objective and we are positioned well to continue to deliver on our strategy, providing income and capital growth, reflected in investor returns.

As at 31 March 2018, our Portfolio, comprised 84 assets let or pre-let to 25 individually strong tenants across nine defensive and robust property sectors. Across the Group's assets, the average net initial yield on acquisition was 6.03%, the WAULT to first break at the Period end was 24.4 years and 96% of the contracted income was index-linked or contained fixed uplifts. The Portfolio is 100% let or pre-let and was acquired as a good mix of pre-let forward funded, forward committed and built asset structures.

The Group's Portfolio was independently valued by Knight Frank LLP (the '**Independent Valuer**') at the Period end at £278.92 million, representing an average increase of 9.18% above acquisition price (excluding acquisition costs). The valuation includes capital commitments on forward funded assets and a reconciliation to fair value is included in Note 9 to the consolidated financial statements. The properties have been valued on an individual basis and no portfolio premium has been applied. This highlights the quality of sourcing and capital discipline adopted by the Investment Advisor in acquiring each of the assets.

Of the 87 properties acquired in the Period, the valuation excludes one pre-let forward funded and two pre-let forward committed acquisitions as although they exchanged prior to 31 March 2018, certain conditions to their completion remained outstanding as at that date. The total purchase price of these assets was £17.33 million and completion will provide further potential for value growth.

The Group's performance in the Period, underpinned by these acquisitions, has been strong, meeting, and in many areas exceeding, our targets at the time of the Company's initial public offering ('**IPO**'). The Investment Advisor's principals have built a successful track record in the long income sector and they continue to draw on an excellent network of relationships, experience and market intelligence to deliver value growth to our shareholders.

Financial results

The Group's strong performance has increased NAV and EPRA NAV per share to 107.67 pence as at 31 March 2018, an increase of 9.87% from the 98.00 pence at the time of the Company's IPO in February 2017. This, coupled with the dividends paid in the Period, produced a total return of 11.91%, ahead of our medium term target of 8%+ per annum. This reflects both the impressive value growth delivered since IPO and the dividends paid to shareholders in the Period.

The growth in the value of the Group's property portfolio to £278.92 million, including capital commitments on forward funded assets, representing a 9.18% increase above the aggregate acquisition price (excluding acquisition costs), reflects:

- (i) the discount achieved on forward funding pre-let developments in smaller lot sizes;
- (ii) early mover advantage in growth sectors;
- (iii) yield compression in the wider long income sector; and
- (iv) 84% of our acquisitions having been sourced 'off-market'.

Total rental income for the Period was £9.34 million. Total contracted annual rents, including pre-let forward funding and forward commitment assets is £16.98 million, of which 96% are index-linked or contained fixed rental uplifts and 55% will experience rent reviews in the year to 31 March 2019, which will drive future asset value and earnings growth.

The Group's Adjusted earnings per share for the Period were 5.12 pence and EPRA earnings per share for the Period were 4.20 pence. This reflects our ability to generate earnings from our Portfolio which ultimately underpins our total dividend for the Period of 4.00 pence per share, which is fully covered.

The Group's profitability is underpinned by a low cost base which is represented by a total expense ratio of 1.14%, maximising the net income and returns. We expect this ratio to reduce in the year ending 31 March 2019 as the Group benefits from a full year of portfolio rent roll and rent reviews resulting in further NAV growth.

Dividends

The Board proposes a final dividend in respect of the Period of 2.00 pence per Ordinary Share which, if approved at the Company's forthcoming Annual General Meeting, is payable on 2 July 2018 to shareholders on the register at the close of business on 8 June 2018. The Ordinary Shares will go ex-dividend on 7 June 2018.

We aim to provide our shareholders with secure and growing income, fully covered by our Adjusted earnings. Due to the successful implementation of our investment strategy by the Investment Advisor, we were delighted to announce on 7 March 2018 an increased dividend target for both the Period and the year ending 31 March 2019:

- for the Period, the target total dividend was increased by 33.33% to 4.00 pence per share, up from a minimum of 3.00 pence per share. The increased target has been met through the proposed final dividend in respect of the Period of 2.00 pence per share and the two interim dividends paid in the Period. Dividends paid and declared in respect of the Period were fully covered by our Adjusted earnings.
- for the year ending 31 March 2019, the target annual dividend has been increased by 10% to 5.50 pence per share*, up from a minimum of 5.00 pence per share at IPO.

This increase follows the full deployment of the Group's equity and debt capital raised at an average net initial property yield of 6.03%. This net initial property yield is higher than the original target level and is 313 basis points above the Group's average cost of debt of 2.90% per annum, which is fully fixed until July 2029.

The Group pays a quarterly dividend, with payments having commenced in December 2017 and the Group is targeting a total return of a minimum of 8% per annum over the medium term.

* These are targets only and not a profit forecast and there can be no assurance that they will be met.

Raising capital

Share issuance

The Company's Ordinary Shares were admitted to trading on the premium listing segment of the Official List of the UK Listing Authority and the Company was admitted to trading on the main market for listed securities of the London Stock Exchange in February 2017, raising gross proceeds of £138.15 million at the Company's IPO.

Shareholders continued to support our growth as the Company raised further gross proceeds of £60.20 million at our second equity raise in October 2017 (the '**Second Raise**'), which also attracted new investors due to the Group's strong performance in the first seven months.

Loan financing

The Group entered into two facilities with Scottish Widows Limited during the Period. The first, a 12 year, interest only, £55 million loan facility with an all-in fixed rate of 2.93% per annum, expiring in July 2029 (the '**First Facility**'). The second, an 11.5 year, interest only, £40 million loan facility with an all-in fixed rate of 2.85% per annum, also expiring in July 2029 (the '**Second Facility**').

The average debt maturity of the two facilities is currently 11.3 years and the weighted average all-in cost of debt is fixed at 2.90% per annum. The total cost of debt is 313 basis points lower than the Group's average net initial property yield of 6.03%. The quantum of the two debt facilities reflects a low LTV of 30%, below our maximum of 35%.

Our Portfolio and tenants

The Group's Portfolio comprises 84 assets, acquired as a good mix of forward funded, forward committed and built asset structures, let or pre-let to 25 individually strong tenants across nine defensive and robust property sectors. The average net initial yield on acquisition was 6.03% and the WAULT to first break at the Period end was 24.4 years. With 96% of the contracted income index-linked or containing fixed uplifts, the Portfolio positions us well to deliver on our investment objective.

The Group's rental income is secured against 25 strong tenants, including Aldi, Costa Coffee, General Electric, Home Bargains, Lidl, Motorpoint, Mears Group plc, Premier Inn, The Priory Group, Prime Life, Q-Park, QHotels, SIG, Specialist Housing Associations, Starbucks, Stobart Group and Travelodge. We work hard to develop a collaborative and long-term relationship with all of our tenants and continually strive to work in partnership with them, recognising the strategic importance of our asset portfolio.

Our people

The Board of Directors

The Group benefits from a strong independent board with substantial real estate, financial, commercial and operating experience and has the appropriate sub-committees (including Audit Committee and Management Engagement Committee), which meet on a regular basis.

The Board is responsible for directing and controlling the Company and has overall authority for the management and conduct of the Company's business, strategy and development. We recognise the fundamental importance of good governance in exercising this responsibility which is referred to in further detail in the Governance section. The Board also approves in advance each potential property acquisition and disposal, along with other significant matters, including debt facilities and material appointments.

The Board is focussed on fostering an open dialogue and communication with the Investment Advisor with whom we work closely. The Board is delighted with the performance of the Investment Advisor in this first period of operations and to date, and join me in thanking them for their diligence, hard work and support.

The Investment Advisor

The Company has appointed LJ Administration (UK) Limited as the Company's alternative investment fund manager (the 'AIFM'). LXi REIT plc and the AIFM have appointed LXi REIT Advisors Limited as Investment Advisor to provide certain services in relation to the Group's day to day management, including strategy, sourcing and advising on investments for acquisition by LXi REIT plc and due diligence in relation to proposed investments.

The Investment Advisor has provided the Group with access to investment opportunities at attractive pricing through long-established industry contacts and extensive knowledge of the sector. This has allowed the Group to source high quality investments and create value for our shareholders at the point of acquisition as well as continued growth.

The Investment Advisor has achieved a prominent position in developing and acquiring long income properties and this expertise and network of contacts provides the Group with access to attractive investment opportunities. One of our specialised pre-let forward funded acquisitions and two of our pre-let forward committed acquisitions reached practical completion in the Period with a further seven in the course of construction as at 31 March 2018 and 84% of our acquisitions were sourced 'off market' in the Period.

Post-balance sheet events

Since the Period end, the Group has continued to deliver on its forward funding strategy and reached practical completion on a forward funded development project pre-let to GE Oil & Gas in Cramlington.

As stated above, the Board proposes the payment of a final dividend for the Period of 2.00 pence per share, bringing the total dividends per share for the Period to 4.00 pence per share, in line with our increased dividend target. A progressive annual dividend target has also been set for the year ending 31 March 2019 of 5.50 pence per share.

Annual General Meeting

The Company will be holding its first Annual General Meeting at 11.00am on 26 June 2018 at the offices of Stephenson Harwood LLP, 1 Finsbury Circus, London, EC2M 7SH.

Outlook

The Board believes that in a continuing environment of economic and geopolitical uncertainty the Group's portfolio is resilient and increasingly attractive. The Company offers investors a secure, diversified and

growing index-linked income stream as well as attractive capital appreciation from our long-let, high quality and robust portfolio across defensive sectors with strong tenant covenants.

96% of the Group's contracted rental income contains index-linked or fixed uplift rent reviews and, when coupled with our low cost base and low all-in cost of debt fixed for a further 11.3 years, gives the Board confidence that the Group can continue to grow dividends in absolute terms.

Despite a rising interest rate environment, there remains, and we expect there to continue to be, a very significant and positive spread between the Company's index-linked portfolio yield and bond rates.

Furthermore, the Board remains confident about delivering further value to our shareholders through the Investment Advisor's strategies of acquiring selectively across a wide range of robust sectors on an 'off-market' basis and forward funding pre-let developments in smaller lot sizes.

Finally, I would like to thank shareholders, my fellow Directors and the Investment Advisor, together with all our other professional advisers, for their support since the Company's launch.

Stephen Hubbard

Chairman of the Board of Directors

18 May 2018

INVESTMENT ADVISOR'S REPORT

This has been a busy and successful first Period, during which we have effectively executed on our investment strategy delivering inflation-protected income and capital growth underpinned by a carefully built portfolio of secure, long-let and index-linked property assets, highly diversified by sector, tenant and geography.

Secure	Diversified	Predictable	Growing
Our income is secure. The portfolio WAULT of 24.4 years is one of the highest in the industry, and the income is secured against 25 strong tenants. Our blended acquisition NIY of 6.03% is 313 basis points above our all in fixed cost of debt of 2.90% pa.	Our portfolio is diversified. We have invested in nine defensive and robust property sectors and with significant geographic and tenant diversification to spread our exposure. This also gives us the flexibility, as a non-specialised REIT, to transact where we see the best opportunity to provide value to our shareholders.	Our income is predictable. All of our leases contain regular upward only rent reviews, 96% of which are either index-linked or contain fixed uplifts. This coupled with the length of our leases means our earnings are predictable.	We have transacted on ten forward funded or forward committed acquisitions which offer significant discount to built values and our network has helped us source 84% of our transactions 'off market' providing value to shareholders at the point of transaction. This, coupled with our rent reviews, continues to provide income and value growth to our shareholders.

Portfolio overview

Headline statistics for the portfolio, as at 31 March 2018:

5.37% blended valuation NIY against 6.03% average acquisition NIY	24.4 year WAULT to first break	96% index-linked/fixed rental uplifts
25 strong tenants	Nine robust property sectors	Valuation of £278.92 million against cost of £255.47 million

Diligent acquisitions

We have achieved an average net initial yield on acquisition of 6.03%, outperforming our original target. The starting point for value creation is our ability to source and carefully select investments to acquire. This results from our market intelligence, extensive network and industry relationships, which has allowed us to source 84% of our investments 'off market'.

Important assets

The length of our leases demonstrates the importance of our assets to our tenants. We invest in assets both with a strong underlying trading performance and of strategic importance to our tenants, such as its headquarters or main production plant.

We have selectively acquired assets where there are very competitive tenant markets with multiple competing operators, coupled with limited supply of stock, such as budget hotels (for example, Premier Inn, Travelodge, Accor, Motel One and Holiday Inn) and discount retailers (for example, Aldi, Lidl, B&M and Home Bargains).

Our focus has been on industries where tenants are used to long-term freehold ownership, such as General Electric, Premier Inn, Lidl and Aldi promoting a tendency towards longer lease terms.

A portfolio of embedded income growth

Over 96% of the Group's assets contain rent reviews linked to RPI or CPI inflation (or a fixed annual growth rate) thus providing strong inflation-protected income across the Group's portfolio. As at 31 March 2018:

- 50% of assets had CPI linked rent reviews, 40% had RPI linked rent reviews, 6% had fixed rental uplifts and 4% had open market rent reviews;
- 52% of the rental income is reviewed on an annual basis and 48% is reviewed on a five-yearly basis;
- our five yearly rent reviews are staggered which smooths the rental growth; and
- 55% of the Group's contracted rental income will experience a rent review in the year ending 31 March 2019 containing either index-linked or fixed uplifts.

In Q4 2017 and Q1 2018 two of the Priory Group care home assets in Northern Ireland benefited from a 2.5% annual fixed rental uplift and in Q1 2018 the Priory Group care home asset in Leeds benefited from an annual rent increase in line with RPI (3.6%).

Portfolio rent review breakdown

Index-linked	90%
Fixed uplifts	6%
Open market	4%

Portfolio index-linked rent review breakdown

CPI inflation	50%
RPI Inflation	40%

All of the assets acquired benefit from triple net, full repairing and insuring leases. These lease agreements oblige the tenants to pay all taxes, building insurance, other outgoings and repair and maintenance costs on the property, in addition to the rent and service charge, therefore avoiding any property cost leakage for the Group.

Tenants

The Group's rental income is secured against 25 strong tenants, including Aldi, Costa Coffee, General Electric, Home Bargains, Lidl, Motorpoint, Mears Group plc, Premier Inn, The Priory Group, Prime Life, Q-Park, QHotels, SIG, Specialist Housing Associations, Starbucks, Stobart Group and Travelodge. We work hard to develop a collaborative and long-term relationship with all of our tenants and continually strive to work in partnership with them, recognising the strategic importance of our asset portfolio.

Sectors

We invest in commercial property in a range of defensive and robust sectors that continue to gain market traction such as student property, now an investment grade asset class and discount food stores, which continue to show growth in their wider market. Our cross-sector flexibility has allowed us to gain early mover advantage in under-exploited sectors, such as discount retail, which have added significant value to our shareholders.

Capital deployed

By February 2018 we had deployed £272.80 million excluding acquisition costs, which represented full deployment of the capital from IPO, the Second Raise and the two Scottish Widows debt facilities.

Strong residual land value

In addition to robust tenants and long, index-linked leases, we have targeted assets which possess strong residual land value which will preserve capital values. For example, the Group has acquired properties:

- which are of strategic importance to the tenant;
- with strong underlying trading performance;
- located in areas with a large catchment population;
- with low starting rents; and

- with strong alternative use value.

Strategies for delivering value and growth

We employ a number of techniques to secure assets for the Group at an attractive initial yield, without compromising on the asset quality, security or lease length, including:

- the multi-sector approach, which allows for opportunistic buys across a large universe of assets to find value;
- forward funding pre-let developments to benefit from materially lower purchase costs (approximately 3% versus 6.80%) as well as a significant discount to built values, especially in smaller lot sizes, which we describe in further detail below;
- targeting smaller lot sizes generally (averaging £8 million per acquisition to date), which are below the radar of most institutions;
- acquiring the vast majority of our assets through off-market purchases identified via our extensive contacts and relationships, driven by our reputation for speed and certainty of transacting;
- avoiding over-heated sectors and locations where yields are at historic lows;
- repeat business with longstanding counterparty relationships, including developers and vendors; and
- early mover advantage in under-exploited sectors, such as discount retail.

Forward funding pre-let developments

Forward funding strategy

The Group's portfolio consists of a mix of built, forward funded and forward committed assets. Forward funded structures benefit from materially lower purchase costs as well as significant discounts to built values which creates value at the point of transaction.

This approach to forward funded pre-let developments, especially in the lower lot sizes, has allowed us to source high quality, lower-priced assets (compared to their completed value) with reduced competition and lower transaction costs, than could be delivered from purely targeting built assets, as well as developing new assets to tenant specification to increase strategic importance.

On all forward funded acquisitions, the following mitigants are put in place prior to acquisition to avoid exposure to development risk:

- the Group will pay a fixed price for the forward funded purchase, covering land, construction cost and developer's profit - all cost overruns will be the responsibility of the developer or contractor;
- full planning consent must be in place;
- a suitable tenant pre-let must be in place;
- the developer will receive their profit only when the asset achieves practical completion;
- if there is a delay to completion of the works, this will be a risk for the developer/contractor, as they pay the Group a licence fee, which is treated as a discount to the overall cost of the asset, to the date that practical completion occurs;
- the contractor will be a reputable entity with a proven track record and will provide a parent company guarantee or performance bond; and
- a full suite of warranties will be provided by the main contractor and professional team.

Forward funding implementation

During this year, the Group has achieved practical completion on the following forward funding/forward commitment development projects:

- Premier Inn hotel in Whitley Bay on 5 July 2017
- Travelodge, Starbucks & Greggs scheme in Melksham on 12 December 2017
- Premier Inn hotel in Middlesbrough on 21 December 2017

The Group's other forward funding and forward commitment projects are on track and progressing well. Practical completion has occurred or is expected on the following dates:

- General Electric headquarters in Cramlington - 30 April 2018
- Priory care home in Northern Ireland - Q2 2018
- Lidl food store in Chard - Q4 2018
- Travelodge, Costa Coffee & KFC scheme in Camborne - Q4 2018
- Travelodge, Subway and Starbucks scheme in Swindon - Q4 2018

- Aldi, Home Bargains, Heron Foods, Starbucks & Greggs retail park in Bradford - Q4 2018
- Premier Inn hotel in Chesterfield - Q4 2018

The average valuation increase from aggregate acquisition cost to 31 March 2018 on forward funded investments was 13.52% compared with an average portfolio valuation increase of 9.18%, supporting forward funding pre-let developments as a strategy for growth.

Market opportunity - rental growth

Inflation has historically outpaced open-market rent reviews and it has been steadily increasing since the EU referendum result in June 2016, which triggered a decline in the value of Sterling and pushed up the cost of imported goods. As set out below, the anticipated continuing outperformance of inflation over open market rental growth forecasts is expected to prove advantageous to the Group's rental growth.

The HM Treasury Forecasts for the Economy (Medium term forecasts, February 2018) shows an average RPI growth forecast of 3.14% per annum and an average CPI growth forecast of 2.18% per annum from 2018 to 2022 (see below). The Investment Property Forum UK Consensus Forecasts Report (Winter 2018/18) shows an average open market rental growth forecast of 1.24% per annum from 2018 to 2022 (see below), which is materially lower than the HM Treasury RPI and CPI growth forecasts.

RPI and CPI forecast

Year	RPI pa	CPI pa
2018	3.50%	2.60%
2019	3.00%	2.10%
2020	3.00%	2.10%
2021	3.10%	2.00%
2022	3.10%	2.10%
Average growth forecast pa	3.14%	2.18%

Source: HM Treasury Forecasts for the Economy (Medium term forecasts, February 2018)

Open market rental growth forecast

Year	Open market rental growth pa
2018	0.80%
2019	0.80%
2020	1.20%
2021	1.60%
2022	1.80%
Average growth forecast pa	1.24%

Source: Investment Property Forum UK Consensus Forecasts (Winter 2017/18)

With strong inflation and more pedestrian open market rental growth, the Group has strategically aimed to take advantage of this economic reality with 96% of the passing rent being inflation-linked or containing fixed uplifts as at 31 March 2018.

This climate of continuing inflation together with the fixed low cost of debt (as detailed above) which the Group has secured, is expected to allow for:

- higher rental growth via rental increases in line with inflation;

- enhanced dividend yield due to substantial free cash flows generated via the 313 basis point spread between triple-net rental income (6.03% average NIY) and low all-in cost of debt (2.90% pa) fixed for a further 11.3 years - rising to 521 bps by expiry of the loan facility, assuming rental grow of 2.50% pa; and
- capital growth through: (i) the capitalisation of rental increases following rent reviews; (ii) acquiring mispriced assets where the seller is driven by factors other than price; and (iii) the net purchase price on forward funding assets being a significant discount to completed values and therefore providing scope for 'natural' yield compression as soon as the property is constructed.

With 96% of contracted rental income containing staggered index-linked or fixed uplift rent reviews, as well as a low cost base and low fixed all in cost of debt for a further 11.3 years, we are confident that the Group's results will support the continued growth of dividends in absolute terms over the short and longer term.

Investment activity

The Group selectively acquired 87 assets between IPO and 31 March 2018. This represented the full deployment of both the gross proceeds from IPO and the Second Raise as well the two Scottish Widows debt facilities.

In doing so, we have acquired a portfolio that provides income that is:

- secure, with a very long WAULT to first break as at 31 March 2018 of 24.4 years, let to a wide range of tenants with strong financials;
- diversified across nine defensive and robust property sectors and with significant geographic disbursement;
- predictable, with 96% of our contracted income either index-linked or containing fixed uplifts; and
- delivering attractive growth to our shareholders.

Delivering attractive growth

The Group's investment properties were independently valued as at 31 March 2018 by Knight Frank LLP at £278.92 million (a 5.37% blended valuation NIY), representing an increase of 9.18% above the aggregate acquisition price (excluding acquisition costs). The properties have been valued on an individual basis. No portfolio premium has been applied. The valuation includes capital commitments on forward funded assets and a reconciliation to fair value is included in Note 9 to the consolidated financial statements.

One pre-let forward funded and two pre-let forward committed acquisitions with a total purchase price of £17.33 million were not included in the valuation as although they exchanged prior to 31 March 2018, certain conditions remained outstanding to their completion as at that date. This provides further asset value growth potential.

The NAV and EPRA NAV per share has increased to 107.67 pence as at 31 March 2018, an increase of 9.87% from the 98.00 pence at the time of the Company's IPO in February 2017.

The asset value growth reflects, inter alia:

- the discount achieved on forward funding and committing to pre-let developments in smaller lot sizes. The average valuation gain achieved on the six forward funded acquisitions was 13.52%, compared with an average valuation gain across the portfolio of 9.18% from acquisition to 31 March 2018;
- the 'off-market' nature of the vast majority of the Group's acquisitions. Our extensive network and market intelligence has allowed us to source 84% of the Group's transactions 'off market' in the Period and we continue to do so;
- early mover advantage in growth sectors where yields have compressed (such as discount retail); and
- yield compression in the wider long-lease sector in recent months, resulting from increased demand.

Portfolio	
- Cost (excluding acquisition cost)	£255.47 million
- Valuation as at 31 March 2018	£278.92 million
EPRA NAV per share	
- At IPO	98.00 pence
- At 31 March 2018	107.72 pence
Dividend target 2019	
- At IPO	5.00 pence
- At 31 March 2018	5.50 pence*

* These are targets only and not a profit forecast and there can be no assurance that they will be met.

Debt finance

During the Period we negotiated and executed two new debt facilities with Scottish Widows Limited. The first, a 12 year, interest only, £55 million loan facility with an all in fixed rate of 2.93% per annum, expiring in July 2029. The second, an 11.5 year, interest only, £40 million loan facility with an all in fixed rate of 2.85% per annum, also expiring July 2029.

The Group's average debt maturity across the facilities is currently 11.3 years, its weighted average all-in cost of debt is now fixed at 2.90% per annum for the next 11.3 years, ensuring the Group continues to benefit from current low interest rates. This all-in cost of debt is 313 basis points lower than the Group's average net initial property yield of 6.03%.

Both facilities are secured against the assets acquired by the Group.

As set out in the Investment objectives and policy, the Group will maintain a conservative level of aggregate borrowings, with a maximum level of aggregate borrowings of 35% of the Group's total assets. LTV at the Period end was 30%.

Having fixed the rate of debt, and with embedded income growth in our portfolio, we have ensured that the debt to yield gap grows over the loan term, delivering further return growth to our shareholders.

Equity raises

After a successful IPO, in which the Company raised £138.15 million, shareholders continued to support our growth as the Company raised further gross proceeds of £60.20 million at our second equity raise in October 2017, at which point we also welcomed a number of new investors. All funds from equity and debt raises were fully deployed prudently and in short order.

Financial performance

The capital discipline demonstrated in sourcing and transacting on quality assets with the funds raised in the Period and obtaining debt at a low fixed cost has resulted in a strong financial performance in the Group's first Period.

Total return

The Group's total return of 11.91% comprising NAV per share growth of 9.67 pence and dividends per share paid during the Period of 2.00 pence over NAV per share at IPO of 98.00 pence, demonstrates both the level of earnings generated from our core operations which support the dividend payment and growth in NAV which is described below. This represents delivery on the Group's medium term minimum total return target of 8%. A final dividend for the Period has been proposed of 2.00 pence per share, taking the total dividend paid and declared in respect of the Period to 4.00 pence per share.

NAV and EPRA NAV per share

During the Period, the Company raised gross equity of £198.35 million, as a result of two successful share issues. At IPO in February 2017 the Company raised £138.15 million, and at the Second Raise in October 2017 the Company raised a further £60.20 million. The Company has issued 196,881,707 shares in total. The equity raised was recognised net of costs directly attributable to the share issues of £3.40 million. The Group's total earnings and dividends paid in the Period, resulted in NAV and EPRA NAV per share of 107.67 pence as at 31 March 2018.

EPRA and Adjusted earnings per share

The Board considers the Group's Adjusted earnings, when assessing dividend levels. Adjusted earnings is a measure that combines the Group's net profits with developer licence fees receivable during the period of development of assets that are forward funded, to the extent that the licence fee relates to the year. During the Period the Group generated EPRA earnings of £5.82 million or 4.20 pence per share, licence fees receivable of £1.19 million and realised gains of £0.1 million resulting in Adjusted earnings per share of 5.12 pence. The Group's EPRA earnings and Adjusted earnings fully cover the dividends paid and declared in respect of the Period totalling 4.00 pence per share, detailed below.

Total expense ratio

The Group's ability to maintain a low level of operational expense with a growing income stream is pivotal to providing shareholders with attractive and rising returns. During the Period the Group incurred administrative expenses of £2.41 million including the management fee. This results in a low total expense ratio of 1.14% for the Period, by reference to NAV at 31 March 2018 which will continue to reduce as the Group benefits from a full year of income generation from the portfolio and contractual annual rent roll of £16.98 million and a largely fixed cost base and low Investment Advisory fee.

Dividends

The successful implementation of our investment strategy allowed an increase in the Company's dividend targets as announced on 7 March 2018, as follows:

- for the period from IPO to 31 March 2018, the target total dividend was increased by 33.33% to 4.00 pence per share, up from a minimum of 3.00 pence per share, which was met by the proposed final dividend in respect of the Period of 2.00 pence per share and the two interim dividends of 1.00 pence per share, paid in the Period. Dividends paid and declared in respect of the Period were fully covered by the Group's EPRA earnings and Adjusted earnings.
- for the period from 1 April 2018 to 31 March 2019, the target annual dividend has been increased by 10% to 5.50 pence per share*, up from a minimum of 5.00 pence per share at IPO.

This increase follows the full deployment by the Company of its equity and debt capital at an average net initial property yield of 6.03%. This net initial property yield is higher than the original target level and is 313 basis points above the Company's average cost of debt of 2.90% per annum, which is fully fixed until July 2029.

The attractive average acquisition yield reflects, *inter alia*, the discount achieved on forward funding pre-let developments in smaller lot sizes, our market intelligence which allowed us to source 84% of our acquisitions off-market and our multi-sector approach which enables the Group to selectively acquire attractively-priced assets across a wide range of sectors.

* These are targets only and not a profit forecast and there can be no assurance that they will be met.

Outlook

We remain very confident of continuing to create value for the Company's shareholders right from the point of acquisition, through investing, largely off-market, in forward funded pre-let developments in smaller lot sizes and moving early into growth sectors across the long-let property space in the UK, which is itself benefiting from yield compression.

The Group continues to receive unsolicited interest in its property assets as an increasing weight of capital seeks secure, long-let and index-linked assets. We constantly monitor such interest as part of our active management of the portfolio and over time this may result in a carefully selected recycling of capital, in addition to measures designed to maintain a long average unexpired lease term.

We are optimistic about continuing to deliver attractive inflation-protected income and capital growth to our shareholders over 2018 and the longer term through our very secure, long-let, index-linked and diversified portfolio leased to institutional-grade tenants as well as from our growing pipeline of attractive investments and potential to recycle our carefully acquired portfolio.

LXi REIT Advisors Limited

Investment Advisor

18 May 2018

Property portfolio

As at 31 March 2018

Tenant/ Guarantor	Sector	Location	Unexpired lease term to first break	Rent Review	Purchase Price	Acquisition NIY	Date of acquisition	Structure
GE UK Group	Headquarters office and manufacturing facility	Cramlington, Northumberland	20 years	RPI	£11.10m	5.75%	Mar-17	Forward funding
Q-Park N.V.	Multi-storey car park	Sheffield	27.5 years	RPI	£19.10m	5.20%	Mar-17	Built
Travelodge, Starbucks & Greggs	Budget hotel and drive-thru coffee shop	Melksham, near Bath	23 years	CPI, RPI & OMV	£6.20m	5.91%	Mar-17	Forward funding
Travelodge	Budget hotel	Haverhill, Essex	23.5 years	RPI	£5.50m	5.92%	Mar-17	Built
Premier Inn	Budget hotel & restaurant	Whitley Bay, North Tyneside	20 years	CPI	£6.30m	5.00%	Apr-17	Forward commitment
QHotels Holdings	Four-star hotel	Cambridge	21.5 years	CPI	£18.50m	6.10%	Apr-17	Built

Limited								
Aldi, Home Bargains, Heron Foods, Starbucks & Greggs	Discount food stores	Bradford	20 years	RPI & OMV	£11.10m	6.15%	May-17	Forward funding
Travelodge, Starbucks & Subway	Budget hotel and drive-thru coffee shop and restaurant	Swindon	23 years	CPI, RPI & OMV	£8.30m	5.80%	May-17	Forward funding
SIG (Trading) Limited	Manufacturing facility	Carlisle	24.5 years	RPI	£9.30m	7.00%	Jun-17	Built
Priory Group	Care home	Leeds	22.2 years	RPI	£8.40m	6.30%	Jun-17	Built
Housing Associations	Supported Living	Across England	25 years	CPI	£45.50m	6.00%	Jun, Jul, Aug-17 & Feb-18	Built
Travelodge	Budget hotel	Ipswich	19.5 years	RPI	£5.00m	6.12%	Jul-17	Built
Travelodge, Costa Coffee & KFC	Budget hotel	Camborne, Cornwall	22 years	CPI & OMV	£6.70m	6.15%	Jul-17	Forward funding
Priory Group	Care home	Northern Ireland	28.5 years	Fixed 2.5% pa	£3.28m	6.50%	Aug-17	Built
Priory Group	Care home	Northern Ireland	28.5 years	Fixed 2.5% pa	£5.99m	6.50%	Aug-17	Built
Motorpoint Limited	Automotive	Burnley	19.2 years	RPI	£5.70m	6.50%	Aug-17	Built
Housing Associations	Supported Living	Across England	35 years	CPI	£20.50m	6.00%	Oct, Dec-17	Built
Prime Life	Care home	Leicestershire and Lincolnshire	31 years	RPI	£12.30m	6.50%	Nov-17	Built
Prime Life	Care home	Leicestershire and Lincolnshire	31 years	RPI	£2.85m	6.50%	Nov-17	Built
Prime Life	Care home	Leicestershire and Lincolnshire	31 years	RPI	£13.35m	6.50%	Nov-17	Built
Premier Inn/Whitbread Group plc	Budget hotel	Chesterfield	25 years	CPI	£6.90m	5.20%	Nov-17	Forward funding
Mears Group plc	Student	Dundee	21.5 years	CPI	£20.20m	6.30%	Jan-18	Built
Stobart Group	Industrial	Rotherham	20 years	RPI	£3.40m	6.20%	Feb-18	Built
Portfolio Total			24.4 year WAULT		£255.47m	6.03%		
Portfolio Valuation					£278.92m	5.37%		

Assets exchanged but not completed

As at 31 March 2018

Tenant/ Guarantor	Sector	Location	Unexpired lease term to first break	Rent Review	Purchase Price	Acquisition NIY	Date of acquisition	Structure
Premier Inn/Whitbread Group plc	Budget hotel	Middlesbrough	20 years	CPI	£6.20m	5.10%	Aug-17	Forward commitment
Lidl	Discount food store	Chard	15 years	RPI	£5.50m	5.75%	Oct-17	Forward funding
Priory Group	Care home	Northern Ireland	30 years	Fixed 2.5% pa	£5.63m	6.50%	Aug-17	Forward commitment

THE INVESTMENT ADVISOR

The Board has delegated the day-to-day running of the Company to the Investment Advisor, LXi REIT Advisors Limited, pursuant to the terms of the Investment Advisory Agreement. The Investment Advisory Agreement is reviewed and amended when necessary to ensure it reflects the relationship between the Board and the Investment Advisor.

The Investment Advisor comprises property, legal and finance professionals with significant experience in the real estate sector, as described below. The team has capitalised and transacted over £1 billion of commercial property assets with a particular focus on accessing secure, long-let and index-linked UK commercial real estate through forward funding and built asset structures.

The core management team (whose details are set out below) is supported by a team of other accounting, asset management, compliance, marketing, public relations, administrative and support staff. The key individuals responsible for executing the Company's investment strategy are:

John White (Director and Fund Manager)

John entered the commercial real estate market in 1987 and after qualifying as a chartered surveyor at Allsops moved to the investment team at Cushman & Wakefield. There he became a partner and spent the next 18 years advising a range of institutional investor clients on their UK acquisitions and disposals across the full range of real estate sub-sectors including retail (in and out of town), offices (London, Thames Valley and regional cities), logistics, and alternatives.

John moved into private equity real estate in 2007 and co-founded Osprey Equity Partners in 2011 and LXi REIT Advisors Limited in 2016.

Simon Lee (Director and Fund Manager)

Simon trained and practised as a solicitor at City law firm, Slaughter and May, from 1999 to 2006, following which he spent the next 10 years in private equity real estate, co-founding Osprey Equity Partners in 2011 and LXi REIT Advisors Limited in 2016.

Simon's role covers a wide range of areas, including formulating investment strategies and products, raising equity and debt finance, asset selection, and negotiating and implementing transactions with vendors, purchasers, developers, investors, lenders and joint venture partners.

Jamie Beale (Director)

Jamie has significant transaction management experience in the long income and forward funding real estate space.

Prior to joining the Investment Advisor, Jamie spent five years in the city as a real estate lawyer where he acted for leading developers and property funds on a variety of deals, ranging from large scale residential developments to substantial commercial property transactions.

Freddie Brooks (Head of Finance)

In order to continue to deliver strong performance, the Investment Advisor invests in talent and resource which will benefit the Group. The Investment Advisor appointed Freddie as Head of Finance in March 2018. Freddie, a qualified Chartered Accountant, has significant experience in the sector and previously worked

advising similar businesses at the UK's number one auditor to REITs, as well as working with private property funds, developers and a number of the UK's top 20 contractors.

Freddie joins the team to lead on all historical and strategic financial matters including annual and interim reporting, budgeting and forecasting, treasury management and the monitoring of internal controls.

Sophie Rowney (General Counsel)

Sophie is a Partner and General Counsel of the Investment Advisor's group, overseeing the group's legal activities across all service lines. Sophie trained and practiced as a solicitor within the finance team at Slaughter and May, advising clients on a range of corporate and financing transactions. Sophie studied law at BPP Law School in London and holds a degree in English Literature from the University of Bristol.

Nick Barker (Compliance Officer)

Nick is Chief Compliance Officer for the Investment Advisor's group. He has 30 years' experience of financial regulation and compliance, having previously worked at HM Treasury; the US National Association of Securities Dealers (NASD); the Investment Management Regulatory Organisation (IMRO); in the compliance advisory teams at Deloitte & Touche and Ernst & Young; and as an independent compliance adviser. Nick is an MA of Oxford University.

Alex Matthey (Head of Investor Relations)

Alex is responsible for managing investor relations for the Investment Advisor's group. Alex was previously an Investor Relations Manager for INTERNOS Global Investors, a pan-European real estate manager with €3.5 billion assets under management. Before that, Alex worked at Clearbell Property Partners, a UK opportunistic real estate manager, primarily assisting with raising their second fund which closed at £400 million. Over the last 12 years, Alex has also worked as a Corporate Broker for public and private entities as well as providing IR consultancy to a range of FTSE 350 and small-cap companies.

INVESTMENT OBJECTIVE AND POLICY

Investment objective

The investment objective of the Company is to deliver inflation protected income and capital growth over the medium term for shareholders through investing in a diversified portfolio of UK property that benefits from long-term index-linked leases with institutional-grade tenants.

Investment policy

The Company will target inflation-protected income and capital returns through acquiring a diversified portfolio of UK property assets, let or pre-let to a broad range of tenants with strong covenants on very long and index-linked leases.

The Company will invest in these assets directly or through holdings in special purpose vehicles and will seek to acquire high quality properties, taking into account the following key investment considerations:

- the properties will be let or pre-let to institutional grade tenants, with strong financials and a proven operating track record;
- very long unexpired lease terms (typically 20 to 30 years to expiry or first break);
- rent reviews to be inflation-linked or contain fixed uplifts; and
- each property should demonstrate strong residual land value characteristics.

The Company will target a wide range of sectors, including, but not limited to, office, retail, leisure, industrial, distribution and alternatives - including hotels, serviced apartments, affordable housing and student accommodation. It will also focus on growth sub-sector areas such as discount retailers, budget hotel operators and "last mile" distribution units fuelled by online retail.

The Company will seek to only acquire assets let or pre-let to tenants with strong financial covenants and on long leases (typically 20 to 30 years to expiry or first break), with index-linked or fixed rental uplifts, in order to provide security of income and low cost of debt. The Company will only invest in assets with leases containing regular upward-only rental reviews. These reviews will typically link the growth in rents to an inflation index such as, RPI, RPIX or CPI (with potentially a minimum and maximum level) or alternatively may have a fixed annual growth rate.

The Company will neither undertake any direct development activity nor assume direct development risk. However, the Company may invest in fixed-price forward funded developments, provided they are pre-let to an acceptable tenant and full planning permission is in place. In such circumstances, the Company will seek to negotiate the receipt of immediate income from the asset, such that the developer is paying the Company a return on its investment during the construction phase and prior to the tenant commencing rental payments under the terms of the lease.

Where the Company invests in forward funded developments:

- the Company will not acquire the land until full planning consent and tenant pre-lets are in place;
- the Company will pay a fixed price for the forward funded purchase, covering land, construction cost and developer's profit;
- all cost overruns will be the responsibility of the developer/contractor; and
- if there is a delay to completion of the works, this will be a risk for the developer/contractor, as they will pay the Company a cash return until practical completion occurs.

The Company may utilise derivative instruments for efficient portfolio management. The Company may engage in full or partial interest rate hedging or otherwise seek to mitigate the risk of interest rate increases as part of the Company's portfolio management.

The Company will not invest in other investment funds.

Investment restrictions

The Company will invest and manage its assets with the objective of spreading risk and will have the following investment restrictions:

- the value of no single property, at the time of acquisition of the relevant investment, will represent more than 30 per cent of the higher of: (i) Gross Asset Value; or (ii) where the Company has not yet become fully geared, Gross Asset Value adjusted on the assumption that the Company's property portfolio is geared at 30 per cent. loan to value;
- the aggregate maximum exposure to any one tenant, at the time of acquisition of the relevant investment, will be 30 per cent. of the higher of: (i) Gross Asset Value; or (ii) where the Company has not yet become fully geared, Gross Asset Value adjusted on the assumption that the Company's property portfolio is geared at 30 per cent. loan to value; and
- the Company will invest in no fewer than two sectors at any time.

The investment limits detailed above apply once the Gross Issue Proceeds are fully invested. The Company will not be required to dispose of any investment or to rebalance its portfolio as a result of a change in the respective valuations of its assets.

The Directors are focused on delivering capital growth over the medium term, and intend to reinvest proceeds from future potential disposals in assets in accordance with the Company's investment policy. However, should the Company fail to re-invest the proceeds or part proceeds from any disposal within 12 months of receipt of the net proceeds, the Directors intend to return those proceeds or part proceeds to shareholders in a tax efficient manner as determined by the Directors from time to time.

Cash held for working capital purposes or received by the Company pending reinvestment or distribution will be held in sterling only and invested in cash, cash equivalents, near cash instruments and money market instruments.

The Directors currently intend at all times to conduct the affairs of the Company so as to enable it to qualify as a REIT for the purposes of Part 12 of the CTA 2010 (and the regulations made thereunder).

The Company will at all times invest and manage its assets in a way that is consistent with its objective of spreading investment risk and in accordance with its published investment policy and will not at any time conduct any trading activity which is significant in the context of the business of the Company as a whole.

Borrowing policy

The Company will seek to utilise borrowings to enhance equity returns. The level of borrowing will be on a prudent basis for the asset class, and will seek to achieve a low cost of funds, whilst maintaining flexibility in the underlying security requirements and the structure of the Company. The Directors intend that the Company will maintain a conservative level of aggregate borrowings with a medium term target of 30 per cent. of the Company's gross assets and a maximum level of aggregate borrowings of 35 per cent. of the Company's gross assets at the time of drawdown of the relevant borrowings.

Debt will be secured at the asset level and potentially at the Company or SPV level, depending on the optimal structure for the Company and having consideration to key metrics including lender diversity, debt type and maturity profiles.

In the event of a breach of the investment policy and investment restrictions set out above, the Directors upon becoming aware of such breach will consider whether the breach is material, and if it is, notification will be made to a Regulatory Information Service.

No material change will be made to the investment policy without the approval of shareholders by ordinary resolution at any general meeting, which will also be notified by an RNS announcement.

KEY PERFORMANCE INDICATORS

Our objective is to deliver attractive, low-risk returns to shareholders, by executing the investment policy described in the Investment policy and objectives. Set out below are the key performance indicators ('KPIs') we use to track our performance.

KPI and definition	Relevance to strategy	Performance	Result
<p>1. Total return ('TR')</p> <p>TR measures the change in the EPRA NAV and dividends since IPO paid as a percentage of EPRA NAV at IPO. We are targeting a minimum TR of 8% per annum over the medium term.</p>	<p>TR measures the ultimate outcome of our strategy, which is to deliver value to our shareholders through our portfolio and to deliver a secure and growing income stream.</p>	<p>11.91% for the period ended 31 March 2018</p>	<p><i>49% ahead of our medium term TR target.</i></p>
<p>2. Dividend per share</p> <p>Dividends paid to shareholders and declared in relation to the Period. Our target at IPO for the Period was a total dividend per share of 3.00 pence.</p>	<p>The dividend reflects our ability to deliver a low risk but growing income stream from our portfolio and is a key element of our TR.</p>	<p>4.00 pence for the period ended 31 March 2018</p>	<p><i>33.33% ahead of our dividend target at IPO.</i></p>
<p>3. EPRA NAV per share</p> <p>The value of our assets (based on an independent valuation) less the book value of our liabilities, attributable to shareholders and calculated in accordance with EPRA guidelines.</p>	<p>The NAV reflects our ability to grow the portfolio and to add value to it throughout the life cycle of our assets.</p>	<p>107.67 pence at 31 March 2018</p>	<p><i>Increased NAV per share since IPO by 9.67 pence.</i></p>
<p>4. Loan to value ratio ('LTV')</p> <p>The proportion of our total assets that is funded by borrowings. Our maximum LTV is 35%.</p>	<p>The LTV measures the prudence of our financing strategy, balancing the additional returns and portfolio diversification that come with using debt against the need to successfully manage risk.</p>	<p>30% at 31 March 2018</p>	<p><i>Below our maximum LTV target of 35%.</i></p>
<p>5. Adjusted earnings per share</p> <p>Post-tax Adjusted EPS attributable to shareholders, which includes the licence fee receivable on our forward funded development assets and realised gains on property disposals.</p>	<p>The Adjusted EPS reflects our ability to generate earnings from our portfolio, which ultimately underpins our dividend payments. A</p>	<p>5.12 pence for the period ended 31 March 2018</p>	<p><i>Fully covers our dividends paid and declared in respect of the Period.</i></p>

	reconciliation of Adjusted EPS is included in Note 25 to the consolidated financial statements.		
6. Total expense ratio ('TER') The ratio of total operating expenses, including management fees expressed as a percentage of the net asset value.	The TER is a key measure of our operational excellence. Maintaining a low cost base supports our ability to pay dividends.	1.14% for the period ended 31 March 2018	<i>In line with our target.</i>
7. Weighted average unexpired lease term ('WAULT') The average unexpired lease terms of the property portfolio, weighted by annual passing rents. Our target WAULT is a minimum of 20 years.	The WAULT is a key measure of the quality of our portfolio. Long lease terms underpin the security of our income stream.	24.4 years at 31 March 2018	<i>Better than our investment objective.</i>
8. Percentage of contracted rents index-linked or fixed This takes the total value of contracted rents that contain rent reviews linked to inflation or fixed uplifts.	This measures the extent to which we are investing in line with our investment objective, to provide inflation linked returns.	96% at 31 March 2018	<i>In line with our investment objective.</i>

EPRA performance measures

The table below shows additional performance measures, calculated in accordance with the Best Practices Recommendations of the European Public Real Estate Association ('EPRA'). We provide these measures to aid comparison with other European real estate businesses.

Full reconciliations of EPRA Earnings and NAV are included in Notes 25 and 26 of the consolidated financial statements respectively. A full reconciliation of the other EPRA performance measures is included below.

KPI and definition	Purpose	Performance
1. EPRA NAV Net asset value adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business.	Makes adjustments to IFRS NAV to provide stakeholders with the most relevant information on the fair value of the assets and liabilities within a true real estate investment company, with a long-term investment strategy.	£211.98 million / 107.67 pence per share at 31 March 2018
2. EPRA Earnings Earnings from operational activities (which excludes the licence fees receivable on our forward funded development assets).	A key measure of a company's underlying operating results and an indication of the extent to which current dividend payments are supported by earnings.	£5.82 million / 4.20 pence per share for the period ended 31 March 2018

<p>3. EPRA Triple Net Asset Value ('NNNAV')</p> <p>EPRA NAV adjusted to include the fair values of:</p> <p>(i) financial instruments;</p> <p>(ii) debt and;</p> <p>(iii) deferred taxes.</p>	<p>Makes adjustments to EPRA NAV to provide stakeholders with the most relevant information on the current fair value of all the assets and liabilities within a real estate company.</p>	<p>£212.92 million / 108.15 pence per share</p> <p>at 31 March 2018</p>
<p>4. EPRA Net Initial Yield ('NIY')</p> <p>Annualised rental income based on the cash rents passing at the reporting date, less non-recoverable property operating expenses, divided by the market value of the property, increased with (estimated) purchasers' costs.</p>	<p>This measure should make it easier for investors to judge for themselves how the valuations of two portfolios compare.</p>	<p>5.47% at 31 March 2018</p>
<p>5. EPRA 'Topped-Up' NIY</p> <p>This measure incorporates 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 step rents).</p>	<p>This measure should make it easier for investors to judge for themselves how the valuations of two portfolios compare.</p>	<p>7.67% at 31 March 2018</p>
<p>6. EPRA Vacancy</p> <p>Estimated market rental value ('ERV') of vacant space divided by the ERV of the whole portfolio.</p>	<p>A "pure" (%) measure of investment property space that is vacant, based on ERV.</p>	<p>0.00% at 31 March 2018</p>
<p>7. EPRA Cost Ratio</p> <p>Administrative and operating costs (including and excluding costs of direct vacancy) divided by gross rental income.</p>	<p>A key measure to enable meaningful measurement of the changes in a company's operating costs.</p>	<p>25.83% for the period ended 31 March 2018</p>

Principal risks and uncertainties

The Board considers that the principal risks and uncertainties faced by the Group are as follows:

Risk	Mitigant	Probability	Impact
Property and real estate risks			
<p>Competition for properties</p> <p>The Group will face competition from other property investors. Competitors may have greater financial resources than the Group and a greater ability to borrow funds to acquire properties. Competition in the property market may also lead either to an oversupply of properties in the target market through over development or the price of existing properties being driven up through competing bids by potential purchasers.</p>	<p>The Board has set the overall investment objective and strategy of the Group. The Board reviews the performance of the Group against its investment objectives at quarterly Board meetings. The Investment Advisor monitors the Group's financial position and returns on an ongoing basis. The Investment Advisor has long standing relationships and an extensive track record. The Group also has a wide range of available assets given (i) a multi sector approach and (ii) an ability to forward fund as well as invest in built assets.</p>	Moderate	Moderate
<p>Property valuation</p> <p>The Group invests in commercial properties. Property is inherently difficult to value due to the individual nature of each property. As a result, valuations are subject to uncertainty and there can be no assurance that the estimates resulting from the valuation process will reflect actual sales prices</p>	<p>The Group only acquires properties with strong fundamentals that are of strategic importance to their tenants. The Group aims to hold assets for long-term income and embeds income growth into leases which contributes toward positive valuation movements. An experienced Independent Valuer has been appointed to carry out bi-annual property</p>	Low	Moderate to High

<p>that could be realised by the Group in future. Such investments are generally illiquid; they may be difficult for the Group to sell and the price achieved on any realisation may be at a discount to the prevailing valuation of the relevant property.</p>	<p>valuations. The performance of third party service providers is regularly reviewed by the Board.</p>		
<p>Tenant default risk</p> <p>Dividends payable by the Group and ability to service the Group's debt will be dependent on the income from the properties it owns. Failure by one or more tenants to comply with their rental obligations could affect the ability of the company to secure dividends.</p>	<p>The Group undertakes thorough due diligence before acquisition and only acquires assets let to strong tenants with proven operating track records who should be able to pay the rents as and when they are due. The Group currently has 25 strong tenants across nine property sectors and is not over exposed to any single tenant or industry, maintaining a diversified portfolio.</p>	Low	Moderate
<p>Financial risks</p>			
<p>Operating within banking covenants</p> <p>The Group's borrowing facilities contain certain financial covenants relating to loan to value ratio and Interest Cover ratio, a breach of which would lead to a default on the loan. The Group must continue to operate within these financial covenants to avoid default.</p>	<p>The Group acquires property with a low loan to value ratio and there is significant headroom for valuation movements. The Group's LTV at 31 March 2018 was 30%, below our maximum LTV of 35% and materially below our default covenant of 50%. The Group has embedded index-linked or fixed income growth in 96% of its leases, by value, and has fully fixed the rate of debt. We also maintain a long WAULT which makes covenant compliance more predictable and the Investment Advisor regularly monitors this.</p>	Low	High
<p>Other risks</p>			
<p>Dependence on the Investment Advisor</p> <p>The Group relies on the Investment Advisor's services, market intelligence, relationships and expertise. To a large extent the Group's performance is reliant on the continued service of the Investment Advisor. A termination of the Investment Advisory Agreement would have an adverse impact on the Group's performance.</p>	<p>The Board has executed a long-term Investment Advisory Agreement securing the services of the Investment Advisor until February 2022. The Board meets regularly with the Investment Advisor to promote a positive working relationship and the performance of the Investment Advisory is monitored by the Management Engagement Committee. The Investment Advisory fee is based on a sliding scale per cent. based on market capitalisation to align the Investment Advisor's interest with those of the shareholders.</p>	Low	High
<p>Compliance</p> <p>Failure to adhere to accounting, legal and regulatory requirements could result in material adverse consequences for the Group. If the Group fails to remain qualified as a REIT, the Group will be subject to UK corporation tax on some or all of its property rental income and chargeable gains, which would reduce the earnings and amounts available for distribution to shareholders.</p>	<p>The Investment Advisor monitors compliance with the REIT regime. The Group has appointed third-party tax advisors with appropriate relevant experience to assist with tax compliance matters with appropriate relevant experience. Calculation of dividends is carried out by the Group's Administrator before review by the AIFM and Investment Advisor. The performance of third party service providers is regularly reviewed by the Management Engagement Committee and the Board.</p>	Low	High
<p>Political uncertainty</p>	<p>The Board recognises that the level of</p>	Moderate	Low

<p>Following the decision to exit the European Union, there is significant political and economic uncertainty. The extent of the impact on the Group is unknown but the impact on the economy could result in difficulty raising capital in the EU and/or a change in regulatory compliance burden on the Group.</p>	<p>uncertainty makes the risk difficult to mitigate fully. The strength of our tenant and guarantor group reduces the risk of economic uncertainty impacting our income and it is well positioned to withstand any downturn. The Group invest solely in UK properties. We also note the flight to attractive secure long income which has emerged post-referendum, attracting many investors to the sector due to the positive yield gap to gilts.</p>		
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Approval

The Strategic Report was approved by the Board of Directors.

Stephen Hubbard

Chairman of the Board of Directors

18 May 2018

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS as adopted by the EU) and applicable law and have elected to prepare the Parent Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of the Group's profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the Parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Parent Company financial statements;
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so; and
- prepare a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with the requirements of the Companies Act 2006.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006 and, as regards to the Group financial statements, Article 4 of the IAS regulation. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Website publication

The Directors are responsible for ensuring the Annual Report and the financial statements are made available on a website. Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Directors' responsibility statement

We confirm that to the best of our knowledge:

- the financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and Article 4 of the IAS Regulation and, 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 as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the financial 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 accounts taken as a whole is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's performance, business model and strategy.

Approval

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

For and on behalf of the Board

Stephen Hubbard

Chairman of the Board of Directors

18 May 2018

Consolidated statement of comprehensive income

For the period from 21 December 2016 to 31 March 2018

	Note	£000
Rental income	4	9,339
Administrative and other expenses	5	(2,412)
Operating profit before change in fair value and realised gains on disposal of investment property		6,927
Change in fair value of investment property	9	15,056
Realised gain on investment property disposal	9	91
Operating profit		22,074
Finance income	6	43
Finance costs	7	(1,151)
Profit for the period before tax		20,966
Taxation	8	-
Profit and total comprehensive income attributable to shareholders for the period		20,966
Earnings per share - basic and diluted	25	15.12p

Consolidated statement of financial position

As at 31 March 2018

	Note	£000
Non-current assets		
Investment property	9	255,178
Total non-current assets		255,178

Current assets		
Trade and other receivables	11	5,624
Deferred acquisition costs		1,274
Restricted cash	12	17,876
Cash and cash equivalents	12	30,787
Total current assets		55,561
Total assets		310,739
Current liabilities		
Trade and other payables	13	5,237
Total current liabilities		5,237
Non-current liabilities		
Bank borrowings	14	93,521
Total non-current liabilities		93,521
Total liabilities		98,758
Net assets		211,981
Equity		
Share capital	15	1,969
Share premium reserve	16	58,979
Capital reduction reserve	16	130,067
Retained earnings		20,966
Total equity		211,981
Net asset value per share - basic and diluted	26	107.67p
EPRA net asset value per share	26	107.67p

The consolidated financial statements were approved and authorised for issue by the Board on 18 May 2018 and signed on its behalf by:

Stephen Hubbard
Chairman of the Board of Directors

Consolidated statement of changes in equity

For the period from 21 December 2016 to 31 March 2018

	Note	Share capital £000	Share premium reserve £000	Capital reduction reserve £000	Retained earnings £000	Total equity £000
Balance as at 21 December 2016		-	-	-	-	-
Profit and total comprehensive income attributable to shareholders for the period		-	-	-	20,966	20,966
Transactions with owners						
First issue of Ordinary Shares	15,16	1,382	136,768	-	-	138,150
Share issue costs	16	-	(2,688)	-	-	(2,688)
Cancellation of share premium	16	-	(134,005)	134,005	-	-
Second issue of Ordinary Shares	15,16	587	59,613	-	-	60,200
Share issue costs	16	-	(709)	-	-	(709)
Dividends Paid						
First interim dividend in respect for the period ended 31 March 2018 at 1.00 pence per Ordinary Share	17	-	-	(1,969)	-	(1,969)
Second interim dividend in respect for the period ended 31 March 2018 at 1.00 pence per Ordinary Share	17	-	-	(1,969)	-	(1,969)

Balance as at 31 March 2018	1,969	58,979	130,067	20,966	211,981
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Consolidated cash flow statement

For the period from 21 December 2016 to 31 March 2018

	Note	£000
Cash flows from operating activities		
Profit before income tax		20,966
Adjustments for:		
Finance income	6	(43)
Finance costs	7	1,151
Change in fair value of investment property	9	(15,056)
Realised gain on investment property disposal	9	(91)
Tenant lease incentives	4	(1,687)
Operating results before working capital changes		5,240
Increase in trade and other receivables		(5,624)
Increase in trade and other payables		3,121
Net cash flow generated from operating activities		2,737
Cash flows from investing activities		
Purchase of investment properties		(238,452)
Proceeds from sale of investment property		702
Interest received		43
Net cash flow used in investing activities		(237,707)
Cash flows from financing activities		
Proceeds from shares issued in the period		198,350
Share issue costs paid		(3,397)
Dividend paid		(3,458)
Interest paid		(1,313)
Bank borrowings drawn		77,124
Loan arrangement fees paid		(1,549)
Net cash flow generated from financing activities		265,757
Net increase in cash and cash equivalents		30,787
Cash and cash equivalents at the beginning of the period		-
Cash and cash equivalents at the end of the period	12	30,787

Notes to the consolidated financial statements

1. Basis of preparation

The financial information contained in this announcement has been prepared on the basis of the accounting policies set out in the financial statements for the period ended 31 March 2018. Whilst the financial information included in this announcement has been computed in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, this announcement does not itself contain sufficient information to comply with IFRS. The financial information does not constitute the Group's financial statements for the period ended 31 March 2018, but is derived from those financial statements. Those financial statements give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group. Financial statements for the period ended 31 March 2018 will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The auditor's report on the 31 March 2018 financial statements was unqualified; did not draw attention to any matters by way of emphasis; and did not contain statements under s498(2) or (3) of the Companies Act 2006.

The Group's financial statements have been prepared on a historical cost basis, as modified for the Group's investment properties which have been measured at fair value through the statement of comprehensive income.

The consolidated financial statements are presented in Sterling, which is also the Group's functional currency.

The Group has chosen to adopt EPRA best practice guidelines for calculating key metrics such as EPRA net asset value and EPRA earnings per share.

The following are new standards, interpretations and amendments, which are not yet effective and have not been early adopted in this financial information, that will or may have an effect on the Group's future financial statements:

- IFRS 9 Financial Instruments. The standard will replace IAS 39 Financial Instruments and contains two primary measurement categories for financial assets (effective for annual periods beginning on or after 1 January 2018)
- IFRS 15 Revenue from contracts. The standard replaces IAS 11 Construction Contracts and IAS 18 Revenue. The standard introduces a new revenue recognition model that recognises revenue either at a point in time or over time (effective for annual periods beginning on or after 1 January 2018)
- IFRS 16 Leases: introduction of a single, on-balance sheet accounting model for leases which refers primarily to accounting for lessees (effective for annual periods beginning on or after 1 January 2019).

The Directors have given due consideration to the impact on the consolidated financial statements of the standards listed above and at present they do not anticipate that the adoption of these standards and interpretations will have a material impact on the consolidated financial statements in the period of initial application, other than on presentation and disclosure.

- **Going concern**

The consolidated financial statements have been prepared on a going concern basis.

The Group benefits from a secure income stream from long leases with its tenants, which is not overly reliant on any one tenant and present a well-diversified risk. The Group's cash balance as at 31 March 2018 was £30.71 million which was readily available and £17.88 million which is restricted (Note 12). As at 31 March 2018, the Group had capital commitments totalling £21.65 million (Note 23), and contingent liabilities reflecting the conditional exchange of contracts on properties with an investment price of £17.33 million (Note 24).

As a result, the Directors believe that the Group is well placed to manage its financing and other business risks and that the Group will remain viable, continuing to operate and meets its liabilities as they fall due.

The Directors believe that there are currently no material uncertainties in relation to the Group's ability to continue in operation for the period of at least 12 months from the date of approval of the consolidated financial statements. The Board is, therefore, of the opinion that the going concern basis adopted in the preparation of the financial statements is appropriate.

2. Significant accounting judgments, estimate and assumptions

In the application of the Group's accounting policies, which are described in Note 3, the Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below:

Estimates:

- **Valuation of investment properties**

The Group uses the valuation carried out by its Independent Valuer as the fair value of its property portfolio. The valuation is based upon assumptions including future rental income and the appropriate capitalisation rate. The Independent Valuer makes reference to market evidence of transaction prices for similar properties.

The Group's properties have been independently valued by Knight Frank LLP (the 'Independent Valuer') in accordance with the definitions published by the Royal Institute of Chartered Surveyors' ('RICS') Valuation - Professional Standards, July 2017, Global and UK Editions (commonly known as the 'Red Book').

Investment properties under construction are financed by the Group where the Group enters into contracts for the development of a pre-let property under a funding agreement. All such contracts specify a fixed amount of consideration. The Group does not expose itself to any speculative development risk as the proposed building is pre-let to a tenant under an agreement for lease and the Group enters into a fixed price development agreement with the developer. Investment properties under construction are initially recognised as cost (including any associated costs), which reflect the Group's investments in the assets. Subsequently, the assets are remeasured to fair value at each reporting date. The fair value of investment

properties under construction is estimated as the capitalised income calculated by the Independent Valuer, less any costs still payable in order to complete, which include an appropriate developer's margin.

With respect to the consolidated financial statements, investment properties are valued at their fair value at each reporting date in accordance with IFRS 13 which recognises a variety of fair value inputs depending upon the nature of the investment. Given the bespoke nature of each of the Group's investments, all of the Group's investment properties are included in Level 3. Details of the nature of these inputs and sensitivity analysis is provided in Note 9.

Judgments:

- **Classification of lease arrangements - the Group as lessor**

The Group has acquired investment property that is leased to tenants. In considering the classification of lease arrangements, at inception of each lease the Group considers the economic life of the asset compared with the lease term and the present value of the minimum lease payments and any residual value compared with the fair value and associated costs of acquiring the asset as well as qualitative factors as indicators that may assert to the risks and rewards of ownership having been substantially retained or transferred. Based on evaluation the Group has determined that it retains all the significant risks and rewards of ownership of its investment property and accounts for the lease arrangements as operating leases.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. The policies have been consistently applied.

- **Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Group as at the period end date.

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. All intra-group transactions, balances, income and expenses are eliminated on consolidation. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Accounting policies of the subsidiaries are consistent with the policies adopted by the Company.

- **Investment property**

Investment property, which is property held to earn rentals and/or for capital appreciation, is initially measured at cost, being the fair value of the consideration given, including expenditure that is directly attributable to the acquisition of the investment property. After initial recognition, investment property is stated at its fair value at the reporting date. Gains and losses arising from changes in the fair value of investment property are included in the period in which they arise in the statement of comprehensive income.

Investment properties under construction are financed by the Group where the Group enters into contracts for the development of a pre-let property under a funding agreement. All such contracts specify a fixed amount of consideration. The Group does not expose itself to any speculative development risk as the proposed building is pre-let to a tenant under an agreement for lease and the Group enters into a fixed price development agreement with the developer. Investment properties under construction are initially recognised at cost (including any associated costs), which reflect the Group's investment in the assets. Subsequently, the assets are remeasured to fair value at each reporting date. The fair value of investment properties under construction is estimated as the fair value of the completed asset less any costs still payable in order to complete, which include an appropriate developer's margin.

During the period between initial investment and the rent commencement date, the Group receives licence fee income from the developer. Licence fees receivable by the Group in respect of the period are treated as discounts to the cost of investment property. Any economic benefit of the licence fee is recognised through the change in fair value of investment property.

When development completion is reached, the completed investment property is transferred to the appropriate class of investment property at the fair value at the date of practical completion so that any economic benefit of the licence fee is appropriately reflected within investment property under construction.

Subsequent expenditure is capitalised only when it is probable that future economic benefits are associated with the expenditure. Ongoing repairs and maintenance are expensed as incurred.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is incurred in profit or loss in the period in which the property is derecognised.

Deferred acquisition costs represent costs incurred on investment properties which completed after the period end and will subsequently be capitalised.

Significant accounting judgments, estimates and assumptions made in the valuation of investment properties are discussed in Note 2.

- **Financial instruments**

- a. **Financial assets**

- Trade and other receivables**

Financial assets recognised in the consolidated statement of financial position as trade and other receivables are classified as loans and receivables. They are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment.

- Cash**

Cash and cash equivalents and restricted cash are also classified as loans and receivables. They are subsequently measured at amortised cost.

- Impairment**

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence (such as significant financial difficulty of the obligor, breach of contract, or it becomes probable that the debtor will enter bankruptcy), the asset is tested for impairment. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (that is, the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in the income statement.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. Impaired debts are derecognised when they are assessed as uncollectible.

- a. **Financial liabilities**

All loans and borrowings are classified as other liabilities. Initial recognition is at fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Financial liabilities included in trade and other payables are recognised initially at fair value and subsequently at amortised cost. The fair value of a non-interest bearing liability is its discounted repayment amount. If the due date of the liability is less than one year, discounting is omitted.

- **Fair value hierarchy**

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation at the end of each reporting period.

- **Leases - The Group as Lessor**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group has determined that it retains all the significant risks and rewards of ownership of the properties and accounts for the contracts as operating leases.

Properties leased out under operating leases are included in investment property in the consolidated statement of financial position. Rental income from operating leases is recognised on a straight line basis over the expected term of the relevant leases.

- **Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand and deposits held at call with banks. Cash and cash equivalents also includes cash held by lawyers for subsequent completions.

- **Restricted cash**

Restricted cash represents cash withheld by the lender on drawdowns of borrowings referred to in Note 14 until the certain security is provided to release the funds and in consequence does not form an integral part of the Group's cash management as at the reporting date.

- **Taxation**

Taxation on the profit or loss for the period not exempt under UK REIT regulations or otherwise, comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income except to the extent that it relates to items recognised as direct movement in equity, in which case it is recognised as a direct movement in equity. Current tax is expected tax payable on any non-REIT taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax that is provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

- **Bank Borrowings**

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Borrowing costs are amortised over the lifetime of the facilities through profit or loss.

- **Dividend payable to shareholders**

Dividends to the Company's shareholders are recognised as a reduction in equity in the financial statements at the earlier of the date they are paid and the date they are approved at the AGM.

- **Finance income and finance costs**

Finance income is recognised as interest accrues on cash balances held by the Group. Finance costs consist of interest payable and loan arrangement fees which are expensed using the effective interest rate method over the term of the loan and other costs that the Group incurs in connection with bank and other borrowings which are expensed in the period in which they occur.

Any finance costs that are separately identifiable and directly attributable to the development of an investment property that takes a period of time to complete are capitalised as part of the cost of the asset.

- **Equity issue costs**

The costs of issuing equity instruments are accounted for as a deduction from equity.

4. Net rental income

**21 December 2016
to 31 March 2018
£000**

Rental income from investment property	9,339
	9,339

Revenue includes amounts receivable in respect of property rental income and is measured at the fair value of the consideration received or receivable. Rental income is derived from investment properties and is recognised on a straight line basis over the expected term of the relevant leases.

Lease incentives and rental uplifts are spread evenly over the expected period of the lease and £1,687,000 (Note 9) is included in the rental income for the period.

5. Administrative and other expenses

	21 December 2016 to 31 March 2018 £000
Investment advisory fees	1,387
Legal and professional fees	397
Directors' fees	142
Employers' national insurance	15
Corporate administration fees	193
Other administrative costs	72
Advertising & Marketing	76
Fees paid to the Company's Independent Auditor	130
	<u><u>2,412</u></u>

Fees paid to the Company's Independent Auditor comprise £15,000 for the audit of the initial accounts, £20,000 for the interim review and £95,000 in respect of the audit of the annual report and financial statements.

The Company has paid additional fees of £96,750 to the Company's Independent Auditor relating to the admission on the London Stock Exchange which have been treated as a reduction in equity as share issue costs (Note 16).

The Directors fees are satisfied by way of Ordinary Shares acquired at market value, such Ordinary Shares are acquired on behalf of the Directors and for their account by the Company's broker.

On 27 February 2017 LXi REIT Advisors Limited was appointed as the Investment Advisor of the Company by entering into the Investment Advisory Agreement with the Company. Under this agreement, the Investment Advisor advises the Company in relation to the management, investment and reinvestment of the assets of the Group.

The investment advisory fee is calculated in arrears in respect of each month, in each case based upon the average market capitalisation of the Company on the following basis:

- (a) One-twelfth of 0.75 per cent per calendar month of Market Capitalisation up to or equal to £500 million; and
- (b) One-twelfth of 0.65 per cent per calendar month of Market Capitalisation above £500 million.

No performance fee is payable to the Investment Advisor.

The appointment of the Investment Advisor shall continue in force unless and until terminated by either party giving to the other not less than 12 months' written notice, such notice not to expire earlier than 27 February 2022.

6. Finance income

	21 December 2016 to 31 March 2018 £000
Interest on cash held at bank	43
	<u><u>43</u></u>

7. Finance costs

	21 December 2016 to 31 March 2018 £000
Interest payable on bank borrowings	1,090
Amortisation of loan arrangement fees	58
Bank charges	3
	<u><u>1,151</u></u>

Capitalised finance costs are included within property acquisitions in Note 9. The total interest payable on financial liabilities carried at amortised cost comprises:

- (i) the interest payable on bank borrowings totalling £1,310,000 of which £220,000 was capitalised; and

- (ii) the amortisation of loan arrangement fees totalling £70,000 of which £12,000 was capitalised.

8. Taxation

The Group is a real estate investment trust ('REIT') and as a result the profit and gains arising from the Group's property rental business are exempt from UK corporation tax, provided the Group meets certain conditions as set out in the UK REIT regulations. Profits arising from any residual activities (e.g. trading activities and interest income), after the utilisation of any available residual tax losses, are subject to corporation tax at the main rate of 19% for the period.

	21 December 2016 to 31 March 2018 £000
Current tax	-
Total current tax	-
Origination and reversal of temporary differences	-
Total deferred tax	-
Tax charge	-

Reconciliation of the total tax charge

The reconciliation of profit before tax multiplied by the standard rate of corporation tax for the period of 19% to the total tax charge in the income statement is as follows:

	21 December 2016 to 31 March 2018 £000
Profit for the period	20,966
Tax at the standard rate of UK corporation tax of 19%	3,984
Effects of:	
REIT exempt income	(1,122)
Revaluation of investment properties	(2,862)
Tax charge	-

UK REIT exempt income includes property rental income that is exempt from UK Corporation Tax in accordance with Part 12 of CTA 2010.

9. Investment property

	Investment property long leasehold £000	Investment property freehold £000	Investment property in course of construction £000	Total £000
Balance at beginning of period	-	-	-	-
Property acquisitions	8,664	209,557	22,013	240,234
Licence fee receivable (Note 25)	-	-	(1,188)	(1,188)
Tenant lease incentives (Note 4)	141	1,546	-	1,687
Property disposals	-	(611)	-	(611)
Transfers of completed property	-	6,326	(6,326)	-
Change in fair value during the period	350	9,428	5,278	15,056
Balance at end of period	9,155	226,246	19,777	255,178

The investment property has been independently valued at fair value by Knight Frank LLP, the Independent Valuer, an accredited external valuer with recognised and relevant professional qualifications and recent

experience of the location and category of the investment property being valued. The valuations are the ultimate responsibility of the Directors.

The Independent Valuer valued the entire property portfolio at £278.92 million as at 31 March 2018 including capital commitments on forward funded assets.

During the period, the Group disposed of investment property for consideration of £729,000. The property was carried at cost of £611,000 and the Group incurred selling costs of £27,000. This resulted in a gain on disposal of investment property recognised in the consolidated statement of comprehensive income of £91,000.

All corporate acquisitions during the period have been treated as asset purchases rather than business combinations as they are considered to be acquisitions of property rather than a business.

All ground rents payable by the Group on long leasehold properties are nominal and as such no finance lease liability has been recognised in respect of these properties.

The Group neither undertakes any direct development activity nor assumes direct development risk. However, the Group may invest in fixed-price forward funded developments, provided they are pre-let to an acceptable tenant and full planning permission is in place. In such circumstances, the Group receives a cash return during the construction phase and prior to the tenant commencing rental payments under the terms of the lease through a licence fee.

	31 March 2018
	£000
Investment property at fair value	255,178
Capital commitments (Note 23)	21,647
Vendor discount in respect of rent free periods	1,134
Licence fee receivable (Note 11)	961
Total portfolio valuation	<u>278,920</u>

Capital commitments represent the costs to bring the asset to completion under the funding agreements with the developers which includes a developer's margin. These costs are not provided for in the statement of financial position.

Vendor discounts in respect of rent free periods represent amounts by which a purchase price was reduced by the vendor on acquisition of forward funded developments to cover future rent free periods of the lease. The valuation assumes the property to be income generating throughout the lease and therefore includes this income in the valuation.

Licence fee receivable represent amounts due from developers under funding agreements that have not been settled at the period end. The valuation assumes the property to be income generating throughout the period of development and therefore includes this income in the valuation.

Fair value hierarchy

Assets measured at fair value:	Date of valuation	Total £000	Quoted prices in active markets (Level 1) £000	Significant observable inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000
Investment property	31 March 2018	255,178	-	-	255,178

There have been no transfers between levels during the period.

The valuations have been prepared in accordance with the RICS Valuation - Professional Standards (incorporating the International Valuation Standards).

The determination of the fair value of investment property requires the use of estimates such as future cash flows from assets (such as lettings, tenants' profiles, future revenue streams, capital values of fixtures and fittings, plant and machinery, any environmental matters and the overall repair and condition of the property) and discount rates applicable to those assets.

The following descriptions and definitions relating to valuation techniques and key inputs made in determining fair values are as follows:

Valuation techniques: market value method

Under the market value method, the estimated amount for which an asset or liability should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Observable input: passing rent

The prevailing rent at which space is let at the date of valuation (range: £10,140-£1,300,000 per annum). Passing rents are dependent upon a number of variables in relation to the Group's property. These include: size, location, tenant covenant strength and terms of the lease.

Unobservable input: rental growth

The estimated average increase in rent based on both market estimations and contractual arrangements. A reduction of the estimated future rental growth in the valuation model would lead to a decrease in the fair value of the investment property and an inflation of the estimated future rental growth would lead to an increase in the fair value. No quantitative sensitivity analysis has been provided for estimated rental growth as a reasonable range would not result in a significant movement in fair value.

Unobservable input: net initial yield

The net initial yield is defined as the initial gross income as a percentage of the market value (or purchase price as appropriate) plus standard costs of purchase (range: 4.64%-6.25%).

Sensitivities of measurement of significant inputs

As set out within significant accounting estimates and judgments above, the Group's property portfolio valuation is open to judgments and is inherently subjective by nature.

As a result, the following sensitivity analysis has been prepared:

Investment property	-5% in passing rent £000	+5% in passing rent £000	+25bps in net initial yield £000	-25bps in net initial yield £000
(Decrease)/increase in the fair value	(14,183)	13,693	(12,742)	13,493

10. Financial instruments

Set out below is a comparison of the carrying amounts and fair value of the Group's financial instruments where a difference exists:

	Book value 31 March 2018 £000	Fair value 31 March 2018 £000
Bank borrowings (Note 14)	93,521	92,579

The fair value of all other financial instruments is equal to their carrying amount.

11. Trade and other receivables

	31 March 2018 £000
Recoverable VAT	3,499
Rent receivable	1,130
Licence fee receivable (Note 9)	961
Prepayments and other receivables	34
	<u>5,624</u>

All amounts are due for receipt within one year.

Trade and other receivables that are financial assets amount to £2,125,000 which comprises licence fee receivable, rent receivable and prepayments.

12. Cash reserves

	31 March 2018 £000
Cash at bank	30,712

Cash held by lawyers	75
Total cash and cash equivalents	30,787
Restricted cash	17,876
Total cash at bank	48,663

Cash held by lawyers is money held in escrow for expenses expected to be incurred in relation to investment properties pending completion. These funds are available immediately on demand.

13. Trade and other payables

	31 March 2018
	£000
Deferred rental income	1,978
Accrued investment property costs	1,636
Trade and other payables	1,324
Accruals	281
Directors' fees	18
	5,237

All amounts are due for payment within one year.

Trade and other payables that are financial liabilities amount to £3,259,000 which comprises accrued investment property costs, accruals, trade and other payables and Directors' fees.

14. Bank borrowings

	31 March 2018
	£000
Drawdowns	95,000
Capital outstanding at 31 March 2018	95,000
Less: unamortised loan arrangement fees	(1,479)
Carrying value	93,521

Maturity of bank borrowings

	31 March 2018
	£000
Repayable between 1 and 2 years	-
Repayable between 2 and 5 years	-
Repayable after 5 years	93,521
	93,521

On 4 July 2017 the Group announced a 12-year, fixed rate, interest only loan facility of £55 million with Scottish Widows Limited. The facility has a fixed all-in rate payable of 2.93% per annum, for the duration of the 12 year loan term.

On 12 December 2017 the Group announced an additional 11.5 year, fixed rate, interest only loan facility of £40 million with Scottish Widows Limited. The facility has a fixed all-in rate payable of 2.85% per annum, for the duration of the loan term.

The Group has remained compliant with the covenants throughout the period up to the date of this report.

The facilities are secured against certain of the Group's investment property.

15. Share capital

	31 March 2018
	£000
Authorised:	
196.88 million Ordinary Shares of £0.01 each	1,968,817
Issued and fully paid:	
196.88 million Ordinary Shares of £0.01 each	1,968,817

The Company achieved admission to the premium listing segment of the Official List of the London Stock Exchange on 27 February 2017. At IPO, the Company issued 138,150,000 shares of £0.01 nominal value and a premium of £0.99 per share for total consideration of £138.15 million. On 16 October 2017 the Company issued 58,731,707 additional shares of £0.01 nominal value and a premium of £1.02 per share for total consideration of £60.20 million.

On 27 January 2017, 50,000 redeemable preference shares of £1.00 were issued at par. These shares were subsequently redeemed at par and cancelled on 22 February 2017.

16. Share premium reserve

The share premium relates to amounts subscribed for share capital in excess of nominal value net of directly attributable share issue costs.

	31 March 2018
	£000
Balance at beginning of period	-
Share premium arising on first issue of Ordinary Shares	136,768
Share issue costs	(2,688)
Transfer to capital reduction reserve	(134,005)
Share premium arising on second issue of Ordinary Shares	59,613
Share issue costs	(709)
Balance at end of period	<u>58,979</u>

On 27 January 2017, a resolution was passed authorising the cancellation of the share premium account conditional on the following terms:

- Admission of the Ordinary Shares of the Company to listing on the UK Listing Authority's Official List
- The Company's Ordinary Shares to commence trading on London Stock Exchange's Main Market for listed securities
- Approval of the Court for the reduction of share capital

The amount standing to the credit of the share premium account of the Company following completion of the IPO (less issue expenses set off against the share premium account) was, as a result, transferred to the capital reduction reserve. This is a distributable reserve which is capable of being applied in any manner in which the Company's profits available for distribution (as determined in accordance with the Companies Act 2006) are able to be applied.

In order to cancel the share premium account the Company obtained a court order on 28 June 2017. An SH19 form was sent to Companies House with a copy of the court order and the certificate of cancellation was issued by the Registrar of Companies on 28 June 2017.

17. Dividends

	31 March 2018
	£000
First interim dividend in respect of period ended 31 March 2018 at 1.00 pence per Ordinary Share	1,969
Second interim dividend in respect of period ended 31 March 2018 at 1.00 pence per Ordinary Share	1,969
Total dividends paid	<u>3,938</u>
Total dividends paid for the period	<u>2.00p</u>
Total dividends declared for the period	<u>4.00p</u>

On 23 November 2017, the Company announced the declaration of a first interim dividend in respect of the period from 21 December 2016 to 30 September 2017 of 1.00 pence per Ordinary Share which was payable 29 December 2017 to ordinary shareholders on the register on 1 December 2017.

On 16 February 2018, the Company announced the declaration of a second interim dividend in respect of the period from 1 October 2017 to 31 December 2017 of 1.00 pence per Ordinary

Share which was payable 29 March 2018 to ordinary shareholders on the register on 2 March 2018.

On 18 May 2018, the Company the Board proposed a final dividend in respect of the period from 1 January 2018 to 31 March 2018 of 2.00 pence per Ordinary Share, payable on 2 July 2018 to shareholders on the register at the close of business on 8 June 2018. The Ordinary Shares will go ex-dividend on 7 June 2018.

18. Operating leases - The Group as lessor

The future minimum lease receivable by the Group under non-cancellable operating leases as at 31 March 2018 are as follows:

31 March 2018	< 1 year £000	2-5 years £000	> 5 years £000	Total £000
Lease receivables	15,475	61,941	318,152	395,568
	15,475	61,941	318,152	395,568

All of the Group's leases:

- are on full repairing and insuring terms, meaning the tenants are responsible for repair, maintenance and outgoings;
- provide for fixed rents (rather than turnover rents), which review on an upward only basis (either annually or five yearly). The vast majority (96%) have rent reviews directly linked to inflation or on a fixed basis; and
- have long contractual terms, averaging 24 years to first break

19. Segmental information

Operating segments are identified on the basis of internal financial reports about components of the Group that are regularly reviewed by the chief operating decision maker (which in the Group's case is the Executive Committee comprising the non-executive Directors and the Investment Advisor) in order to allocate resources to the segments and to assess their performance.

The internal financial reports received by the Group's Executive Committee contain financial information at a Group level as a whole and there are no reconciling items between the results contained in these reports and the amounts reported in the financial statements. These internal financial reports include the IFRS figures but also report the non-IFRS figures for the EPRA Performance Measures and Adjusted earnings as disclosed in Note 25 and 26.

The Group's property portfolio comprises investment property, diversified across nine different property sub-sectors. The Directors consider that all the properties have similar economic characteristics. Therefore, in the view of the Directors, there is one reportable segment.

All of the Group's properties are based in the UK and as such no geographical grouping is considered appropriate for segmental analysis.

Three tenants have contributed individually more than 10% or more of the Group's rental income in the period and are therefore considered major customers. The contributions of the respective major customers to rental income were £1,342,000, £1,269,000 and £1,043,000.

20. Related party transactions

The Directors are entitled to receive a fee from the Company at such rate as may be determined in accordance with the Articles. Save for the Chairman, the initial fees will be £27,500 for each Director per annum. The Chairman's initial fee will be £40,000 per annum. In addition, the Chair of the Audit Committee will receive an additional fee of £5,000 per annum and the Chair of the Management Engagement Committee will receive an additional fee of £2,500 per annum.

Each of the Directors have agreed that any fees payable to them shall, save where the Company determines otherwise, be satisfied in Ordinary Shares acquired at market value, such Ordinary Shares to be acquired off market without a new issue of shares on behalf of the Directors and for their account by the Company's broker. Any Ordinary Shares acquired by the Directors pursuant to these arrangements shall be subject to the terms of the Lock-in Deed.

Information on the fees payable to Directors in respect of the Period are given in the Directors' Remuneration Report.

During the Period, the Directors purchased and continue to hold the following number of nominal Ordinary Shares:

Stephen Hubbard (Chairman) - 71,057 Ordinary Shares

Colin Smith - 160,681 Ordinary Shares

John Cartwright - 38,030 Ordinary Shares

Jan Etherden - 30,838 Ordinary Shares

Fees of £142,000 were payable to the Directors in respect of the Period. At 31 March 2018, the amount of £18,000 was due to the Directors.

LXi REIT Advisors Limited was appointed as the Investment Advisor of the Company on 27 February 2017.

Fees of £1,387,000 was payable to the Investment Advisor in respect of the Period. At 31 March 2018, £125,000 was due to the Investment Advisor.

On 27 January 2017, 50,000 redeemable preference shares of £1.00 were issued to a former Director of the Company at par. These shares were subsequently redeemed at par and cancelled on 22 February 2017.

21. Consolidated entities

The Group owns 100% equity shares of all subsidiaries listed below and has the power to appoint and remove the majority of the Board of Directors of those subsidiaries. The relevant activities of the below subsidiaries are determined by the respective Directors based on simple majority votes. Therefore the Directors of the Group have concluded that the Group has control over all these entities and all these entities have therefore been consolidated within these financial statements.

Name of Entity	Principal activity	Country of Incorporation	Ownership %
LXi Property Holdings 1 Limited	Property Investment	UK	100%
LXi Property Holdings 2 Limited	Property Investment	UK	100%
ALCO 1 Limited	Property Investment	UK	100%
ALCO 2 Limited	Property Investment	UK	100%
FPI CO 116 Limited	Property Investment	UK	100%
FPI CO 118 Limited	Property Investment	UK	100%
FPI CO 119 Limited	Property Investment	UK	100%
FPI CO 120 Limited	Property Investment	UK	100%
FPI CO 133 Limited	Property Investment	UK	100%
FPI CO 135 Limited	Property Investment	UK	100%
FPI CO 136 Limited	Property Investment	UK	100%
FPI CO 137 Limited	Property Investment	UK	100%
FPI CO 138 Limited	Property Investment	UK	100%
FPI CO 139 Limited	Property Investment	UK	100%
FPI CO 141 Limited	Property Investment	UK	100%
FPI CO 144 Limited	Property Investment	UK	100%
FPI CO 146 Limited	Property Investment	UK	100%
FPI CO 148 Limited	Property Investment	UK	100%
FPI CO 158 Limited	Property Investment	UK	100%
FPI CO 219 Limited	Property Investment	UK	100%
FPI CO 222 Limited	Property Investment	UK	100%
FPI CO 223 Limited	Property Investment	UK	100%
HC Dundee Limited	Property Investment	Isle of Man	100%
Taiba Property Investments 1 Limited	Property Investment	Jersey	100%

The registered address for the above subsidiaries across the Group is Mermaid House, 2 Puddle Dock, London, England, EC4V 3DB.

22. Financial risk management

The Group is exposed to market risk, interest rate risk, credit risk and liquidity risk in the current and future periods. The Board of Directors oversees the management of these risks. The policies of the Directors for managing each of these risks are summarised below.

- **Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group has reduced the interest rate risk on its external borrowing by fixing the rate of interest payable.

- **Credit risk**

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group will be exposed to credit risk on both its leasing activities and financing activities, including deposits with banks and financial institutions.

Credit risk related to financial instruments and cash deposits

One of the principal credit risks of the Group will arise with the banks and financial institutions. The Board of Directors believes that the credit risk on short-term deposits and current account cash balances is limited because the counterparties are banks with high credit ratings.

All financial assets are regularly monitored. The maximum exposure to credit risk at the reporting date is the carrying value of financial assets disclosed below.

- **Liquidity risk**

The Group manages its liquidity and funding risks by considering cash flow forecasts and ensuring sufficient cash balances are held within the Group to meet future needs. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of financing through appropriate and adequate credit lines, and the ability of customers to settle obligations within normal terms of credit. The Group ensures, through forecasting of capital requirements, that adequate cash is available.

The following table details the Group's liquidity analysis in respect of its financial assets and liabilities:

	< 3 months	3-12	1-5	> 5	Total
31 March 2018	£000	months	years	years	£000
		£000	£000	£000	£000
Financial assets					
Trade and other receivables (Note 11)	2,125	-	-	-	2,125
Cash held at bank (Note 12)	48,663	-	-	-	48,663
	50,788	-	-	-	50,788
Financial liabilities					
Bank borrowings (Note 14)	-	-	-	95,000	95,000
Interest payable on bank borrowings	694	2,060	13,776	14,508	31,038
Trade and other payables (Note 13)	3,259	-	-	-	3,259
	3,953	2,060	13,776	109,508	129,297

- **Capital management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group considers proceeds from share issuance, bank borrowings and retained earnings as capital. The Group's policy on borrowing is as set out below:

- The level of borrowing will be on a prudent basis for the asset class, and will seek to achieve a low cost of funds, whilst maintaining flexibility in the underlying security requirements and the structure of the Group.

- The Directors intend to maintain a conservative level of aggregate borrowings with a medium term target of 35% of the Group's gross assets.

23. Capital commitments

The Group has capital commitments of £21.65 million in relation to the cost to complete its forward funded pre-let development assets as at 31 March 2018. All commitments fall due for settlement within one year from the date of this report.

24. Contingent liabilities

As at 31 March 2018 the Group had exchanged contracts for three acquisitions that had not reached legal completion for total consideration of £17.33 million. All contingent liabilities are expected to fall due for settlement within one year from the date of this report.

25. Earnings per share

Earnings per share ('EPS') amounts are calculated by dividing profit for the period attributable to ordinary equity holders of the Company by the weighted average number of Ordinary Shares in issue during the period. Both basic and diluted earnings per share are quoted below.

	Net profit attributable to ordinary shareholders £000	Weighted average number of Ordinary Shares Number	Earnings per share Pence
For the period from 21 December 2016 to 31 March 2018			
Basic and diluted EPS (pence)	20,966	138,615,909	15.12
Adjustments to remove:			
Change in fair value of investment properties (Note 9)	(15,056)	138,615,909	(10.86)
Realised gain on investment property disposal (Note 9)	(91)	138,615,909	(0.07)
EPRA EPS (pence)	5,819	138,615,909	4.20
Adjustments to include:			
Licence fees receivable (Note 9)	1,188	138,615,909	0.86
Realised gain on investment property disposal (Note 9)	91	138,615,909	0.07
Adjusted EPS (pence)	7,098	138,615,909	5.12

Adjusted EPS is a performance measure used by the Board to assess the Group's dividend payments. The metric adjusts EPRA earnings to include licence fees receivable from developers during the course of construction of the Group's forward funded developments and realised gains on investment property disposal. The Group's accounting policy for these licence fees is to recognise them as a discount to the cost of the investment property, however The Board considers these cash returns as underpinning the dividend payment in respect of the period.

26. Net asset value per share

Net asset value ('NAV') per share is calculated by dividing net assets in the consolidated statement of financial position attributable to ordinary equity holders of the parent by the number of Ordinary Shares outstanding at the end of the period. Both basic and diluted NAV per share are quoted below.

Net asset values have been calculated as follows:

	31 March 2018 £000
Net assets at end of period	211,981
Adjustments to calculate EPRA NAV	-
EPRA Net assets	211,981
Shares in issue at end of period (number)	196,881,707
Dilutive shares in issue	-

Number of shares	196,881,707
Basic and diluted EPRA NAV per share (pence)	107.67

27. Post balance sheet events

On 30 April 2018 the Group reached practical completion on a forward funded development with an acquisition price of £11.10 million, pre-let to GE UK Group in Cramlington on a new 20 year lease agreement subject to uplifts linked to RPI.

28. Controlling parties

As at 31 March 2018 there is no ultimate controlling party of the Company.

Company statement of financial position

As at 31 March 2018

	Note	£000
Non-current assets		
Investment in subsidiaries	4	183,885
Investment property	5	6,500
Total non-current assets		190,385
Current assets		
Trade and other receivables	6	10,438
Cash and cash equivalents	7	657
Total current assets		11,095
Total assets		201,480
Current liabilities		
Trade and other payables	8	7,566
Total current liabilities		7,566
Total liabilities		7,566
Net assets		193,914
Equity		
Share capital	10	1,969
Share premium reserve	11	58,979
Capital reduction reserve	11	130,067
Retained earnings		2,899
Total equity		193,914
Net asset value per share - basic and diluted	12	98.49p

The Company has taken advantage of the exemption allowed under Section 408 of the Companies Act 2006 and has not presented its own profit and loss account in these financial statements. The profit of the Parent Company for the period amounted to £2,899,000.

The Company financial statements were approved and authorised for issue by the Board on 18 May 2018 and signed on its behalf by:

Stephen Hubbard
Chairman of the Board of Directors

Company statement of changes in equity

For the period from 21 December 2016 to 31 March 2018

	Note	Share capital £000	Share premium reserve £000	Capital reduction reserve £000	Retained earnings £000	Total equity £000
Balance as at 21 December 2016		-	-	-	-	-
Profit and total comprehensive income attributable to shareholders for the period		-	-	-	2,899	2,899
Transactions with owners						
First issue of Ordinary Shares	10,11	1,382	136,768	-	-	138,150
Share issue costs	11	-	(2,688)	-	-	(2,688)
Cancellation of share premium	11	-	(134,005)	134,005	-	-
Second issue of Ordinary Shares	10,11	587	59,613	-	-	60,200
Share issue costs	11	-	(709)	-	-	(709)
Dividends Paid						
First interim dividend in respect for the period ended 31 March 2018 at 1.00 pence per Ordinary Share	9	-	-	(1,969)	-	(1,969)
Second interim dividend in respect for the period ended 31 March 2018 at 1.00 pence per Ordinary Share	9	-	-	(1,969)	-	(1,969)
Balance as at 31 March 2018		1,969	58,979	130,067	2,899	193,914

Notes to the Company financial statements

1. Basis of preparation

The financial information contained in this announcement has been prepared on the basis of the accounting policies set out in the financial statements for the period ended 31 March 2018. Whilst the financial information included in this announcement has been computed in accordance with Financial Reporting Standard 100 Application of Financial Reporting Requirements ('FRS 100') and Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101'), this announcement does not itself contain sufficient information to comply with FRS 100 and FRS 101. The financial information does not constitute the Group's financial statements for the period ended 31 March 2018, but is derived from those financial statements. Those financial statements give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company. Financial statements for the period ended 31 March 2018 will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The auditor's report on the 31 March 2018 financial statements was unqualified; did not draw attention to any matters by way of emphasis; and did not contain statements under s498(2) or (3) of the Companies Act 2006.

The Company is registered in England and Wales under company registration number 15035081.

• Disclosure exemptions adopted

In preparing these financial statements the Company has taken advantage of all disclosure exemptions conferred by FRS 101. Therefore, these financial statements do not include:

- Certain disclosures regarding the Company's capital;
- A statement of cash flows;
- The effect of future accounting standards not yet adopted;
- The disclosure of the remuneration of key management personnel; and
- Disclosure of related party transactions with other wholly owned members of the Company

In addition, and in accordance with FRS 101 further disclosure exemptions have been adopted because equivalent disclosures are included in the consolidated financial statements. These financial statements do not include certain disclosures in respect of:

- Financial instruments; and
- Fair value measurement other than certain disclosures required as a result of recording financial instruments at fair value.

The principal accounting policies applied in the preparation of the financial statements are set out below.

The Company's financial statements are presented in Sterling, which is also the Company's functional currency.

2. Significant accounting judgments, estimate and assumptions

In the application of the Company's accounting policies, which are described in Note 3, the Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below:

Estimates:

- **Valuation of investment property**

The Company's estimates in relation to its investment property are consistent with the Group for which details are given in the Note 2 to the consolidated financial statements.

Judgments:

- **Classification of lease arrangements - the Company as lessor**

The Company's judgments in relation to its classification of lease arrangements are consistent with the Group for which details are given in the Note 2 to the consolidated financial statements.

3. Principal accounting policies

The principal accounting policies adopted in the preparation of the of the Company financial statements are consistent with the Group which are described in Note 3 to the consolidated financial statements. Policies adopted in the preparation of the Company's financial statements that not included in the consolidated financial statements are given below:

- **Investment in subsidiaries**

Investment in subsidiaries is included in the statement of financial position at cost less provision for impairment.

4. Investment in subsidiaries

	31 March 2018
	£000
Balance as at 21 December 2016	-
Acquisitions during the period	183,885
Balance as at 31 March 2018	<u><u>183,885</u></u>

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

A list of the Company's subsidiary undertakings as at 31 March 2018 is included in Note 21 to the consolidated financial statements.

5. Investment property

	31 March 2018
	£000
Balance as at 21 December 2016	-
Property acquisitions	5,844
Tenant lease incentives	39
Change in fair value during the period	617
Balance as at 31 March 2018	<u><u>6,500</u></u>

Detailed information about the valuation of investment property is included in Note 9 to the consolidated financial statements.

6. Trade and other receivables

31 March 2018

	£000
Amounts due from Group undertakings	10,221
Rent receivable	103
Recoverable VAT	75
Prepayments and other receivables	39
	<u>10,438</u>

All amounts are due for receipt within one year.

7. Cash and cash equivalents

	31 March 2018
	£000
Cash at bank	617
Cash held by lawyers	40
	<u>657</u>

Cash held by lawyers is money held in escrow for expenses expected to be incurred in relation to investment properties pending completion. These funds are available immediately on demand.

8. Trade and other payables

	31 March 2018
	£000
Amounts due to group undertakings	6,739
Trade and other payables	421
Accruals	196
Other creditors	118
Deferred rental income	92
	<u>7,566</u>

All amounts are due for payment within one year.

9. Dividends paid

	31 March 2018
	£000
First interim dividend in respect of period ended 31 March 2018 at 1.00 pence per Ordinary Share	1,969
Second interim dividend in respect of period ended 31 March 2018 at 1.00 pence per Ordinary Share	1,969
Total dividends paid	<u>3,938</u>
Total dividends paid for the period	<u>2.00p</u>
Total dividends declared for the period	<u>4.00p</u>

On 23 November 2017, the Company announced the declaration of a first interim dividend in respect of the period from 21 December 2016 to 30 September 2017 of 1.00 pence per Ordinary Share which was payable on 29 December 2017 to ordinary shareholders on the register on 1 December 2017.

On 16 February 2018, the Company announced the declaration of a second interim dividend in respect of the period from 1 October 2017 to 31 December 2017 of 1.50 pence per Ordinary Share which was payable on 29 March to ordinary shareholders on the register on 2 March 2018.

On 18 May 2018, the Board proposed a final dividend in respect of the period from 1 January 2018 to 31 March 2018 of 2.00 pence per Ordinary Share, payable on 2 July 2018 to shareholders on the register at the close of business on 8 June 2018. The Ordinary Shares will go ex-dividend on 7 June 2018.

10. Share capital

	31 March 2018
	£000
Authorised:	

196.88 million Ordinary Shares of £0.01 each	1,968,817
Issued and fully paid:	
196.88 million Ordinary Shares of £0.01 each	1,968,817

The Company achieved admission to the premium listing segment of the Official List of the London Stock Exchange on 27 February 2017. At IPO, the Company issued 138,149,999 shares of £0.01 nominal value and a premium of £0.99 per share for total consideration of £138.15 million. On 16 October 2017 the Company issued 58,731,707 additional shares of £0.01 nominal value and a premium of £1.02 per share for total consideration of £60.20 million.

On 27 January 2017, 50,000 redeemable preference shares of £1.00 were issued at par. These shares were subsequently redeemed at par and cancelled on 22 February 2017.

11. Share premium reserve

The share premium relates to amounts subscribed for share capital in excess of nominal value net of directly attributable share issue costs.

	31 March 2018
	£000
Balance at beginning of period	-
Share premium arising on first issue of Ordinary Shares	136,768
Share issue costs	(2,688)
Transfer to capital reduction reserve	(134,005)
Share premium arising on second issue of Ordinary Shares	59,613
Share issue costs	(709)
Balance at end of period	58,979

On 27 January 2017, a resolution was passed authorising the cancellation of the share premium account conditional upon the 3 following terms:

- Admission of the Ordinary Shares of the Company to listing on the UK Listing Authority's Official List
- The Company's Ordinary Shares to commence trading on London Stock Exchange's Main Market for listed securities
- Approval of the Court for the reduction of share capital

The amount standing to the credit of the share premium account of the Company following completion of the IPO (less issue expenses set off against the share premium account) was, as a result, transferred to the capital reduction reserve. This is a distributable reserve which is capable of being applied in any manner in which the Company's profits available for distribution (as determined in accordance with the Companies Act 2006) are able to be applied.

In order to cancel the share premium account, the Company obtained a court order on 28 June 2017. An SH19 form was sent to Companies House with a copy of the court order and the certificate of cancellation was issued by the Registrar of Companies on 28 June 2017.

12. Net asset value per share

Net Asset Value ('NAV') per share is calculated by dividing net assets in the company statement of financial position attributable to ordinary equity holders of the parent by the number of Ordinary Shares outstanding at the end of the period. There are no dilutive equity instruments outstanding.

	31 March 2018
	£000
Net assets at end of period	193,914
Shares in issue at end of period (number)	196,881,707
Dilutive shares in issue (number)	-
Basic and diluted NAV per share (pence)	98.49

13. Related party transactions

The Company has taken advantage of the exemption not to disclose transactions with other members of the Group as the Company financial statements are presented together with the consolidated financial statements.

Note 20 to the consolidated financial statements includes details of other related party transactions undertaken by the Company and its subsidiaries.

14. Guarantees

On 4 July 2017 a subsidiary of the Company entered into a 12 year, fixed rate, interest only facility of £55 million with Scottish Widows Ltd. On 12 December 2017 a subsidiary of the Company entered into an additional 11.5 year, fixed rate, interest only loan facility of £40 million with Scottish Widows Limited, acting in partnership with Lloyds Bank Commercial Banking. The Company has given a full guarantee of both facilities to the lender.

As at 31 March 2018 the Company's subsidiaries had exchanged on a property with substantial conditions remaining at that date for a total consideration of £6.20 million which the Company is a guarantor.

15. Ultimate controlling party

As at 31 March 2018, there is no ultimate controlling party of the Company.

Notes to the EPRA performance measures

EPRA NNNAV

	21 December 2016 to 31 March 2018 £000
EPRA net assets	211,981
Include:	
Fair value of debt ¹	942
EPRA NNNAV	212,823
Shares in issue at 31 March 2018	196,881,707
EPRA NNNAV per share (pence)	108.15

1 Difference between interest bearing loans included in the EPRA net assets at amortised cost, and the fair value of interest bearing loans

EPRA NIY and EPRA "Topped Up" NIY

	21 December 2016 to 31 March 2018 £000
Investment property - wholly owned	278,920
Less: development properties	(50,200)
Completed property portfolio	228,720
Allowance for estimated purchasers' costs	14,601
Gross up completed property portfolio valuation (B)	243,321
Annualised passing rental income	15,942
Less: contracted rental income in respect of development properties	(2,640)
Property outgoings	-
Annualised net rents (A)	13,302
Contractual increases for lease incentives	5,369
Topped up annualised net rents (C)	18,617
EPRA NIY (A/B)	5.47%
EPRA Topped Up NIY (C/B)	7.67%

1 E.g. Step rents and expiry of rent free periods

EPRA Vacancy Rate

	31 March 2018 £000
Annualised estimated rental value of vacant premises	-
Portfolio estimated rental value ¹	12,753
EPRA Vacancy Rate	0.00%

1 Excludes contracted rents receivable on development properties

EPRA Cost Ratio

21 December 2016
to 31 March 2018
£000

Property operating costs	-
Vacant property costs	-
Administration expenses	2,412
Total costs (both including and excluding vacant property costs¹)	2,412
Total gross rental	9,339
Total EPRA cost ratio (including and excluding vacant property costs)	25.83%

1 The Group has no vacant property costs

Financial information

This announcement does not constitute the Group or Company's statutory accounts. The financial information for the period from incorporation to 31 March 2018 is derived from the statutory accounts for the same period, which will be delivered to the registrar of companies. The auditors have reported on the period from incorporation to 31 March 2018; their report was unqualified and did not include a statement under Section 498(2) or (3) of the Companies Act 2006.

Annual General Meeting

The Annual General Meeting will be held on 26 June 2018 at 11 a.m. at the offices of Stephenson Harwood LLP, 1 Finsbury Circus, London, EC2M 7SH.

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