LXi REIT
Long Indexed Income

Annual Report

For the year ended 31 March

2020

Contents

Overview

LXi REIT plc (the "Company"), the specialist inflation-protected long income real estate investment trust, aims to provide shareholders with regular, attractive income. Our investment objective is to sustainably grow the dividend in absolute terms through upward-only inflation-protected long-term lease agreements, and provide capital growth over the medium-term.

We selectively invest in UK commercial property assets let on very long (typically 20 to 30 years to first break), inflation-linked leases to institutional-quality tenants across a diverse range of property sectors.

We also carefully invest in fixed-priced forward funded developments, provided they are pre-let to an acceptable tenant and full planning permission is in place. The Company, along with its subsidiaries (together, the "Group"), does not undertake any direct development activity nor assume direct development risk.

The Company, a real estate investment trust ("REIT"), is listed on the premium listing segment of the Official List of the Financial Conduct Authority and was admitted to trading on the main market for listed securities of the London Stock Exchange in February 2017.

The Company is a constituent of the FTSE 250 Index, FTSE EPRA/NAREIT Global Real Estate Index Series and MSCI index.

Highlights

Financial Highlights

	Year ended 31 March 2020	Year ended 31 March 2019	Change
Total NAV return[1]	13.4%	12.1%	+130 bps
NAV (and EPRA NAV) per share[1]	124.3p	114.6p	+9.7p
Dividend per share	5.75p	5.50p	+0.25p
Adjusted earnings per share[1]	6.3p	6.3p	–
EPRA earnings per share[1]	5.6p	5.6p	–
Operating profit	£78.4m	£37.3m	+£41.1m
Portfolio valuation[2,3]	£914.0m	£589.5m	+£324.5m
Weighted average geared IRR pa on disposals to date	34%	32%	+200 bps
Loan to value	20%	29%	-900 bps
Average fixed/capped cost of debt	2.94%	2.94%	–
Average debt maturity (years)	11	12	(1)

- Total net asset value ("NAV") return[1] for the year was 13.4% (31 March 2019: 12.1%), significantly ahead of our medium term annual target of at least 8%[2]
- EPRA NAV[1] per share increased in the year by 9.7p (31 March 2019: 6.9p) to 124.3p at 31 March 2020 (31 March 2019: 114.6p)
- Dividends per share paid and proposed in respect of the year of 5.75p (31 March 2019: 5.50p) met the Company's annual target
- Dividends were fully covered (1.1x) by Adjusted earnings[1] per share ("Adjusted EPS") of 6.3p (31 March 2019: 6.3p) which includes developer licence fees and the Group generated EPRA earnings per share[1] of 5.6p (31 March 2019: 5.6p) which excludes developer licence fees
- Operating profit of £78.4m (31 March 2019: £37.3m) comprising income from the Group's property portfolio and changes in fair value of investment property net of administrative and other expenses
- Portfolio independently valued by Knight Frank LLP at £914.0m[3,4] as at 31 March 2020 (31 March 2019: £589.5m)
- During the year, the Group selectively sold seven assets. Disposals to date have generated an average geared IRR of 34% pa (31 March 2019: 32% pa)
- Loan to value ("LTV") at 31 March 2020 of 20% (31 March 2019: 29%), with pro-forma LTV of 30% following full drawing of the RCF, reflecting headroom to both our medium term maximum of 35% and LTV covenant of 50%
- Low average all-in fixed cost of debt of 2.94% (31 March 2019: 2.94%) across drawn debt facilities at 31 March 2020
- A long average debt maturity on the Group's term loan facilities of 11 years (31 March 2019: 12 years) underpinning our strategy to grow investor returns through inflation-linked rent reviews
- Gross equity proceeds raised of £200m via a significantly oversubscribed equity raise and the proceeds of the raise were carefully and efficiently deployed within four weeks into an existing pipeline of accretive assets, largely through forward funding structures
- The Company was made a constituent of the FTSE 250 index in December 2019

Operating Highlights

	Year ended 31 March 2020	Year ended 31 March 2019	Change
Average acquisition NIY to date	5.8%	5.8%	–
Rents containing index-linked or fixed uplifts	96%	96%	–
WAULT to first break (years)	22	22	–
Portfolio let or pre-let	100%	100%	–
Property sectors	9	9	–
Separate tenants	52	38	+14

- Average acquisition net initial yield ("NIY") across the portfolio to 31 March 2020 of 5.8% (31 March 2019: 5.8%) net of acquisition costs, representing a 286 bps spread to all-in capped cost of debt (31 March 2019: 286 bps) and demonstrating the positive impact of conservative gearing
- 96% of the Group's rental income either contains index-linked rent reviews or fixed rental uplifts (31 March 2019: 96%) underpinning the Company's ability to grow returns in line with inflation
- A long weighted average unexpired lease term ("WAULT") to first break of over 22 years (31 March 2019: 22 years), maintained through accretive deployment of new and recycled capital and providing security and significant visibility to the Group's income
- Portfolio 100% let or pre-let (31 March 2019: 100%) and fixed income producing (i.e. not related to turnover or trading) during the year to 52 separate institutional-quality tenants (31 March 2019: 38) across a diverse range of nine property sectors (31 March 2019: nine) on full repairing and insuring leases

1 Further details on Alternative Performance Measures can be found in the Chairman's Statement and definitions given in the Key performance indicators and the EPRA performance measures sections or otherwise included in the Glossary included in the Additional Information

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

3 The valuation includes the standard form Covid-19 'material uncertainty' clause and detail is given in Note 9. However, the valuer has expressly taken into account the impact or potential impact of Covid-19 on the Company's assets in deriving these valuation figures

4 The valuation includes forward funded commitments outstanding. A reconciliation to the IFRS fair value as per the consolidated statement of financial position is included in Note 9 to the consolidated financial statements

Highlights (continued)

Post year end update

Dividends

- Proposed final dividend in respect of the year ended 31 March 2020 of 1.4375p per share bringing the total dividend paid and proposed in respect of the year to 5.75p per share, in line with target
- The Board confirms that it expects to approve the payment of the Company's first quarterly dividend for the financial year ending 31 March 2021 at the rate of 1.30 pence per share[2]. This dividend is in respect of the quarter ending 30 June 2020 and is scheduled to be declared and paid in September 2020
- The Board believes this is an appropriate level for the period which it expects to be covered by the rents collected for the quarter ending 30 June 2020 (i.e. the March 2020 in advance rents)
- The Company will continue to monitor the improving visibility on its future rent collection as the UK moves out of lockdown and is keeping its dividend guidance under careful review on a quarterly basis

Disposals

- The Group has exchanged unconditionally on the disposal of two assets for proceeds of £2.1m, representing an uplift of 15.1% on purchase price, a premium of 2.8% on current book value and generating a geared IRR of 15.1% pa

Covid-19

- The Group's business continuity plan is working well, and we are prioritising the health and safety of our people as well as those of its tenants and other counterparties
- The portfolio is highly diversified, as described in the operational highlights on page 3, with exposure both to sectors that continue to be largely unaffected by the crisis as well as to some that are experiencing unprecedented short-term disruption
- Although the majority of the Group's tenants continue to pay their rent as normal, £3.3m of the quarterly rent roll was unpaid as at the quarter date in March, representing 6.8% of the Group's £48.3m annual contracted rent roll
- The Investment Advisor has been in negotiations with those tenants that had not paid their quarter's rent and provides the following update, which demonstrates good progress towards recovery of the vast majority of the unpaid rents:
  - £1.7m is now subject to agreed terms with the tenant, which represents 3.6% of the Group's contracted annual rent roll. Of this amount:
    - £0.3m has been received in cash;
    - £1.2m is now due to be paid within three months;
    - £0.2m is now due to be paid between three and twelve months; and
    - less than £0.1m has been given as a rent concession
  - £1.6m remains the subject of detailed discussions with the tenant, which represents 3.2% of the Group's contracted annual rent roll. The Investment Advisor expects the majority of this to be received within 12 months
- The Company notes the reopening of garden centres on 13 May 2020 and the Government's current planning assumptions for the reopening of hotels and pubs, from 4 July 2020, that will support our tenants in those sectors
- The Group's management fee is calculated based on market cap, which has materially reduced since the beginning of March, significantly reducing the Group's total expense ratio over the quarter ending June 2020. This demonstrates the benefit of the alignment of shareholder's interests with management through the Company's management fee structure
- The Group's robust debt metrics, described in detail in the financial highlights section on page 2, show LTV of 20%, which we expect to rise to 30% following full drawing of the Group's RCF, and weighted average maturity on the term loans of 11 years
- Construction works are progressing again at all of the Group's forward funding sites

Strategic Report

Strategic Report

Chairman's statement

STEPHEN HUBBARD
Chairman

Dear shareholder

I write to you this year at a time of unprecedented upheaval as the economic and social impact of Covid-19 continues to unfold in the UK and around the world. It is during these difficult times that the role, values, social purpose and longer term viability of companies come into sharp focus.

As a Group, we continue to operate effectively within the confines of the UK Government's guidance. Our business continuity plan is working well, and we are prioritising the health and safety of the staff and colleagues of our key business partners as well as those of our tenants.

We have put in place stringent plans for our business partners to mitigate the impact of Covid-19, which underpin the continuing operations of the Group. I thank them, along with the Board, for the work that they have done and will continue to do, to protect the value of the Company for our fellow shareholders in these uncertain times.

Later in my statement I comment on the Company's outlook and post year end events to date. However, the principal purpose of my statement is to report on the results for the year ended 31 March 2020, which was largely unaffected by the crisis.

We continued to implement our investment strategy, strengthening the Group's position with further diversification and increased scale. The Company has achieved this through the investment of capital from another successful equity raise that also resulted in the Company being promoted to the FTSE 250 index in December 2019.

I was pleased to welcome Patricia Dimond to the Company's Board of Directors during the year. Patricia brings over 25 years of senior executive board level experience in finance and operations roles at large private and publicly listed organisations. This, together with Patricia's expertise in corporate governance, risk and performance management further strengthens our Board.

Financial results for the year ended 31 March 2020

The Group continued to perform well during the year. The Investment Advisor's sourcing of suitable assets has allowed the Group to continue to deliver good returns to shareholders.

During the year, the Group achieved a total NAV return of 13.4%, outperforming our annual target of 8%. Total NAV return comprises EPRA NAV growth and dividends paid during the year.

The Group's EPRA NAV per share at 31 March 2020 was 124.3p, representing an 8.5% increase compared to the Group's prior year NAV (114.6p at 31 March 2019). The growth was delivered primarily through:

(i) the value achieved at the point of purchase through accretive investment of new equity predominantly on an 'off market' basis;

(ii) the discount to built asset values when acquiring through forward funding structures; and

(iii) the capitalisation of index-linked and fixed rent reviews during the year.

The Company's dividends per share paid and proposed in respect of the year ended 31 March 2020 total 5.75p, meeting our progressive dividend per share target for the year, fully covered by our Adjusted EPS despite the material growth in the Company's capital base. This demonstrates the efficiency with which capital was deployed into an existing pipeline of accretive assets.

The Company's dividend is underpinned by the Group's Adjusted EPS that comprise EPRA earnings from the standing portfolio with the developer licence fees received during construction of the pre-let forward funded assets and the amortisation of cash backed rent free and topped up periods.

The Group has generated Adjusted EPS for the year of 6.3p, reflecting full dividend cover (1.1x) on the total dividend per share. The Board considers this to be a robust performance during what has been a transformational year of growth, in which the Company saw an increase in its ordinary share capital of 48% and the Company's subsequent entry into the FTSE 250 index.

Raising capital during the year

Share issuance

During the year, the Company closed a significantly over-subscribed equity raise, with the level of demand allowing the Board to exercise its option, approved by existing shareholders, to increase the issue beyond the targeted £100m and to raise a total of £200m of new equity.

The level of demand reflects the attraction of investors to long-dated inflation protected income secured against a portfolio let to a wide range of institutional-quality tenant covenants across diversified property sectors and we expect this appetite to continue.

The proceeds of the raise were carefully and efficiently deployed within four weeks into an existing pipeline of accretive assets, largely through forward funding structures, identified by the Investment Advisor in the build up to the capital raise.

The raise has broadened the Company's investor base and enhanced the size and liquidity of the Company's shares, and we welcome our new investors and thank existing investors for their continuing support.

Growing the Company's capital base has also spread our low, transparent and largely fixed operating costs over a larger number of shares, thereby reducing the Group's ongoing charges ratio. The Board believes that increased scale will support the Company in continuing to grow returns to investors.

Debt financing

The Company maintains a low leverage in order to conservatively gear returns to investors. During the year, the Group agreed a new £100m revolving credit facility ("RCF") to gear the net proceeds of the Company's equity raise which as at 31 March 2020 had yet to be drawn.

The RCF is being drawn in order to match our forward funding commitment profile, which it fully covers. The nature of the facility gives cost efficiency in the period of non-utilisation to date and a 350 bps arbitrage between the c.5.5% average funding yield received on developments against the all in passing interest rate payable on the drawn facility.

Once fully drawn, the RCF is expected to maintain the Group's LTV ratio at c.30%, in line with our medium-term target and below our maximum level of aggregate borrowings of 35% and significantly below the 50% LTV covenant.

The RCF has been provided by Lloyds Bank plc, diversifying the Group's sources of finance and debt maturity profile, at an attractive margin of 1.55% pa over Libor for an initial term of three years, which may be extended by up to two years at the option of the Group.

Our portfolio and tenants

Our total return performance has been balanced between dividends, from our portfolio's secure income, and capital growth from value gains across our portfolio. Acquisitions in the year, sourced by the Investment Advisor, predominantly through forward fundings and on an 'off market' basis, have been key to underpinning this growth.

The Group's portfolio at 31 March 2020, was independently valued at £914.0m, representing a like for like increase of 1% across the assets valued at the previous year end, and an average uplift of 13% on purchase price (excluding purchase costs) across the portfolio.

The valuation includes the standard form Covid-19 'material uncertainty' disclosure. The full details of the disclosure are given in Note 9 to the consolidated financial statements.

The Group's portfolio is fully let on long term inflation linked leases to over 50 separate institutional-quality tenants, well diversified across of nine property sectors as well as by geography within the UK.

Acquisitions during the year, financed by the £200m equity raise and the Group's RCF, have provided further diversification and security to the Group's portfolio, whilst improving the Group's overall tenant covenant strength.

The portfolio's weighted average unexpired lease term to first break is 22 years and 96% of our rents are index-linked or contain fixed uplifts, giving our shareholders an attractive and secure base for future performance.

Since inception, the average acquisition yield is 5.8% across the portfolio. This compares well to the Group's valuation yield at 31 March 2020 of 5.0% which demonstrates a disciplined approach to acquisitions and the benefit of forward funding.

Dividends

The Company has today proposed a final dividend in respect of the year taking the total dividends per share paid and proposed in respect of the year to 5.75p, in line with the Company's increased 2019/20 dividend per share target.

Alternative performance measures

The Group uses alternative performance measures including the European Public Real Estate ("EPRA") Best Practice Recommendations ("BPR") to supplement IFRS as the Board considers that these measures give users of the Annual Report and Financial Statements the best understanding of the underlying performance of the Group's property portfolio.

The EPRA measures are widely recognised and used by public real estate companies and investors and seek to improve transparency, comparability and relevance of published results in the sector.

Reconciliations between EPRA and other alternative performance measures and the IFRS financial statements can be found in Notes 25 and 26 and in the Additional Information.

Definitions of alternative performance measures are given in the Key performance indicators and EPRA performance measures sections or otherwise included in the Glossary included in the Additional Information.

Outlook and post balance sheet update

We are in unprecedented times and there is still uncertainty as to how the crisis will develop and on the full economic impact on the UK and Global economy. However, it is now clear that the UK and economies globally will enter a deep recession, the length and depth of which is still to unfold given all the uncertainties that currently exist.

The extent of this crisis has been widely recognised as an unforeseen risk in the corporate world. The Board has carefully reviewed the additional risks that have now arisen in our portfolio. Many of our tenants are continuing to operate from their premises, and their business models have been comparatively less affected by the crisis.

At the March 2020 quarter date, we announced that we had not received all of the rents that fell due. The shortfall was broadly from our tenants in the hotels and leisure sectors who are unable to trade within the government guidelines. We are working with these tenants to support them at this difficult time and we are hoping that they resume trading satisfactorily as soon as possible.

A detailed update to those negotiations is provided in the Highlights section of this report on page 4, which demonstrates some progress towards the recovery of the unpaid rents.

After the year end, the Board has formed a new Risk Committee, in order to carefully evaluate specific real estate risks in the Group's portfolio and I am grateful that John Cartwright has taken on Chairmanship of this committee. We believe that this additional process will assist in identifying, alleviating and managing risks and potential risks within the portfolio. The Risk Committee will report through the Audit Committee who will continue to manage the financial and other risks of the Company.

Whilst clearly we are in uncertain times, with open market and performance-linked rents likely to come under significant pressure, I take comfort in the key defensive attributes of the portfolio, which are:

- 96% of our leases by passing rent contain indexed-linked or fixed uplifts;
- The Group's portfolio contains an inflation hedge with 61% of the portfolio containing either collared or fixed uplifts averaging 2% pa;
- Our income profile is underpinned by a diverse group of assets let to institutional-quality tenants; and
- The average unexpired lease term of the Group's portfolio is 22 years to first break.

We are not currently exposed to development risk through our forward funding projects. Some funding projects may well take longer to deliver than originally anticipated given Covid-19's impact on working practices, but we do not expect a material financial impact from these potential delays.

Finally, I would like to thank the Investment Advisor, the Board and all our other advisers in supporting the Company in these challenging times. We remain focussed on managing the risks that have arisen as a result of the crisis, but I am comforted by the strength of the platform and its ability to maintain ongoing returns to our shareholders.

Stephen Hubbard
Chairman of the Board of Directors

15 May 2020


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Investment Advisor's report

As we write this report, Covid-19 continues to bring uncertainty for most areas of economic and social life, but the portfolio remains relatively well placed given its defensive, diversified nature and the robust balance sheet of the Group.

The Investment Advisor continues to operate within the Group's business continuity plan which is working well, and it is prioritising the health and safety of our people as well as those of the Group's tenants and other counterparties.

The resilience of our valuation is a reflection of the defensive characteristics of a broadly diversified portfolio of secure, long-let and index-linked property assets, across sub-sectors and tenants, and the significant discount that we achieved by deploying new capital into forward fundings during the year.

Unsurprisingly, some of the Company's customers are experiencing unprecedented short-term disruption to their cash flows. We are working with the Board to actively assist those that are being materially impacted, by providing proportionate assistance unique to each tenant's circumstances.

During the financial year, which was largely unaffected by the current crisis, we executed on our investment strategy successfully, continuing to deliver inflation-protected income and to materially outperform our medium-term return targets in spite of the onset of market volatility.

Portfolio overview

Since the Company's IPO in February 2017, we have invested new capital and recycled capital generated through selective profitable disposals to build a portfolio of 137 separate assets at an average net initial yield on acquisition of 5.8%.

The spread between our average net initial yield on acquisition and the average valuation yield means that investors' capital is comparatively well protected against an outward moving property market.

The portfolio at 31 March 2020 was independently valued at £914.0m reflecting a valuation yield of 5.0%. The valuation represents an average uplift of 13% above acquisition price (excluding purchase costs) and yield compression across the portfolio of 80 bps against our average acquisition yield to date.

The assets are valued individually net of full purchase costs, and no portfolio premium has been added.

This value has predominantly been achieved at the point of purchase through our focus on forward funding pre-let developments in smaller lot sizes, which the larger institutions who are otherwise willing to forward fund, have tended to avoid. The limited competition means that there remains a wide discount on this type of deal. Our 32-separate forward funded developments have averaged less than £10m in lot size and contributed significantly to the Group's NAV growth.

Market conditions over the 12 months have helped us to transact opportunistically at attractive pricing in forward fundings of a more material lot size than we historically had, as many investors withdrew their capital. These larger forward fundings have significantly contributed to the returns achieved.

Further detail of the implementation of our forward funding strategy is given later in this report.

We have also acquired the vast majority of our portfolio on an 'off-market' basis through relationship-driven transactions. Whilst upholding the highest standard of capital discipline and due diligence, we have achieved a reputation for speed and certainty of transacting, that is attractive to vendors and positions us as a counterparty of choice.

In the final quarter of the financial year, we began to see the onset of deep disruption to some of the sub-sectors to which we are exposed, in particular hotels and leisure, as a result of UK Government social distancing guidance and the eventual state of 'lock down' in late March 2020.

Government guidance for commercial property tenants was also updated in response to this, supporting tenants who chose not to pay rents that were contractually due by suspending the right of forfeiture on lease agreements.

Unsurprisingly, and wishing to protect their own short term cash flows, a number of our tenants opted not to pay their quarterly rent due in respect of the quarter ending 30 June 2020. We are in detailed discussions regarding repayment plans.

The importance of long-term relationships with our tenants and the protection of their covenant is balanced with the short term benefits of cash recovery. Every effort is being made to provide proportionate assistance to those tenants that have sought rent deferrals and it is our expectation that we will reach satisfactory agreements with all tenants in due course.

As with any downturn or crisis, there are those sub-sectors and particular tenants within sub-sectors that are less exposed to the emerging risks than others. The defensive characteristics of our portfolio hedge our exposure to those worst hit through exposures to tenants that hold the majority of their property freehold and as such have a lower rental burden (such as Premier Inn and Greene King) and to tenants in sectors that are counter-correlated or are currently outperforming (such as Lidl and Aldi in the foodstore sector).

Our strategies for acquiring the majority of our properties with the benefit of new leases (forward fundings, sale and leasebacks and re-gears) has also positioned us well where there is a need to negotiate with our tenants in these times. It means that all of those leases reflect rental levels that were set very recently, that are low and sustainable, and that have not widened in spread to market rental levels through multiple inflation linked rent reviews since inception. It also means that the tenants are committed to these properties or indeed in some cases that they have historically been accustomed to freehold ownership of these assets which are of high strategic importance.

Diversification

Our strategy for diversification allows us to cherry pick properties across a wide universe of assets and our diversified portfolio is well balanced across nine separate property sectors with multiple underlying uses.

We have strategically sought exposure to sectors that have historically outperformed in times of economic downturn such as budget hotels (24%) and discount foodstores (9%), as well as sectors with more favourable market and structural outlooks such as industrial (28%) and healthcare (14%).

This multi-sector strategy gives the flexibility to avoid sectors where limited or negative forecast yield compression and rental growth would not support our return targets, or where foreseeable structural change would impact the security of our underlying income.

The deployment of capital raised during the year has further strengthened our tenant group, which now consists of over 50 separate institutional-quality groups. We continue to regularly review the financial performance of all of our tenants and to further develop relationships with management teams to better understand their business and the uses of our properties.

Our wide-ranging, diverse tenant group and the increase in scale during the year means that we are not over-exposed to any single tenant, with our largest exposure contributing under 10% of the Group's annual rent roll.

Rent review profile

There remains a real market opportunity to capitalise further on the forecast spread between inflation index performances to open market rental growth. With 57% of the rent roll linked to the Retail Prices Index ("RPI"), 20% linked to Consumer Price Index ("CPI") and 19% including fixed rental uplifts, we are well placed to capitalise on this.

Commercial leases generally contain five-yearly rent reviews, but our focus has been to achieve a balance between five-yearly reviews and leases containing annual uplifts. Of the portfolio's annual passing rent, 40% is reviewed annually and 60% is reviewed five-yearly.

The Group's regular generation and deployment of new capital since IPO has meant that the rent review profile of the assets is well staggered which allows for smoother rental and capital growth across the portfolio and 48% of the Group's passing rent will undergo a rent review in the year to 31 March 2021.

We have focussed on acquiring a portfolio that delivers predictability and low volatility in rental growth to support our ability to sustainably grow investor returns over the medium and longer term. One of the ways that we manage this is through the inclusion of caps and collars on rental uplifts within our lease arrangements.

Inflation performance is hedged across the portfolio rent reviews, ensuring that our income continues to grow in times of a slowing growth in the wider economy, such as we saw at the end of 2019. The Group's portfolio also ensures that rental levels do not grow to unsustainable levels and avoids properties becoming materially over-rented in times of high inflation. This is achieved by:

- 61% of the Group's income including collared (or fixed uplift) reviews with an average guaranteed uplift of 2% pa; and
- 72% of the Group's income including capped (or fixed uplift) reviews at an average rate of 4% pa.

Long-dated income

The portfolio provides some of the longest dated income in the market with a WAULT of 22 years to first break, providing further certainty and security and strengthening the predictability of our income. Of the Group's annual rent roll, 97% have 15 years or more remaining to first break and only 1% have a term certain under 10 years, demonstrating the absence of any barbell effect on the Group's lease expiry profile.

We maintain and lengthen the Group's average unexpired lease term through the deployment of new and recycled capital and lease extensions/re-gears.

Our track record for deploying and recycling capital into accretive assets, our ability to source 'off market' forward fundings from developers and sale and lease back opportunities from tenants as well as the importance and trading performance of our assets to our tenant group, will support us in maintaining and lengthening our unexpired lease term going forward.

Capital protection

A defensively managed, well diversified portfolio of long-let assets with institutional-quality tenant covenants is a prudent investment to provide capital protection. Aside from these qualities that are described in detail above, we employ a variety of other techniques to protect our investors' capital.

We only acquire assets that demonstrate strong property fundamentals. We are not willing to overlook the underlying quality of an asset just for the benefit of deployment or a secure income stream. Our investment policy requires our assets to provide secure income, but also to demonstrate the characteristics of strong residual land value.

We achieve this capital protection through a particular focus on sectors and properties that have a lower rent compared with similar uses, such as budget hotels, discount foodstores and properties with low tenant specific specialisation, in quality industrial locations. Lower rents provide for a low capital cost on acquisition which reduces the spread between investment price and vacant possession, residual or alternative use values.

The alternative sectors to which we have sought exposure, also demonstrate the characteristics of well-performing businesses at an asset level, with cash generation that underwrites our low rents. This means that each property is a viable and valuable operating unit when viewed independently of the long lease. This characteristic makes our properties attractive to a variety of occupiers in addition to the existing tenant and ensures that enterprise value underpins our investment in the income stream.

Despite our portfolio being 100% let on long-term leases, we always consider alternative uses for a property. This is normally assessed by location characteristics such as a 'high chimney count'/dense local population, neighbouring land with differing use, demand for residential development and/or good access to transport/amenities, and a low level of specialisation to each asset. This provides an extra layer of protection by ensuring optionality in the unlikely event of a tenant default.

Forward funding pre-let developments provide significant discounts to built values, generating capital growth at the point of purchase but also a very low level of purchase costs which average c.2% vs standard purchase costs of 6.8%. To date, this strategy has been key to the 13% cushion across the portfolio to any potential softening of valuation yields, through the discount to built values.

We only raise capital for the Group against an existing pipeline in advanced legals and due diligence. The previous two capital raises were fully deployed within four weeks (£200m gross equity) and six weeks (£175m gross equity), respectively. Speed of deployment means that we invest 100% of new capital to generate returns, and not to underpin the payment of dividends to new investors. Our distributions to date have always been fully covered by the net adjusted income yielded from our portfolio.

Our tenants

Given the relationship between counterparty financial strength and the security and valuation of long-dated income streams, we are highly selective with our tenant group. We perform stringent due diligence on all potential new tenants prior to putting forward acquisitions, all of which require full Board approval. We always look to ensure the main trading company of a tenant's group or the parent/plc entity provides a guarantee arrangement to strengthen the covenant.

Our due diligence includes reviews of credit ratings (where available from the main corporate bond rating houses), financial results, strategic business plans (at asset and corporate level), management interviews, press and broker coverage and corporate strategies.

We also continuously review the financial performance and viability of our tenant group to ensure that we are aware of any potential threats to the Company's income stream and can take action appropriately to mitigate the impact on the Group.

The Group's portfolio offers a highly diversified income stream from over 50 separate institutional-quality tenant covenants. We are acutely aware that with slowing growth in the UK economy, the risk of commercial failure rises. The Company is less exposed to risk through broad diversification of our tenant group.

The Group's key tenant exposures across its main property sectors are:

INDUSTRIAL	
Bombardier	7.2%
BCA Marketplace	6.6%
BUDGET HOTELS	
Travelodge	10.4%
Premier Inn	4.8%
HEALTHCARE	
BUPA	3.9%
Priory	3.5%
LEISURE	
Greene King	5.4%
Starbucks	2.9%
DISCOUNT FOODSTORES	
Aldi	2.1%
Lidl	1.9%
CAR PARKS	
Q-Park	7.5%

This year we have been pleased to witness the continued strong financial and operating performance of many of our tenants despite the prevailing economic conditions. This has been due in part to the effective operation of our own due diligence controls, but also due to our focus on:

- sub-sectors that tend to outperform in times of economic downturn, such as discount foodstores;
- the very best operators with a strong market position in their particular sub-sector;
- sectors with more positive economic outlook, such as industrial; and
- sectors experiencing a demographic shift, such as healthcare.

Asset management

Our collaborative asset management approach is designed and implemented to ensure that our properties meet our tenants' requirements, thereby strengthening our relationships with them and improving the quality of our income, to enhance the underlying capital value. Initiatives include agreeing new lettings, extending lease lengths, facilitating tenants' capital and fit-out expenditure and successfully negotiating rent reviews.

During the year, the investment advisor agreed 71 index-linked or fixed rental uplifts with tenants providing a weighted average compounded uplift of 2.3% pa on the rents reviewed, which compares favourably to the average open market rental growth.

The Group achieved practical completion on the following five forward funded assets during the year, built to tenant specification and let on new fully unexpired leases at low rents:

- A budget hotel let to Travelodge in Swindon with a new 25-year lease to first break with CPI linked uplifts;
- A discount foodstore let to Lidl in Chard with a new 15-year lease to first break with RPI linked uplifts;
- A discount foodstore let to Lidl in Cowdenbeath with a new 15-year lease to first break with CPI linked uplifts;
- A discount foodstore let to Aldi in Evesham with a new 15-year lease to first break with RPI linked uplifts; and
- A budget hotel let to Travelodge in Gosport with a new 25-year lease to first break with CPI linked uplifts.

A particular feature of many of the assets acquired during the year has been the sale and leaseback structure. Purchasing assets directly from tenants benefits us with a strong position for building landlord/tenant relationships, including an in depth understanding of the tenant's business and assets.

Forward funding strategy

Forward funding pre-let developments in smaller lot sizes, that are below the threshold at which institutional investors would ordinarily forward fund (due to the associated deal workload), has been a key strategy contributing materially to our NAV per share growth to date.

This approach has enabled us to source high-quality, lower priced assets (compared to built values) with reduced competition and low entry costs. Purchase costs of forward funded structures are usually around 2%, significantly lower than the 6.8% standard purchaser's costs for built asset structures.

The approach also ensures the asset acquired is brand new with a full unexpired lease term and built to tenant specification to increase strategic importance, which are also key benefits of forward commitment structures.

On all forward funded acquisitions, the Group avoids exposure to development risk by ensuring that prior to land completion and entering the funding agreement:

- a fixed-price is agreed for the forward funded purchase, covering land, construction cost and developer's profit – all cost overruns are the risk of the developer/contractor;
- full planning consent is in place;
- a pre-let is in place with a suitable, institutional-grade tenant;
- the developer only receives their profit when the asset achieves practical completion;
- any delay to practical completion of the works is the risk of the developer, as they pay the Group a cash-backed licence fee, which is brought into the Group's Adjusted earnings, to the date that the lease completes;
- the main contractor is always a reputable entity with a proven track record and provides a parent company guarantee or performance bond;
- a full suite of warranties is provided by the main contractor and professional team; and
- all construction cost drawdowns are paid to the developer monthly in arrears once approved by the Group's monitoring surveyor.

Capital recycling

Our capital recycling strategy is conservative, and we will only dispose of assets where opportunities exist to redeploy capital into accretive assets, delivering value to shareholders, further diversification, longer-dated income and growing income returns through yield arbitrage.

To date, we have not marketed any assets but the quality of our portfolio, coupled with the weight of capital seeking long-dated, inflation protected direct real estate exposure, generates regular unsolicited interest.

Following these unsolicited approaches, and where we identified an accretive opportunity for immediate redeployment, we have negotiated exits that have generated a weighted average geared IRR of 34% pa to date, across 23 separate asset disposals.

Every disposal to date has been at, or at a premium to book value which supports the portfolio's conservative valuation yield and has also contributed materially to NAV growth and total returns to date.

During the year the Group made two separate disposals:

- a National Express bus storage facility at a 13% premium to, book value generating a geared IRR of 36% pa and a realised gain on disposal of £1.2m; and
- a portfolio of six assisted living assets at book value generated a geared IRR of 19% pa and a realised gain on disposal of £2.9m.

This strategy has also allowed us to defensively manage the portfolio's exposures to sectors, tenants and rent review types with more favourable outlooks and to upwardly manage the portfolio's unexpired lease terms. Selling assets has also allowed us to capitalise on opportunistic, relationship-driven pipeline transactions without issuing new capital or compromising on our conservative leverage policy.

Environmental, Social and Governance ("ESG")

Our full ESG policy is available on request from the Investment Advisor. This section covers some of the key areas of implementation and other ongoing ESG initiatives during the year. There is also further detail relating to the impact of the Company on its major stakeholders in the s.172 Statement.

We recognise our responsibility to manage and conduct the Company's business in a socially responsible way and many of our investors, tenants and other counterparties have the same values. In recognition of this and in order to ensure our practices reflect our responsibilities, we have developed an ESG policy that has been adopted by the Company during the year.

The nature of our investment activities, in particular the nature of triple net leases, means that the legal responsibilities for the environmental impact of our properties sits with our tenant partners. That being said, our attitude to good governance and social responsibility requires that we seek to implement a collaborative approach to understanding and improving environmental performance.

We would not ordinarily acquire built assets, for example, with an EPC rating lower than D without having an affordable plan in place to improve the rating during the period of the Group's ownership.

During the year ended we undertook a review of the energy efficiency of the Group's portfolio to establish performance within the ESG policy. The analysis covers all of the Group's properties in England and Wales, accounting for the vast majority of the portfolio, with the Scottish and Northern Irish properties to follow in due course.

The results of the analysis (by contracted rental income) are summarised as follows:

- 34%* of the Group's portfolio EPC rated A
- 24% of the Group's portfolio has an EPC rating of B
- 27% of the Group's portfolio has an EPC rating of C
- 14% of the Group's portfolio has an EPC rating of D
- < 1% of the Group's portfolio has an EPC rating lower than D

The results of the analysis demonstrate performance in line with the ESG policy.

Where we forward fund new developments, we use our influence to encourage the tenant, developer and contractors to consider sustainability-related matters in the design, construction and fit-out of buildings. We ensure the environmental performance of new developments exceeds the minimum standards laid down by building regulations and planning policy. New commercial buildings acquired should have a BREEAM rating of at least 'Very Good'.

We expect all new buildings to have Energy Performance Certificates rated at C or higher and that the design will incorporate enhanced insulation, advanced energy efficiency and a suitable range of water-saving features.

We see sustainability as an opportunity as well as a threat. Across our portfolio, we have begun a process of identifying opportunities to bring about a positive and sustainable environmental impact. Two opportunities that we have identified to date are:

1) to facilitate the provision of electric vehicle (EV) charging points at those properties that have parking
2) to facilitate the provision of solar photovoltaic (PV) panelling to generate 'green' energy for our tenants.

EV Charging Points

Our Aldi anchored scheme at Bradford has been the starting point for our wider roll out of this initiative. At this scheme we funded the installation of thirteen charging points for electric vehicles. These EV charging points are let to a new specialist tenant counterparty, InstaVolt Limited, at an attractive and accretive initial yield of 6% and on a new 25-year lease term.

Solar PV Panelling

Our BUPA care home in Solihull has been the first asset to implement solar PV panelling. We are working with third party specialists to identify opportunities across our portfolio that will benefit:

- the environment by increasing the reliance on and use of 'green' energy;
- our tenants by providing a cost saving on energy overheads; and
- the Company, both by the provision of an income stream and by increasing the attractiveness of our properties to tenants.

Our commitment is to conduct our business in a way that has a positive impact on the environment and indeed society as a whole. We look forward to announcing further ESG initiatives that are in the process of being agreed with potential counterparties and are expected to be announced in due course.

Financial results

We are pleased with the strong financial performance of the portfolio that we have built over the three years since IPO which has demonstrated consistent outperformance against our peer group and targets. Since the launch of the company in February 2017, we have delivered:

- consistent total NAV return outperformance averaging over 12% pa, compared with the Company's stated target minimum of 8%; and
- a 13% growth in our annual dividend rate since inception, and 4.6% year on year; well ahead of UK inflation indices, whilst maintaining full dividend cover.

Total NAV return

	31 March 2020	31 March 2019
Total NAV return	**13.4%**	12.1%

The Group's total NAV return comprises both income returns, through dividends paid to shareholders, and portfolio capital growth, through changes in EPRA NAV during the year. A detailed description of the dividend per share and EPRA NAV growth is given below.

Dividend per share

	31 March 2020	31 March 2019
Dividend per share	**5.75p**	5.50p

In respect of the year, the Company has paid and approved dividends totalling 5.75p per share, as four equal quarterly dividends. The dividend per share reflects like for like growth of 4.6% year on year, demonstrating the Group's ability to grow income returns ahead of inflation.

The growth of the Group's dividend returns has been underpinned by *inter alia*:

- a disciplined NIY on acquisitions to date of 5.8%;
- inflation-linked rent reviews on the Group's portfolio;
- the positive impact of conservative gearing;
- a low and largely fixed cost base and the benefits of the economies of scale achieved; and
- yield arbitrage generated through the accretive recycling of capital.

Adjusted earnings

	31 March 2020	31 March 2019
Adjusted earnings per share	**6.3p**	6.3p

Our commitment to timely and prudent deployment, whilst maintaining stringent capital discipline, has allowed us to maintain full dividend cover in every year since launching, despite material increases in share capital year on year. The £200m of equity raised during the year was fully committed or deployed within four weeks of the equity raise closing.

We are confident that inflation-linked rent reviews and the completion of forward funding programmes over a low and largely fixed cost will support earnings growth in the medium-term and continue to allow us to grow the dividend on a like for like basis ahead of or in line with inflation going forward.

EPRA NAV

	31 March 2020	31 March 2019
EPRA NAV per share	**124.3p**	114.6p

The Group's investment activity is financed principally through equity issues and debt. To a lesser extent, new capital has been generated through realised gains on disposals of investment property ahead of purchase price following unsolicited approaches.

During the year, the Company successfully raised £200m of new equity through a significantly over-subscribed capital raise, contributing £195.66m to the Group's EPRA NAV. We were delighted that once more our existing shareholders supported our growth plans and the raise also broadened the Company's investor base. The new equity was issued at a price per share of 118p which reflected a premium to NAV per share of 2.6p, net of costs and ex-dividend.

The investment of new capital during the year, and the value achieved at the point of purchase primarily through forward funding assets at a discount to built values in off-market, relationship-driven transactions was a key contributor to the Group's NAV growth. The change in fair value of investment property in the year totalled £45.4m or 9.3p over the weighted average share capital during the year.

* Assumes all forward funded properties to be completed in due course and achieve EPC rating A

Total expense ratio

	31 March 2020	31 March 2019
Total expense ratio	**1.1%**	1.1%

Through successful equity raises and conservative leverage, the Group has achieved significant scale, meaning that incremental management fees (above £500m of market cap) are charged at a low 65 bps of market cap.

We operate stringent capital discipline on all of the Group's costs, whilst focussing on the best quality counterparties, to ensure that income is passed on to our shareholders.

As we continue to grow our capital base and passing rents, we expect further efficiencies to be gained that will be reflected in a reducing total expense ratio and a growing dividend rate.

Loan to value

	31 March 2020	31 March 2019
Loan to value	**20%**	29%

The Group's debt pool comprises three separate long-term loans and an RCF each of which is self-contained to a specific pool of assets with no cross collateralisation. Conservative leverage is expected to be maintained at 30% following full drawing of the Group's RCF, with headroom to the Group's medium term target maximum loan to value ratio of 35% as well as the loan to value financial covenant that is 50%.

Facility	Lender	Size	Interest rate	Expiry
Term loan	Scottish Widows	£55m	2.93% fixed	Jul 2029
Term loan	Scottish Widows	£40m	2.85% fixed	Jul 2029
Term loan	Scottish Widows	£75m	2.99% fixed	Dec 2033
RCF	Lloyds Bank	£100m	1.55% margin	Aug 2024[1]

The three term loan facilities were strategically chosen because of their long-dated maturity, to take advantage of the very low interest rate environment. The term loans have a weighted average fixed interest cost of 2.94% pa2 and an average maturity of 11 years[2].

Fixing the rate of interest on these facilities has given the Group long-term certainty over its ability to generate significant growth in the generation of free cash flows as a result of largely collared index-linked and fixed rental uplifts, and the positive effects of conservative leverage.

The RCF was entered into during the year with Lloyds Bank plc at an attractive rate of 1.55% above three-month LIBOR and provides the Group with significant further operational flexibility and reduced interest expense by allowing for:

- the immediate repayment of the facility when new equity is issued or with capital generated from the Group's strategy of selectively disposing of assets and prior to the reinvestment of capital; and
- the matching of debt drawdowns to reflect developers' cash requirements on forward funding projects, ensuring that interest is only suffered to the extent that a greater return is being generated on those drawdowns through licence fee arrangements.

The RCF has given the Group a new source of debt finance, in Lloyds Bank plc. Its shorter dated maturity provides the Group with flexibility to refinance, should this represent value, to a more mature debt structure in the medium-term as the Group grows in scale and builds track record.

In order to hedge uncertainty over the exposure to the floating rate of interest under the RCF, whilst retaining the upside of reducing interest rates over the medium-term, the Group traded an interest rate cap at the notional value of the maximum facility of the RCF of £100m. This gives the Company certainty over its maximum cost of debt for the entire term of the RCF at 2.95%.

Inflation performance

Despite a slowdown in growth of the UK economy towards the end of 2019, inflation continued to outpace open market rent reviews with the spread widening since the Company's launch. We have continued to implement the Company's investment strategy and have benefited from this economic reality by linking the vast majority of our rental uplifts to inflation.

The Company launched in February 2017 with the objective of providing inflation-protected returns and of strategically taking advantage of our expectation that inflation would continue to outpace the slowing rates of commercial property rental growth and allow the Company to deliver superior returns to its peer group with lower levels of portfolio inflation linkage.

From February 2017 to March 2020, the average monthly published RPI growth rate has been 3.1% pa, significantly outpacing open market rent reviews that have averaged 1.0% pa. Over that period the spread between RPI and open market rental growth has also widened from 150 bps to 290 bps. As the portfolio continues to realise its rent review cycles, the advantage of this is expected to be realised through capital and income growth for the Group.

Collared, fixed and index-linked rent reviews, together with the Group's low and largely fixed cost base, is expected to continue to produce:

- higher income growth vs open market rent reviews;
- enhanced dividend yield due to substantial free cash flows generated via the 286 bps spread between triple net rental income (5.8% average NIY) and low all-in fixed cost of debt (2.94% pa); and
- capital growth through the capitalisation of rental increases following rent reviews.

Although the portfolio has delivered strong returns through inflation linkages over the past three years since inception, our rental levels remain broadly in line with current market levels.

This has been achieved through a focus on acquiring properties that reflect low (and in many cases below market) initial rents through forward funding and sale and leaseback transactions. This means that our portfolio is also resilient to the reversion of valuation yields as lease lengths reduce.

We are well protected against a widening of this spread through our regular recycling of capital, following disposals, allowing us to upwardly manage the portfolio WAULT, and our active asset management programme that allows us to identify opportunities to lengthen lease terms with tenants and in doing so unlock further value in the portfolio and the financial strength of our tenant covenants.

Outlook and post balance sheet update

2020 has seen unprecedented volatility in global stock markets in anticipation of, and as a reaction to the economic slowdown, resulting from the impact of Covid-19, the full extent of which is still unknown but will be globally significant in the very least over the short and medium term.

In the longer-term, the properties that tend to demonstrate robust performance and lower levels of volatility in times of economic dislocation are those with characteristics that include:

- Leases that generate a fixed level of rent, not contractually linked to underlying property performance, with regular inflationary uplifts;
- Institutional-quality tenants that are market leaders in their respective sub-sectors, that are well placed to navigate periods of uncertainty;
- Competitive tenant markets with low levels of property specification, meaning that alternative users exist and a lower level of capex is required to replace existing tenants;
- Low and sustainable rental levels; and
- Long unexpired lease terms that alleviate exposure to re-letting risk.

We will continue to work with our tenants constructively to maintain mutual short-term liquidity and to prioritise the health and safety of their own employees. In doing so, we will contribute positively to the longer-term prospects of our tenants' operations and demonstrate an ethos that will, in turn, support those longer-term prospects of our Company and investors.

We are therefore assisting those tenants that are being materially impacted, by providing proportionate assistance.

We are in the process of negotiating repayment plans with those tenants that have not yet paid the rent due for the current quarter, and we are targeting cash collection and periods of rent deferral that will allow the Company to continue to pay satisfactory returns to shareholders.

The strong financial performance of the Group in the year ended 31 March 2020 gave us confidence to recommend that the Board propose the final quarterly dividend in respect of that year, which will meet the Company's annual dividend target.

As with any downturn, the sharpening of pricing for secure inflation-protected income brings with it an increased interest in the Group's high quality portfolio and we remain abreast of unsolicited interest and will look to crystallise gains through disposals ahead of book value where opportunities exist to recycle capital into accretive acquisitions that defensively manage the Group's exposures.

The forecast for UK inflation continues to compare favourably to those for open market rental growth over the medium-term. With 96% of our leases by passing rent containing index-linked or fixed uplifts we are positioned well to benefit from this going forward. The reality of this spread since the Company's IPO will continue to be capitalised as the full five year rent review cycle is realised across the portfolio.

The Group's portfolio also contains an attractive inflation hedge through embedded rental growth regardless of inflation performance with 61% of the portfolio containing either collared or fixed rental uplifts, averaging 2% pa, regardless of a slowdown in UK inflation as we saw at the end of 2019.

For and on behalf of the Investment Advisor

Simon Lee
Director
LXi REIT Advisors

15 May 2020

Frederick Brooks
Director
LXi REIT Advisors

15 May 2020

1 Assumes extension options are exercised

2 Weighted by drawn value as at 31 March 2020


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The Investment Advisor

The Board has delegated the day-to-day running of the Company to 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 long-let real estate, as described below. The team has capitalised and transacted over £1.5 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 finance, legal, property and compliance professionals and administrative support staff. The key individuals responsible for executing the Company's investment strategy are:

John White
Joint 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
Joint 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.

Frederick Brooks
Chief Financial Officer

Frederick trained and qualified as a chartered accountant in BDO's Real Estate and Construction team, gaining significant experience in the sector, working with similar listed vehicles, private property funds, developers and a number of the UK's top contractors. Frederick is also a qualified chartered surveyor (property finance and investment pathway) and a member of the RICS.

Frederick role covers all historical and strategic financial matters including annual and interim reporting, budgeting and forecasting, treasury management and the monitoring of internal controls. Frederick is also responsible for the Investment Advisor's reporting to the Company's Board of Directors.

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.

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.

Alex Mattey
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 €3.5bn AUM. Before that, Alex worked at Clearbell Property Partners, a UK opportunistic real estate manager, primarily assisting with raising their second fund which closed at £400m. 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.

Charlotte Fletcher
Head of Transactions

Charlotte is a qualified solicitor with responsibility for managing and implementing transactions. Prior to joining the Investment Advisor, Charlotte trained and practised as a solicitor at City law firm, Travers Smith, where she advised developers, lenders and property funds on a range of commercial real estate matters, including commercial and residential development and forward funding, acquisitions and disposal, re-financing and landlord and tenant work.

Simon Haarer
Head of Asset Management

In order to continue to deliver strong performance and to increase the focus on unlocking further value in the portfolio, the Investment Advisor appointed Simon as Head of Asset Management in December 2019.

Having qualified as a chartered surveyor at Knight Frank Simon spent the first 10 years of his career in Commercial Lease Advisory roles, latterly at CBRE, before moving into Asset Management roles. Since making the move he has managed a variety of asset classes including offices, industrial and foodstores, across the UK. Simon's role at LXi REIT Advisors is to oversee all asset management matters.

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 return on the agreed acquisition price 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% 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% loan to value;
- the aggregate maximum exposure to any one tenant, at the time of acquisition of the relevant investment, will be 30% 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% 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 any potential future disposals 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 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% of the Company's gross assets and a maximum level of aggregate borrowings of 35% 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.


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QPARK
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Key performance indicators

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

KPI and definition	Relevance to strategy	Performance 2020	2019	Result
1. Total NAV return Total NAV return measures the change in the EPRA NAV and dividends during the period as a percentage of EPRA NAV at the start of the period. We are targeting a minimum of 8% per annum over the medium term.	Total NAV return 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. A reconciliation of total NAV return is provided in the Additional Information section.	13.4%	12.1%	540bps ahead of our medium term minimum target.
2. Dividend per share Dividends paid to shareholders and proposed in relation to a period.	The dividend reflects our ability to deliver a low-risk but growing income stream from our portfolio and is a key element of our total NAV return.	5.75p	5.50p	In line with our annual target.
3. EPRA NAV per share 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. At the current and comparative period end there were no differences between EPRA NAV and IFRS NAV.	The NAV reflects our ability to grow the portfolio and to add value to it throughout the life cycle of our assets.	124.3p	114.6p	Increased EPRA NAV per share by 9.7p.
4. Loan to value The proportion of our total assets that is funded by borrowings. Our target maximum LTV is 35%.	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.	20%[1]	29%	Below our medium term maximum target of 35% and LTV covenant of 50%.
5. Adjusted earnings per share Post-tax Adjusted earnings per share attributable to shareholders, which includes the licence fee receivable on our forward funded development assets treated under IFRS as discounts to investment property acquisitions.	The Adjusted earnings per share reflects our ability to generate income from our portfolio, which ultimately underpins our dividend payments. A reconciliation of Adjusted earnings is included in Note 25 to the consolidated financial statements.	6.3p	6.3p	Reflecting 1.1 times dividend cover.
6. Total expense ratio The ratio of total operating expenses, including management fees expressed as a percentage of the average net asset value.	The total expense ratio is a key measure of our operational excellence. Maintaining a low cost base supports our ability to pay dividends.	1.1%	1.1%	In line with our target.
7. Weighted average unexpired lease term The average unexpired lease term 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 and predictability of our income stream.	22 years	22 years	In line with our investment objective.
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%	96%	In line with our investment objective.

1 Assuming full drawing of the Group's RCF to settle commitments on the Group's forward funding projects pro-forma LTV is 30%

EPRA performance measures

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

Reconciliations of EPRA Earnings and NAV are included in Notes 25 and 26 to the consolidated financial statements respectively. Reconciliations of other EPRA performance measures in the Notes to the EPRA and alternative performance measures on page 96.

KPI and definition	Purpose	Performance 2020	2019
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.	Adjusts NAV under IFRS 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.	£648.1m / 124.3p per share	£403.8m / 114.6p per share
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.	£27.1m / 5.6p per share	£14.9m / 5.6p per share
3. EPRA NNNAV EPRA NAV adjusted to include the fair values of: (i) financial instruments; (ii) debt; and (iii) deferred taxes.	Adjusts 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.	£632.1m / 121.2p per share	£405.0m/ 115.0p per share
4. EPRA NIY 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.	This measure should make it easier for investors to judge for themselves how the valuations of two portfolios compare.	5.1%	5.1%
5. EPRA 'Topped-Up' NIY 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).	This measure should make it easier for investors to judge for themselves how the valuations of two portfolios compare.	6.3%	6.0%
6. EPRA Vacancy Estimated market rental value ("ERV") of vacant space divided by the ERV of the whole portfolio.	A 'pure' (%) measure of investment property space that is vacant, based on ERV.	0.00%	0.00%
7. EPRA Cost Ratio Administrative and operating costs (including and excluding costs of direct vacancy) divided by gross rental income.	A key measure to enable meaningful measurement of the changes in a company's operating costs.	17.1% (no direct vacancy costs incurred)	16.4% (no direct vacancy costs incurred)

Section 172 statement

This section of the Annual Report covers the Board's considerations and activities in discharging their duties under s.172(1) of the Companies Act 2006, in promoting the success of the Company for the benefit of members as a whole.

This statement includes consideration of the likely consequences of the decisions of the Board in the longer term and how the Board has taken wider stakeholders' needs into account.

Stakeholder identification and management

The Board has identified the major stakeholders in the Company's business. On an ongoing basis the Board monitors both potential and actual impacts of the decisions it makes in respect of the Company upon those major stakeholders identified.

Shareholders: As a public company listed on the London Stock Exchange, the Company is subject to the Listing Rules and the Disclosure Guidance and Transparency Rules. The Listing Rules include a listing principle that a listed company must ensure that it treats all holders of the same class of shares that are in the same position equally in respect of the rights attaching to such shares. With the assistance of regular discussions with and the formal advice of the Company's legal counsel, secretary and corporate broker, the Board abides by the Listing Rules at all times.

For information on shareholder engagement please see the Governance section of this report which contains further information on shareholder engagement.

To a great extent, shareholder engagement on behalf of the Company is managed by the Investment Advisor. The Investment Advisor along with the Company's corporate broker regularly meets with the Company's shareholders to provide Company updates and to foster regular dialogue.

Tenants: The Investment Advisor performs extensive due diligence before a tenant is selected, and during the tenancy agreement they maintain a constructive relationship through ongoing engagement. The Investment Advisor takes into account the tenants' changing needs and uses their expertise to assist them in any way within their ability.

The Group's acquisition strategy is generally focussed towards new leases being agreed with tenants and seeks to avoid 'passive landlord' status with tenants. The Group acquires the majority of its properties through forward funding or forward commitment structures or corporate sale and leasebacks, meaning that close access is achieved to the tenant and their business plans, and direct input in negotiating the commercial terms of the lease. This puts us in a stronger position to generate and foster relationships with our tenants than landlords who focus on purchasing ready made products with a significant portion of a lease term already having expired.

We also focus on asset management initiatives to assist our tenant partners in achieving the maximum value from the sites that we own and thereby, increasing their strategic importance to the tenants and in doing so increasing the security of our own income.

Service Providers: A list of the Company's key service providers can be found in the Management Engagement Committee Report. As an externally managed investment trust, the Company conducts all its business through its key service providers. Before the engagement of a service provider, the Board ensures that the Company's business outlook as well as values are similar. The Board performs an annual evaluation of all of its key service providers to ensure inter alia that the Company's values remain aligned. The Board has regular interaction with the Investment Advisor, AIFM, Broker, Company Secretary, Administrator and Depositary and receives reports on the performance of the rest of the key service providers by the Investment Advisor and Company Secretary.

Employees: As a real estate investment trust, the Company does not have any employees as all of its functions are carried out by third party service providers. However, the Company has a Board of Directors who are non-executive and receive fixed fee remuneration. Since all investment decisions have to be approved by the Board, they remain insulant to excessive risk taking which could potentially have a harmful impact on the environment. The Company's Board receive regular market and regulatory updates from its professional advisors such as the Investment Advisor, Broker and Company Secretary and attend seminars where required. The Company's Board is comprised of three male directors and two female. Diversity is at the centre of the Company's recruitment policy and future director recruitment processes will reflect this.

The Company's impact on the environment

The Board recognises that the Company's investment activities directly and indirectly impact the environment. The Board and the Investment Advisor are committed to managing the Company's environmental impact in the most effective and responsible manner and seek continuously to improve the Company's level of environmental performance. Details of environmental initiatives are given in the Investment Advisor's report and the Company also has an ESG Policy which is available on request from the Company Secretary.

Where consistent with the Board's fiduciary responsibilities, the Company seeks to reduce the carbon footprint of assets coming under its ownership and encourage our tenants and other service providers to do the same.

We will not ordinarily acquire buildings that fall short of our minimum standards unless we are able to demonstrate that affordable improvements can be made. Our minimum standard varies between built and forward-funded new asset acquisitions due to the difference in influence that we are able to exert.

We would not ordinarily acquire built assets, for example, with an Energy Performance Certificate ("EPC") rating lower than D without having an affordable plan in place to improve the rating during the period of the Group's ownership.

Where we forward fund new developments, we use our influence to encourage the tenant, developer and contractors to consider sustainability-related matters in the design, construction and fit-out of buildings. We ensure the environmental performance of new developments do exceed the minimum standards laid down by building regulations and planning policy. New commercial buildings acquired should have a BREEAM rating of at least 'Very Good'.

We expect all new buildings to have Energy Performance Certificates rated at C or higher and that the design will incorporate enhanced insulation, advanced energy efficiency and a suitable range of water-saving features.

Aside from managing assets in an environmentally responsible manner, we see sustainability as both a threat and an opportunity. There is a risk that the future value of some properties may be adversely affected by issues of sustainability and that potential tenants that share our values would be minded against the occupation of a building with a comparatively negative impact on the environment. We have systems in place to enable us to monitor and then manage these emerging risks as part of our overall approach to risk management.

Conversely, we believe that some assets may experience positive change in value as a result of the move towards a lower carbon economy and the increased habit among our tenants (or potential tenants) to value buildings that have a comparatively positive impact on the environment. As such, we prioritise assets that already demonstrate strong environmental performance or where opportunities to improve it are identified.

During the year ended 31 March 2020, at the instruction of the Board, the Investment Advisor undertook a review of the energy efficiency of the Group's portfolio to establish performance within the ESG policy. The analysis covered all of the Group's properties in England and Wales (to date), accounting for 91%, with the Scottish and Northern Irish properties, the remaining 9%, to follow in due course.

The results of the properties analysed (by contracted rental income) are summarised as follows:

- 34% of the Group's portfolio EPC rated A*
- 24% of the Group's portfolio has an EPC rating of B
- 27% of the Group's portfolio has an EPC rating of C
- 14% of the Group's portfolio has an EPC rating of D
- < 1% of the Group's portfolio has an EPC rating lower than D

The results of the analysis demonstrate performance in line the ESG policy.

* Assumes all forward funded properties to be completed in due course and achieve EPC rating A

Board activity and stakeholder considerations

The Board's main working relationship is with the Investment Advisor. The Group's performance to date has been strong and in all cases has exceeded or met its stated target. This performance is underpinned by the quality of the Investment Advisor's management team. In particular, this is reflected in the sourcing of high quality assets at attractive pricing, the management of the risks and exposures of the Company's portfolio, the development and maintenance of relationships with shareholders and other financiers and the regularity and quality of reporting to the Company's stakeholders.

The Board retains responsibility for the approval of every property acquisition and disposal and in doing so is able to give due consideration to its wider stakeholder group. The Board relies on the Investment Advisor's sourcing and due diligence conclusions which are presented to the Board before each transaction. In turn, the Board offers a robust challenge to validate the quality of each investment.

The Board also particularly deliberates on the quality of each tenant's robustness, financial viability, reputation, corporate values and operational excellence in its sub-sector before approving each transaction.

The Board's long-term strategic goal has been to maximise shareholder value by growing the Company in a prudent and accretive manner. As such the Board carefully considers the merits of raising new equity and debt capital before it is approved. It works closely with the Investment Advisor to advance due diligence on a pre-identified pipeline to a defensive position that will allow the timely execution of deals once new capital is raised. The Board considers the respective merits and risks of raising new capital and at what price before any potential equity raise is approved.

Key decisions made during the year

Equity raise during the year

During the year the Board approved a £200m capital raise that is described in detail in the Chairman's statement and the Directors Report. The Board considered that the deployment of new capital would benefit the shareholders of the Group through increased diversification and a reduced ongoing cost ratio.

Debt issue during the year

During the year the Company agreed a new £100m credit facility with Lloyds Bank, described in detail in the Investment Advisors report. The Board considers that the new facility would conservatively leverage the proceeds of the Company's equity raise (above) in line with the prescribed borrowings policy of the Group.

The RCF would also support the efficient implantation of the Group's strategies for forward funding and capital recycling as described in the Investment Advisors report.

Investment Advisor Agreement extension

During the year the Board approved the extension of the term of the Company's Investment Advisory Agreement with LXi REIT Advisors Limited. The extension is described in the Management Engagement Committee Report.

The Board considers that the extension of the Investment Advisor Agreement will benefit the Company and its shareholders by providing certainty of continuing service. The Investment Advisor's ability to source high quality assets, with a particular focus on pre-let forward fundings, and also to make selective profitable disposals at disciplined and attractive pricing have been at the core of the Company's outperformance.

Principal risks and uncertainties

Risk	Mitigant	Probability	Impact
Covid-19 global pandemic Rapid spread of infectious disease has caused governments to implement a policy to restrict travel and take other measures to prevent its spread, resulting in a slow down to the economy, significant share price volatility, changes to the working habits for our key service providers, and unprecedented disruption to many of our tenant's businesses.	The Board has moved to a Business Continuity Plan to support the continued operations of the business. The Board and the management engagement committee are closely monitoring the business continuity of each of our key service providers to ensure adequate controls are in place to limit the impact to on the Company. The Board, Investment Advisor and key members of the management team has have been working remotely since 16 March 2020.Communication between the Board, its advisors, tenants and key service providers is frequent and regular. The Board is closely monitoring the impact on our assets and on our tenant's ability to meet rent obligations. Negotiations are ongoing to maximise the Group's cash flow, to protect dividend distribution and satisfy banking covenants, while balancing the long-term viability of tenants. We have extended proportionate assistance as required. The Board is committed to providing all relevant information to the market on a timely basis to foster good communication with our shareholders and other stakeholders. Further detail of this is given in the going concern section of this report.	High	High
Property and real estate risks			
Competition for properties 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.	The Board has set the overall investment objective and strategy of the Group. The Group has a wide range of available assets given (i) the multi sector approach and (ii) our ability to forward fund as well as invest in built assets. The Investment Advisor has long standing relationships and an extensive track record. The Investment Advisor monitors the Group's financial position and returns on an ongoing basis. The Board reviews the performance of the Group against its investment objectives at quarterly Board meetings.	Moderate	Moderate
Property valuation 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 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 a discount to the prevailing valuation of the relevant property. The Group's Valuer has included a disclosure relating to material uncertainty in the property valuation as at 31 March 2020 (refer to Note 9 of the Consolidated Financial Statements). The Group considers that as a result of this the probability of an error in the estimation of the group's property valuation has increased from low, to low to moderate.	The Group generally 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 valuations. The performance of third party service providers is regularly reviewed by the Board.	Low to moderate	Moderate to High
Tenant default risk Dividends payable by the Group and its 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. The Group considers that the probability of a tenant default has moved from low to moderate as a result of the uncertainty relating to Covid-19, which is referred to in detail under other risks below.	The Group undertakes thorough due diligence before acquisition and generally acquires assets let to strong tenants with proven operating track records who will be able to pay the rents as and when they are due. Tenant credit worthiness and performance is monitored on an ongoing basis. The Group has 52 strong tenants across nine property sectors and is not over exposed to any single tenant or industry thereby minimising exposure.	Moderate	Moderate

Risk	Mitigant	Probability	Impact
Financial risks			
Operating within banking covenants 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. The Group considers that in view of the lower rate of rent collection for the quarter ending June 2020 and the Government's withdrawal of forfeiture rights in favour of commercial property tenants for that quarter, as well as the material uncertainty that exists in the Covid-19 environment in respect of property valuations, the risk associated with a breach of banking covenants has moved from low to moderate.	The Group acquires property with a low loan to value ratio ("LTV") and significant headroom for valuation movements. The Group's LTV at 31 March 2020 was 20%, and is expected to rise to 30% following full drawing of the Group's RCF to settle forward funding commitments. This is below our maximum LTV of 35% and materially below our default covenant of 50%. The Group has embedded index linked of fixed income growth in 96% of its leases, by value, and fully fixed the rate of debt. We also maintain a long WAULT which makes covenant compliance more predictable.	Moderate	High
Other risks			
Dependence on the Investment Advisor The Group relies on the Investment Advisors 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.	The Board has executed a long-term Investment Advisory Agreement securing the services of Investment Advisor until March 2025. The Board meets regularly with the Investment Advisor to promote a positive working relationship its performance is monitored by the Management Engagement Committee. The Investment Advisory fee is based on a sliding scale of market capitalisation to align the Investment Advisor's interest with those of the shareholders.	Low	High
Compliance Failure to adhere to accounting, legal and regulatory requirements could result in material adverse consequences to 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 its property rental income and chargeable gains, which would reduce the earnings and amounts available for distribution to shareholders.	The Investment Advisor monitors compliance with the REIT regime. The Group has appointed experienced third-party tax advisors 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 Board.	Low	High
Political uncertainty Following the ratification of the UK's exit from the European Union, and with ongoing negotiations as to the nature of the UK's ongoing relationship with the European Union as well as other new trade deals being negotiated there is significant political and economic uncertainty in the UK. The extent of the potential impact on the Group is unknown but the impact on the economy could result in difficulty raising further capital in the European Union and/or a change in the regulatory compliance burden on the Group. Until the exact terms of the UK's new relationship with Europe becomes clearer the exact outcome and potential impact for the business is difficult to predict.	The Board recognises that the level of uncertainty makes the risk difficult to mitigate fully. The strength of the Company's tenant and guarantor group reduces the risk of economic uncertainty impacting our income returns and our diverse portfolio is well positioned to withstand any economic downturn. The Group invests solely in UK property. We also note the flight to attractive secure long income which has emerged in the current climate of uncertainty, attracting many investors to the sector due to the positive yield gap to gilts. We continue to monitor closely the potential impact of changes in the regulatory environment that may impact the Group.	Moderate	Low

Going concern and viability

Going Concern

The Board regularly monitors the Group's ability to continue as a going concern. The Strategic Report describes in detail the Group's financial position, income streams and loan facilities as at 31 March 2020.

Assessment of the Group's ability to continue as a going concern is subject to more uncertainty than has previously been prevalent since inception of the Company. This is as a result of the Covid-19 global pandemic and the unprecedented impact it is having on the operations of the Group and the disruptions caused by the virus and necessary short-term Government measures, to the operation and trading performance of many of our tenants and assets.

The Board believes that the Company remains well placed to navigate effectively a prolonged period of uncertainty and to mitigate the risks presented by it. We draw comfort from the Group's robust balance sheet and high-quality portfolio of commercial property assets let or pre-let on very long term, index-linked leases to a wide range of strong tenant covenants highly diversified by tenant, sector and location.

The health and safety of colleagues, tenants, shareholders and wider stakeholders continues to remain the Company's top priority, especially during this period of uncertainty and volatility and the Group is continuing to monitor closely the recommendations issued by the World Health Organisation, Public Health England, the NHS and other relevant authorities and is complying with these across its business.

The Group remains in constant communication with all its advisers, tenants and key service providers and, as part of its Business Continuity Procedures, the Company has a Pandemic Response Plan in place which includes travel restrictions and remote working policies that has been in effect since 16 March 2020 and is operating well.

Low, long dated and low-cost debt facilities, with significant covenant headroom

- The Group's loan to value ("LTV") as at 31 March 2020 was 20%, this provides significant headroom to the covenant of 50%
- The Group's portfolio is currently valued at £914.0m reflecting a valuation yield of 5.0%. Assuming full drawing of the RCF pro-forma LTV is 30%
- On the basis of the Group's pro-forma LTV[1], the valuation of the property portfolio would have to reduce by 41%, an outward yield movement of 343 bps, in order for the Group to breach its LTV covenant
- Whilst material uncertainty relating to property values exists and short-term fluctuations may be expected, factors contributing to the resilience of the property portfolio valuation are detailed below. The Board has reasonable comfort that no yield shift in the region noted above will occur
- The Investment Advisor is in regular contact with the Group's lenders who are supportive of the Group, take comfort in the valuations by the Standing Independent Valuer and have not instructed their own valuation to test covenant compliance
- Similarly, the Group's forward looking interest cover ratio ("ICR") is c.600%[2] versus the interest cover test of 300%
- In order to support the Group's ongoing negotiations with tenants in respect of rent recovery, the Group's term-loan lender has suspended the ICR covenant until December 2020, when normality is widely anticipated to have returned to the rent collection cycle
- The Group has no short or medium term refinancing risk given the 11-year average maturity of its long term debt facilities with Scottish Widows the first of which expires in July 2029, which are fully fixed at an all-in average rate of 2.94% pa
- The Company also has a committed £100 million revolving credit facility ("RCF") with Lloyds Bank, which was completely undrawn at 31 March 2020 and fully covers its commitments on forward fundings
- The RCF is being drawn to match the developer drawdowns as they fall due and generates significant arbitrage between the funding rate received on developments and the interest rate paid on the drawn element

1 Pro-forma LTV is calculated as the Group's total bank borrowings, assuming the RCF is fully drawn (£270.0m), as a percentage of the Group's investment property valuation as at 31 March 2020, which includes forward funded commitments outstanding at that date

2 Assumes all rents are paid by tenants as they fall due

Defensive and diversified portfolio that is 100% let or pre-let on very long leases to strong tenant covenants

- The Company's portfolio is 100% let or pre-let to over 50 strong tenants, across nine sub-sectors. Further security is provided through the tenants and guarantors being the main trading or parent companies within the tenant groups
- The Company's leases average 22 years to first break and each lease is drawn on a fully repairing and insuring basis – tenants are responsible for repair, maintenance and outgoings, so there is no cost leakage for the Company
- Each property is let on a fixed rent basis (i.e. not related to turnover or trading), with 96% of the income benefitting from index-linked or fixed uplifts
- The Company's portfolio benefits from low, sustainable rents, making the assets highly profitable and valuable to our tenants. This is in part a consequence of the Company forward funding, on a pre-let basis, brand new buildings and carefully structuring sale and leasebacks
- A number of the Company's tenants, such as Aldi, Lidl and BUPA, are in sectors which are trading robustly in the current climate
- In the sectors which Covid-19 has spot-lit, such as budget hotels, pubs and drive-thru coffee shops, the Company's tenants – Premier Inn, Travelodge, Greene King, Costa Coffee and Starbucks – are market leading operators, with strong balance sheets and material cash holdings

Strong liquidity

- At 31 March 2020 the Group had net assets of £648.0m (31 March 2019: £403.8m) and available uncommitted cash reserves of £13.4m (31 March 2019: £19.4m)
- The Group has exchanged unconditionally on the disposal of two assets for proceeds of £2.1m, representing an uplift of 15.1% on purchase price, 2.8% on current book value and generating a geared IRR of 15.1% pa
- Disposal proceeds will be used in the short-term to support the Group's liquidity and in the medium-term we expect to redeploy the capital into our existing pipeline of accretive assets and/or other opportunistic purchases that may arise in the current crisis
- The Group could continue to meet its ongoing operational and financing cost obligations at a recovery rate of 17% of rental income

Rent recovery and dividends

- The majority of the Group's tenants continue to pay as normal, or have moved to monthly payments for one quarter
- The Board notes that, like the vast majority of large commercial property landlords, we have been impacted by the Government's guidance in respect of the current quarter that non-payment of rents would not result in forfeiture, and as a result some of our tenants have withheld their rental payments in respect of the quarter ending 30 June 2020
- £3.3m of the quarterly rent roll was unpaid as at the quarter date in March and subject to deferral negotiations, representing 6.8% of the Group's £48.3m annual contracted rent roll
- The Investment Advisor has been in negotiations with those tenants that had not paid their quarter's rent and provides the following update, which demonstrates good progress towards recovery of the vast majority of the unpaid rents:
  - £1.7m is now subject to agreed terms with the tenant, which represents 3.6% of the Group's contracted annual rent roll. Of this amount:
    - £0.3m has been received in cash;
    - £1.2m is now due to be paid within three months;
    - £0.2m is now due to be paid between three and twelve months; and
    - less than £0.1m has been given as a rent concession
  - £1.6m remains the subject of detailed discussions with the tenant, which represents 3.2% of the Group's contracted annual rent roll. The Investment Advisor expects the majority of this to be received within twelve months
- The strong financial performance of the Group in the year ended 31 March 2020 and the current liquidity has given the Board confidence to propose the final quarterly dividend in respect of that year, meeting the Company's annual dividend target, which will be paid to shareholders on 17 July 2020
- The Board confirms that it expects to approve the payment of the Company's first quarterly dividend for the financial year ending 31 March 2021 at the rate of 1.30 pence per share. This dividend is in respect of the quarter ending 30 June 2020 and is scheduled to be declared and paid in September 2020

- The Board believes this is an appropriate level for the period which it expects to be covered by the rents collected for the quarter ending 30 June 2020 (i.e. the March 2020 in advance rents)
- The Company will continue to monitor the improving visibility on its future rent collection as the UK moves out of lockdown and is keeping its dividend guidance under careful review on a quarterly basis

Going concern statement

Based on the consideration above, the Board believes that the Group has the ability to continue in business at least twelve months from the date of approval of these financial statements and therefore have adopted the going concern basis in the preparation of this financial information.

Viability statement

In accordance with the AIC Code of Corporate Governance, the Board has assessed the prospects of the Group over a longer period than the 12 months required by the 'Going Concern' provision. The Board conducted this review for a five year period to March 2025.

The longer term financial projections used by the Board to consider the Group's viability cover a period that is longer than the Investment Advisory Agreement which expires in 2025. It is assumed within the projections that the Investment Advisory Agreement is renewed on consistent terms when it expires as the Board has reasonable confidence that the agreement will be renewed or an appropriate equivalent put in place.

Five years was considered appropriate as it is covered by the Group's longer term financial projections. The Board considers the sensitivity of the financial projections to a range of key assumptions impacting compliance with secured debt covenants.

The sensitivities performed were designed to be severe but plausible; and to take full account of the availability of mitigating actions that could be taken to avoid or reduce the impact or occurrence of the underlying risks:

Downturn in economic outlook: key assumptions including tenant default, void periods, necessary rent free periods, capital expenditure, income growth and softening valuation yields were sensitised to reflect reasonably likely levels associated with a longer-term economic downturn.

Restricted availability of finance: The Group's first significant refinancing event (assuming all extension options are taken) is August 2024. The Group's policy is to arrange alternative finance in advance of expected requirements and the Directors have reasonable confidence that an extension, additional or replacement debt facilities will be put in place prior to the refinancing date. Furthermore, the Group has the ability to make disposals of investment properties to meet the future financing requirements and has demonstrated its ability to do so.

Based on the work performed, the Board has a reasonable expectation that the Group will be able to continue in business over the five year period of its assessment.

Approval

The Strategic Report was approved by the Board of Directors.

Stephen Hubbard
Chairman of the Board of Directors

15 May 2020

Governance

Governance

Directors' report

The Directors present their report for the year ended 31 March 2020.

Dividends

In line with the Company's dividend policy, four quarterly dividends were paid during the year:

The final dividend in respect of the year ended 31 March 2019 of 1.375p per share was paid to shareholders on 3 July 2019.

The first quarterly dividend in respect of the year ended 31 March 2020 of 1.4375p per share which was paid on 23 September 2019.

The second quarterly dividend in respect of the year ended 31 March 2020 of 1.4375p per share which was paid on 20 December 2019.

The third quarterly dividend in respect of the year ended 31 March 2020 of 1.4375p per share which was paid on 27 March 2020.

On 15 May 2020 The Board approved a fourth quarterly dividend in respect of the year ended 31 March 2020 of 1.4375p per share, payable on 17 July 2020 to shareholders on the register at 26 June 2020. The ex-dividend date will be 25 June 2020. This will take the total dividends paid in respect of the year to 5.75p per share, in line with the Company's dividend target. The dividend will be paid as a Property Income Distribution ("PID").

Directors

The names of the current Directors are given in the Board of Directors section of this report, together with their biographical details and other information. During the year, the Company appointed Patricia Dimond as a non-executive director from 1 January 2020.

There were no other changes to the Company's Directors during the period.

The Company maintains Directors' and Officers' liability insurance cover, at its expense, on the Directors' behalf.

Principal professional advisors

AIFM and Investment Advisor

LJ Administration (UK) Limited is the Company's AIFM. The Company and the AIFM have appointed LXi REIT Advisors Limited to provide certain services in relation to the Company and its portfolio. The Management Engagement Committee report includes details of the remuneration of the AIFM and the Investment Advisor.

The AIFM is regulated in the conduct of investment business by the FCA. The AIFM is, for the purposes of the AIFMD and the rules of the FCA, a 'full scope' UK alternative investment fund manager with a Part 4A permission for managing AIFs, such as the Company.

Depositary

Langham Hall UK Depositary LLP has been appointed as Depositary to provide cash monitoring, safekeeping and asset verification and oversight functions as prescribed by the AIFMD. The Depositary Statement is included in this Annual Report.

Company Secretary

PraxisIFM Fund Services (UK) Limited has been appointed as the Company Secretary of the Company and provides company secretarial services and a registered office to the Company.

Administrator

Langham Hall UK Services LLP has been appointed as Administrator to the Company. The Administration of the Company is delegated and in consultation with the AIFM and the Investment Advisor, financial information of the Group prepared by the Administrator is reported to the Board.

Share capital

Capital structure and voting rights

As at 31 March 2020, the Company's issued share capital comprised 521,426,010 ordinary shares, each of 1p nominal value. Each ordinary share held entitles the holder to one vote and there are no restrictions on those voting rights. Voting deadlines are stated in the Notice and Form of Proxy and are in accordance with the Companies Act 2006.

There are no restrictions on the transfer of ordinary shares, nor are there any limitations or special rights associated with the ordinary shares.

The Company did not purchase any of its ordinary shares during the year, nor did any nominee or third-party with the Company's assistance acquire any shares on behalf of the Company.

Ordinary Shares	Number
Balance at the start of the year	**352,314,872**
New ordinary shares issued under the Open Offer on 17 June 2019	64,937,733
New ordinary shares issued under the Placing on 17 June 2019	79,900,800
New ordinary shares issued under the Intermediary Offer on 17 June 2019	5,727,872
New Ordinary Shares under the Offer for Subscription on 17 June 2019	18,544,733
Balance at the end of the year	**521,426,010**

Premium management and share issuance

A prospectus and Circular was issued by the Company on 20 May 2019 in respect of a Placing, Open Offer, Offer for Subscription and Intermediaries Offer (the "programme"). The programme had a target size of 84,555,569 new ordinary shares at 118p per new ordinary share. Shareholders granted authority on 12 June 2019 to allot 169,111,138 new ordinary shares.

On 17 June 2019, due to the level of take up exceeding the target, the Company took advantage of the upsize option to issue a total of 169,111,138 new ordinary shares under the programme, raising gross proceeds of approximately £200 million

In the previous financial year, the Company under a separate programme the Company issued 155,433,165 new ordinary shares were issued, raising total gross proceeds of £175.25 million.

General authority to issue shares

The issuance of new ordinary shares is entirely at the discretion of the Board, and no expectation or reliance should be placed on such discretion being exercised on any one or more occasions.

The maximum number of ordinary shares which can be admitted to trading on the London Stock Exchange without the publication of a prospectus is 20% of the ordinary share capital on a rolling previous 12 month basis at the time of admission of the shares.

Any new ordinary share issues will be issued at a premium to (ex income) net asset value.

The Board believes that there are benefits in the Company having the ability to issue new shares. An ordinary resolution seeking shareholders' authority to issue new ordinary shares together with a special resolution to disapply pre-emption rights will be put forward for approval at the Company's forthcoming Annual General Meeting ("AGM").

Treasury shares & discount management

The Companies Act 2006 allows companies to hold shares acquired by way of market purchase as treasury shares, rather than having to cancel them. This would give the Company the ability to re-issue ordinary shares quickly and cost effectively thereby improving liquidity and providing the Company with additional flexibility in the management of its capital base. No ordinary shares will be sold from treasury at a price less than the net asset value per existing ordinary share at the time of their sale unless they are first offered pro rata to existing shareholders. No ordinary shares were bought back during the year.

The Company may seek to address any significant discount to net asset value at which its ordinary shares may be trading by purchasing its own ordinary shares in the market on an ad hoc basis.

The Directors currently have the authority to make market purchases of up to 52,811,999 ordinary shares. The maximum price (exclusive of expenses) which may be paid for an ordinary share must not be more than the higher of:

(i) 5 per cent. above the average of the mid-market values of the ordinary shares for the five Days before the purchase is made; or

(ii) at a price stipulated by the regulatory technical standards adopted by the EU pursuant to the Market Abuse Regulation from time to time.

Ordinary shares will only be repurchased at prices below the prevailing net asset value per ordinary share, which should have the effect to increasing the net asset value per ordinary share for other shareholders.

It is intended that a renewal of the authority to make market purchases will be sought from shareholders at each AGM of the Company. Purchases of ordinary shares will be made within guidelines established from time to time by the Board. Any purchase of ordinary shares would be made only out of the available uncommitted cash resources of the Group.

Ordinary shares purchased by the Company may be held in treasury or cancelled.

The Directors will have regard to the Company's REIT status when making any repurchase, and purchases of ordinary shares may be made only in accordance with Companies Act 2006, the Listing Rules and the Disclosure Guidance and Transparency Rules.

Investors should note that the repurchase of ordinary shares is entirely at the discretion of the Board and no expectation or reliance should be placed on such discretion being exercised on any one or more occasions or as to the proportion of ordinary shares that may be repurchased.

A resolution to renew the Company's authority to purchase its own shares will be put forward for approval at the Company's forthcoming AGM.

Settlement of ordinary share transactions ordinary Share transactions in the Company are settled by the CREST share settlement system.

Significant shareholders

The Directors have been notified of, or have identified as at 31 March 2020, the following shareholdings comprising 3% or more of the issued share capital of the Company:

Name	Holding	Percentage
Quilter Plc	39,686,582	7.61%
BlackRock Inc	24,114,797	4.62%
JM Finn & Co	23,864,219	4.58%
EFG International	22,953,402	4.40%
Baillie Gifford & Co	21,677,508	4.16%
Bank of Montreal	20,139,799	3.86%
Charles Stanley	16,102,989	3.09%

Employees

The Company has no employees and no share schemes.

Modern Slavery Act 2015, Bribery Act 2010 and Criminal Financed Act 2017

The Directors are satisfied that, to the best of their knowledge, the Company's principal suppliers, as listed above under Principal Professional Advisors, comply with the provisions of the Modern Slavery Act 2015 and maintain adequate safeguards in keeping with the provisions of the Bribery Act 2010 and Criminal Financed Act 2017.

Streamlined Energy & Carbon Reporting framework

The Group's energy use during the year is below 40MWh, therefore the Group is exempt from reporting under the Streamlined Energy & Carbon Reporting framework.

Financial instruments

The Group uses financial derivatives to hedge its exposure to interest rate risks on its variable rate borrowings.

The Group's financial risk management objectives and policies are included in Note 22 to the consolidated financial statements.

Annual General Meeting

In line with the requirements of the Companies Act 2006, the Company will hold an Annual General Meeting of shareholders to consider the resolutions laid out in the Notice of Meeting on 30 June 2020 at 2.00 pm.

As a result of current emergency measures in the UK, and in view of guidance issued by the Investment Association and the Chartered Governance Institute, the Company has decided that in order to best protect the health and safety of shareholders that the AGM will be a closed meeting and shareholders will be unable to attend in person. Shareholders attempting to attend the AGM will be refused entry. There will be no presentation by the Investment Advisor.

Shareholders are strongly encouraged to vote by proxy. Full details of the Annual General Meeting, the resolutions proposed and information on how to vote by proxy are described in the Notice of Meeting and supporting explanatory notes.

The Board ask that shareholders who have questions that they would have otherwise raised at the Annual General Meeting, should submit them by 25 June 2020 to the Company's email address, info@lxireitadvisors.com. Answers will be published on the Company's website following the meeting.

Independent Auditor

BDO LLP has expressed its willingness to continue in office as Independent Auditor and a resolution to re-appoint them will be put to shareholders at the AGM.

Disclosure of information to the Independent Auditor

Each of the Directors at the date of the approval of this report confirms that:

(i) so far as the Director is aware, there is no relevant audit information of which the Company's Independent Auditor are unaware; and

(ii) the Director has taken all steps that he ought to have taken as Director to make himself aware of any relevant information and to establish that the Company's Independent Auditor are aware of that information.

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

In accordance with Section 489 of the Companies Act 2006, a resolution to re-appoint BDO LLP as the Company's Independent Auditor will be put forward at the forthcoming AGM.

By order of the Board

Brian Smith
PraxisIFM Fund Services (UK) Limited
Company Secretary

15 May 2020

Corporate governance statement

The Corporate Governance Statement forms part of the Directors' Report.

The Board is committed to high standards of corporate governance.

Statement of compliance

The Board has considered the Principles and Provisions of the AIC Code of Corporate Governance (the 'AIC Code'). The AIC Code addresses the Principles and Provisions set out in the UK Corporate Governance Code 2018 (the 'UK Code'), as well as setting out additional Provisions on issues that are of specific relevance to the Company.

The Board considers that reporting against the Principles and Provisions of the AIC Code, which has been endorsed by the Financial Reporting Council, provides more relevant information to shareholders.

The company has complied with the Principles and Provisions of the AIC Code.

The AIC Code is available on the AIC website (www.theaic.co.uk). It includes an explanation of how the AIC Code adapts the Principles and Provisions set out in the UK Code to make them relevant for investment companies.

The Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Code, except as set out below.

The UK Corporate Governance Code includes provisions relating to:

UK Code provision	Explanation
Remuneration of executive Directors	As an externally managed investment company, the Board does not include any executive Directors. As such, the UK Code's principles in respect of executive Directors' remuneration are not applicable and the Board therefore does not have a Remuneration Committee.
The role of the chief executive	As an externally managed investment company, the Board does not include any executive Directors. As such, the UK Corporate Governance Code's principles in respect of the role of the chief executive are not applicable.
The need for an internal audit function	As explained in the Report of the Audit Committee, this is not considered to be appropriate given the nature and circumstances of the Company. The Audit Committee keeps the needs for an internal function under periodic review.

The Company is an externally managed investment company. All of the Company's day-to-day management and administrative functions are outsourced to third parties, as explained in the Directors' Report. For the reasons set out in the AIC Guide, the Board considers these provisions are not relevant to the position of the Company, being an externally managed investment company and the Company does not therefore comply with them.

LEADERSHIP

The Board of Directors

The Board is responsible for the effective stewardship of the Company's affairs. Investment policy and strategy are determined by the Board. It is also responsible for the borrowing policy, dividend policy, public documents such as the reports and financial statements and corporate governance matters. In order to enable them to discharge their responsibilities, the Board has full and timely access to relevant information. No formal schedule of matters reserved to the Board has been adopted, since the board effectively supervises all aspects of the Company's operations. Colin Smith is the Senior Independent Director.

Composition of the Board

At the date of this report, the Board consists of five non-executive Directors including the Chairman, of whom three are male and two female. Patricia Dimond was appointed an additional Board member on 1 January 2020. All other Directors have served since their appointment on 27 January 2017.

The Board believes that during the year ended 31 March 2020 its composition was appropriate for an investment company of the Company's nature and size. All of the Directors are independent of the Investment Advisor and AIFM. All of the Directors are able to allocate sufficient time to the Company to discharge their responsibilities effectively.

The Directors have a broad range of relevant experience to meet the Company's requirements and their biographies are given in The Board of Directors section of this Annual Report.

The Board recognises the benefits to the Company of having longer serving Directors together with progressive refreshment of the Board in line with corporate governance best practice. There is no fixed policy regarding tenure of directorships.

The Board are mindful that four of the five Board members will reach their ninth anniversary simultaneously on 27 January 2026. In order to ensure continuity, the Board have adopted a succession plan that allows for a gradual refreshment. Accordingly, the Board may decide to recommend a director with more than nine years' service for re-election should the need arise.

All of the Directors will retire and offer themselves for election or re-election at the AGM of the Company to be held on 30 June 2020. The Board recommends all the Directors for election for the reasons highlighted above and in the performance appraisal section of this report.

The Directors have appointment letters which do not provide for any specific term. In accordance with the AIC Code the Board are subject to annual re-election. Copies of the Directors' appointment letters are available on request from the Company Secretary. Upon joining the Board, any new Director receives an induction and relevant training is available to Directors on an ongoing basis.

A procedure has been adopted for Directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company. All Directors have access to the advice of the Company Secretary on an ongoing basis.

A policy of insurance against Directors' and officers' liabilities is maintained by the Company.

Board committees

The Company has established an Audit Committee which is chaired by John Cartwright and consists of all the Directors. A report of the Audit Committee is included in this Annual Report. The Board considers that the members of the Audit Committee have the requisite skills and experience to fulfil the responsibilities of the Audit Committee. The Audit Committee examine the effectiveness of the Company's risk management and internal control systems and reviews the Interim Report and the Annual Report. It also reviews the scope, results, cost effectiveness independence and objectivity of the Independent Auditor.

The Company has established a Management Engagement Committee which is chaired by Jan Etherden and consists of all the Directors. The Management Engagement Committee's principal duties are to consider the terms of appointment of the Investment Advisor and the AIFM and it annually reviews those appointments and the main terms of the Investment Management Agreement and the Investment Advisory Agreement. The Management Engagement Committee reviews the performance and fees payable to the other key service providers to the Company, and makes recommendations to the Board regarding those fees. During the year two Management Engagement Committee meetings were held.

The Company has established a Nomination Committee which is chaired by Stephen Hubbard and consists of all the Directors. The Nomination Committee has been established for the purpose of reviewing the Company's succession plan and identifying and putting forward candidates for the office of director of the Company. The Nomination Committee will meet at least once a year. The Nomination Committee considers job specifications and assesses whether candidates have the necessary skills and time available to devote to the job. In considering these matters the Committee takes into account the desirability of achieving diversity to the extent possible. During the year, three Nomination Committee meetings were held.

Each Committee has adopted formal terms of reference, which are reviewed at least annually, and copies of these are available on the Company's website or on request from the Company Secretary.

Meeting attendance

During the year, the Directors have attended the following meetings.

	Quarterly Board	Annual strategy meeting	Audit Committee	Management Engagement Committee	Nomination Committee
Number of formal meetings held[1]	**4**	**1**	**4**	**2**	**4**
Stephen Hubbard	4	1	4	2	4
John Cartwright	4	1	4	2	4
Jan Etherden	4	1	4	2	4
Colin Smith OBE	4	1	4	2	4
Patricia Dimond[2]	1	–	1	–	–

1 In addition to those listed above, the Company held five Board, one Audit Committee and one Nomination Committee sub-committee meetings. These meetings were held to facilitate the approval of transactions and other matters requiring recommendation and approval on behalf of the Audit Committee and approval on behalf of the Board

2 Appointed to the Board on 1 January 2020

THE BOARD OF DIRECTORS

The Directors are responsible for the determination of the Company's investment policy and have overall responsibility for the Company's activities, including the review of investment activity and performance and the control and supervision of the Company's service providers. All of the Directors are non-executive and are independent of the AIFM and the Investment Advisor.

Stephen Hubbard
Non-Executive Chairman

Appointed: 27 January 2017

Length of service: Three years, four months

Stephen Hubbard previously served as Executive Chairman of UK CBRE Group, the world's largest property advisory firm. Before that Stephen served as Co-Head of CBRE Capital Markets Europe. He joined Richard Ellis in 1976 and served as Head of EMEA and UK Capital Markets from 1998 to 2012. He is also a member of the Advisory Board for Redevco which is a pan-European property holding company. Stephen has been a director of Workspace Group plc since July 2014 and will serve as Chairman from July 2020.

Committee membership
- Audit Committee
- Management Engagement Committee
- Nomination Committee (Chair)

Colin Smith OBE
Non-Executive Director

Appointed: 27 January 2017

Length of service: Three years, four months

Colin Smith OBE served for ten years as Chairman of Poundland Group Holdings, Europe's largest single price discount retailer. Prior to this, he was Chief Executive and Finance Director of Safeway plc, the national supermarket retailer. Colin previously served as Chairman of Hilton Food Group plc having served as non-executive director since 2010. Hilton is a specialist retail meat packing business supplying major international food retailers in thirteen European countries and Australia. He also has experience in the not for profit sector having previously served as Chairman of The Challenge Network, as a trustee of Save the Children and as Chairman of the food industry sponsored Red Tractor assurance scheme. Colin has been appointed as the Company's Senior Independent Director.

Committee membership
- Audit Committee
- Management Engagement Committee
- Nomination Committee

Patricia Dimond
Non-Executive Director

Appointed: 1 January 2020

Length of service: Three months

Patricia Dimond has had an International career with over 30 years in consumer and financial markets. As an Executive or Strategic Advisor, she has worked with FSTE 100, Private Equity and owner managed companies. She is an investor in early stage technology ventures, with an expertise in Fintech. Patricia is an alumnae of McKinsey, 1994-1999 and a Chartered Financial Analyst (CFA), 2006. She qualified, with Deloitte, as a Chartered Accountant (CA) in 1985, and holds an MBA from IMD Switzerland, 1993. Patricia currently serves as a Non-Executive Director for the English National Opera where she is Senior Independent Director (SID) and Chair of Audit and Risk.

Committee membership
- Audit Committee
- Management Engagement Committee
- Nomination Committee

Jan Etherden
Non-Executive Director

Appointed: 27 January 2017

Length of service: Three years, four months

Jan Etherden has over 35 years' experience in the investment industry, as an analyst, fund manager, then a non-executive director. Previously head of UK equities for Confederation Life/Sun Life of Canada, she joined Newton in 1996 as a director specialising in multi-asset segregated portfolios and also was their Investment COO from 1999 to 2001. Subsequently she worked with Olympus Capital Management as business development manager for specialist hedge fund products. She is a director of Miton UK MicroCap Trust plc and has previously served on the Boards of Ruffer Investment Company Ltd and TwentyFour Income Fund Ltd.

Committee membership
- Audit Committee
- Management Engagement Committee (Chair)
- Nomination Committee

John Cartwright
Non-Executive Director

Appointed: 27 January 2017

Length of service: Three years, four months

John Cartwright was formerly Chief Executive of AREF from 2009 to 2019 and remains on the Board. His responsibilities as Chief Executive of AREF were to represent and promote the interests of members, promote best practice in fund governance and ensure the smooth running of the association. Prior to this, John was with M&G Real Estate (formerly PRUPIM) for nearly 35 years in a variety of roles; latterly as Head of Institutional and Retail Funds and a member of PRUPIM's Board and Investment Committee. He has more than 20 years' experience of managing pooled and segregated accounts for both retail and institutional investors. John is also a member of the Investment Committee of Lothbury Property Trust.

Committee membership
- Audit Committee (Chair)
- Management Engagement Committee
- Nomination Committee

No external appointments active during the year were considered to be significant for the relevant directors, taking into account the expected time commitment and nature of these roles.

EFFECTIVENESS

Performance appraisal

A formal annual performance appraisal process is performed on the Board, the committees, the individual Directors and the Company's main service providers.

A programme consisting of open and closed ended questions was used as the basis for the appraisal. The results were reviewed by the Chairman of the Nomination Committee and the Chairman of the Management Engagement Committee and discussed with the Board. A separate appraisal of the Chairman has been carried out by the other members of the Board and the results reported back by the Senior Independent Director to the Chairman. The results of the performance evaluation were positive and demonstrated that the Directors showed the necessary commitment and expertise for the fulfilment of their duties.

Board diversity

The Company's policy is that the Board should have a broad range of skills. Consideration is given to the recommendations of the AIC Code and other guidance on boardroom diversity. The Board currently comprises two female and three male Directors.

ACCOUNTABILITY

Internal control

The AIC Code requires the Board to review the effectiveness of the Company's system of internal controls. The Board recognises its ultimate responsibility for the Company's system of internal controls and for monitoring its effectiveness. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives. It can provide only reasonable assurance against material misstatement or loss. The Board has undertaken a review of the Company's internal controls framework. The Board believes that the existing arrangements present an appropriate framework to meet the internal control requirements. By these procedures the Directors have kept under review the effectiveness of the internal control system throughout the year and up to the date of this report.

Risk management

The risk management framework established by the Board has been designed to identify, evaluate and mitigate the significant risks faced by the Company. A risk management framework can only provide reasonable, not absolute, assurance. The Board has contractually delegated the management of the investment portfolio, the registration services, administrative services and other services to third party service providers and reliance is therefore placed on the internal controls of those service providers. A formal risk assessment is performed on at least an annual basis which includes the use of a detailed risk assessment programme. The principal risks identified and the mitigation of those risks are disclosed in the Strategic Report in this Annual Report.

Risk appetite

The Board's risk appetite is low. This is aligned with the Company's investment objective and policy for which the Board has ultimate responsibility. The full investment objective and policy is included in the Strategic Report in this Annual Report. The Group selectively invests in UK commercial property assets let to a wide range of strong tenant covenants across a diverse range of property sectors. The Group also invests in fixed price forward funded developments whilst not undertaking any direct development activity nor assuming direct development risk and does not undertake speculative developments.

Financial aspects of internal control

The Directors are responsible for the internal financial control systems of the Company and for reviewing their effectiveness. These aim to ensure the maintenance of proper accounting records, the reliability of the financial information upon which business decisions are made and which is used for publication and that the assets of the Company are safeguarded. As stated above, the Board has contractually delegated to external agencies the services the Company requires, but it is fully informed of the internal control framework established by the AIFM, the Investment Advisor, the Administrator and the Company's Depositary to provide reasonable assurance on the effectiveness of internal financial controls.

The key procedures include review of management accounts, monitoring of performance at quarterly Board meetings, segregation of the administrative function from investment management, maintenance of appropriate insurance and adherence to physical and computer security procedures.

Other aspects of internal control

The Board holds quarterly meetings, plus additional meetings as required. Between these meetings there is regular contact with the AIFM, the Investment Advisor, the Company Secretary and the Administrator.

The Board has agreed policies on key operational issues.

The Company's key service providers report to the Board on operational and compliance issues. The AIFM and the Depositary provide reports to the Board, which are reviewed at the quarterly Board meetings.

The Administrator provides management accounts to the Board, which enables the Board to assess the financial position of the Company. Additional ad hoc reports are received as required and Directors have access at all times to the advice and services of the Corporate Company Secretary, which is responsible to the Board for ensuring that Board procedures are followed.

This contact with the key service providers enables the Board to monitor the Company's progress towards its objectives and encompasses an analysis of the risks involved. The effectiveness of the Company's risk management and internal controls systems is monitored and a formal review, utilising a detailed risk assessment programme has been completed. This has included consideration of the Administrator's and the Registrar's internal controls report. There are no significant findings to report from the review.

Principal and emerging risks

The Directors confirm that they have carried out a robust assessment of the principal and emerging risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. The principal risks and how they are being managed is set out in the Strategic Report. As part of its risk process, the Board seeks to identify emerging risks to ensure that they are effectively managed as they develop and recorded in the risk matrix.

RELATIONS WITH SHAREHOLDERS AND STAKEHOLDERS

Shareholder relations

The Board and the Investment Advisor continues to develop relationships with shareholders through regular updates to the market, including the publication of quarterly fact sheets. At Board meetings, regular investor feedback is provided by the Investment Advisor and the Broker and the views of existing or potential shareholders about the Company are discussed.

The Board was pleased to speak face to face with shareholders attending last year's Annual General Meeting. If any shareholder wishes to contact the Chairman directly they should contact the Company Secretary whose details are given in the Company Information.

Annual General Meeting

At least twenty-one days' notice shall be given to all the members and to the Independent Auditor. All other general meetings shall also be convened by not less than twenty-one days' notice to all those members and to the Independent Auditor unless the Company offers members an electronic voting facility and a special resolution reducing the period of notice to not less than fourteen days has been passed, in which case a general meeting may be convened by not less than fourteen days' notice in writing. A special resolution will be proposed at the AGM to reduce the period of notice for general meetings other than the Annual General Meeting to not less than fourteen days.

The Notice sets out the business of the AGM and any item not of an entirely routine nature is explained in this Annual Report.

Separate resolutions are proposed for each substantive issue.

The Company's AGM will be held on 30 June 2020.

Relations with other stakeholders are described in the s.172 statement on page 27.

Report of the Audit Committee

Role of the Audit Committee

The AIC Code recommends that Boards should establish Audit Committees consisting of at least three, or in the case of smaller companies, two independent non-executive directors. The Board is required to satisfy itself that the Audit Committee has recent and relevant experience.

The main roles and responsibilities of the Audit Committee are set out in formal, written terms of reference covering certain matters described in the AIC Code. Copies of the terms of reference are available from the Company Secretary.

The main roles of the Audit Committee are:

- To consider the integrity of the Company's financial statements;
- To report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to steps to be taken; and
- To report to the Board on how it has discharged its responsibilities.

The Audit Committee meets formally at least twice a year for the purpose of performing its main roles and of considering the appointment, independence and objectivity, and remuneration of the Independent Auditor and to review the annual accounts and half-yearly financial report.

The Audit Committee also reviews the Company's internal financial controls and its internal control and risk management systems. Where non-audit services are provided by the Independent Auditor, full consideration of the financial and other implications on the independence of the Independent Auditor arising from any such engagement are considered before proceeding. The Audit Committee has considered the non-audit work of the Independent Auditor during the year and does not consider that this compromises its independence.

The Company complies with the AIC Code. The following points apply to the particular circumstances of the Company:

The Audit Committee has considered the need for an internal audit function and considers that this is not appropriate given the nature and circumstances of the Company. The Audit Committee keeps the needs for an internal audit function under periodic review.

The chairman of the Company is a member of the Audit Committee (but not its Chairman) to enable his greater understanding of the issues facing the Company. The Board and the Audit Committee believe that this is appropriate as he has recent and relevant financial experience and he is independent.

Composition

All of the Directors of the Company are members of the Audit Committee. The Chairman of the Committee is John Cartwright.

Relevant skills and experience

The members of the Audit Committee have recent and relevant financial experience. The Audit Committee membership includes individuals with substantial experience of the financial matters of listed companies and substantial experience of the property sector as described in detail in the Board of Directors section. This blend of skills and experience enables the Audit Committee to fulfil its responsibilities effectively.

Meetings

There have been four Audit Committee meetings in the year and one sub-committee meeting of the Audit Committee. Attendance is included in the Directors' Report.

Activities of the Audit Committee

During the year, the Audit Committee has carried out its responsibilities in accordance with the terms of reference.

Details of the activities of the Audit Committee during the year were:

Financial statements

The Audit Committee has met with the Independent Auditor and reviewed the Annual Report in order to advise the Board on the contents, in particular the Audit Committee has advised the Board that taken as a whole, it is fair and balanced and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. The Audit Committee has recommended the approval of the Annual Report to the Board. Further details of the Audit Committee's monitoring of the financial statements and significant accounting matters are included below.

Valuations

The Audit Committee has reviewed both the interim and full year valuation reports from Knight Frank LLP and recommended to the Board the valuations to be included in both the Interim and Annual Report. In doing so, the Audit Committee has monitored the effectiveness of the Company's valuation policies and methods. The Audit Committee notes the reference by the valuer to material uncertainty in the full year valuation described in Note 9 of the Consolidated financial statements.

Internal Control

With regard to monitoring internal control, the Audit Committee has:

- continued to monitor and review whether an internal audit function is required and reasons for the absence are explained above;
- monitored the Company's accounting and financial internal control systems, and those of the Investment Advisor, Administrator and Depositary in order to make recommendations on any improvements to such systems;
- monitored the Company's procedures for ensuring compliance with regulatory and financial reporting requirements and its relationship with the relevant regulatory authorities; and
- reviewed the Investment Advisor's detection of fraud and whistleblowing arrangements.

Financial statements and significant accounting matters

The Audit Committee monitors the integrity of the financial information published in the Interim and Annual Report and considers whether suitable and appropriate judgments in respect of areas which could have a material impact on the financial statements, have been made. It actively engages with the Independent Auditor to assess these significant judgments and the systems and processes in place to form these significant judgments. The Audit Committee considered the following to be the significant areas of judgment which could materially impact the financial statements for the year ended 31 March 2020:

Investment property valuation

The evaluation of investment property is the most material matter in the production of the financial statements. Knight Frank LLP has been appointed to value the Company's property investments in accordance with the RICS requirements on a bi-annual basis. The Audit Committee reviewed a copy of the valuation once it had been completed and has received a detailed report from the Independent Valuer. The Audit Committee has reviewed the assumptions underlying the property valuations and concluded that the valuation at the Company's year end is appropriate.

Independent Auditor

BDO LLP was selected as the Company's Independent Auditor at the time of the Company's launch following a formal tender process and review of the Independent Auditor's credentials. The appointment of the Independent Auditor is reviewed annually by the Audit Committee and the Board and is subject to approval by shareholders. In accordance with the FRC guidance, the audit will be put out to tender within ten years of the initial appointment of BDO LLP.

Effectiveness of Independent Auditor

The Audit Committee is responsible for reviewing the effectiveness of the external audit process. The Audit Committee received a presentation of the audit plan from the Independent Auditor in respect of the year under review and a presentation of the results of the audit following completion of the main audit testing.

The Audit Committee performed a review of the Independent Auditor following the presentation of the results of the audit. The review included a discussion of the audit process and the ability of the Independent Auditor to fulfil its role. Following the above review, the Audit Committee has agreed that the re-appointment of the Independent Auditor should be recommended to the Board and the shareholders of the Company.

During the year, the Audit Committee met key members of the senior audit team and BDO LLP formally confirmed its independence, as part of the annual reporting process. The Audit Committee liaises regularly with the lead audit partner, to discuss any issues arising from the audit as well as its cost effectiveness.

Provision of non-audit services

The Audit Committee has put a policy in place on the supply of any non-audit services provided by the Independent Auditor.

Such services are considered on a case-by-case basis and may only be provided to the Company if the provision of such services is at a reasonable and competitive cost and does not constitute a conflict of interest or potential conflict of interest which would prevent the Independent Auditor from remaining objective and independent.

BDO LLP was paid fees in respect of the following non-audit services in the year:

Non-audit service provided	Rationale for using the Independent Auditor	Fee
Reporting accountant services on the Company's Prospectus	Non-recurring service. The work was performed by a team independent of the audit team and the audit team place no reliance on the output of the services provided.	£62,000
Interim review	Detailed knowledge and understanding of the business is required to adequately perform an interim review of the half-yearly report. It is standard market practice to use the Independent Auditor for this service.	£25,000

The independence of the Independent Auditor was considered prior to the provision of these services.

The Audit Committee do not believe that the provision of the above services affects the independence of BDO LLP, particularly as the reporting accountant in relation to the Company's Prospectus and are non-recurring.

Fair, balanced and understandable financial statements

The Audit Committee has concluded that the Annual Report for the year ended 31 March 2020, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's business model, strategy and performance. The Audit Committee has reported its conclusions to the Board of Directors. The Audit Committee reached this conclusion through a process of review of the document and enquiries to the various parties involved in the production of the Annual Report.

John Cartwright
Chairman of the Audit Committee

15 May 2020

Report of the Management Engagement Committee

Role of the Management Engagement Committee

The Management Engagement Committee meets formally at least once a year for the purpose, amongst other things, of reviewing the performance of the Investment Advisor, the AIFM and the Company's other key service providers over the year and to make appropriate recommendations to the Board. The Chairman of the Committee is Jan Etherden.

For the purposes of this report, the key service providers whose performance is reviewed by the Management Engagement Committee are those listed in the Directors' Report as Principal Professional Advisors.

The Management Engagement Committee has conducted a comprehensive review of the performance of the Investment Advisor and the Company's other key service providers. This has included an assessment of the services provided as well as the fees paid for the provision of such services.

Meetings

There have been two Management Engagement Committee meetings in the year. Attendance is included in the Directors' Report.

AIFM and Investment Advisor

The Company has appointed LJ Administration (UK) Limited as the Alternative Investment Fund Manager (the "AIFM"). The Company and the AIFM have appointed LXI REIT Advisors Limited (the "Investment Advisor") to provide certain services in relation to the Company and its portfolio.

Review

The Board has delegated the day-to-day running of the Company to the Investment Advisor 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.

On 13 February 2020, the Board announced the extension of the terms of the Investment Advisory and AIFM Agreements to 31 March 2025 from 31 March 2022. There are no changes to the fees and no material changes to the contractual arrangements in the Investment Advisory Agreement.

Under the terms of the Investment Advisory Agreement, the Investment Advisor, amongst other things, is responsible for sourcing investment opportunities in line with the Company's Investment Policy, the monitoring and management of the Company's portfolio and negotiation and supervision of the Company's borrowing facilities.

The Investment Advisor has diligently invested available funds during the year, in line with the Company's investment policy, to build a diverse portfolio of high-quality assets that should provide growing and secure returns to the Company's shareholders. Details of the Investment Advisor's activity and the Company's performance in the year have been included in the Strategic Report.

The collective skillset of the Investment Advisor's team contains all the necessary skills and experience to best serve the interests of the shareholders in performing its delegated responsibilities.

We are satisfied that the Investment Advisor and the AIFM have the suitable skills and experience to manage the Company's investments and believe that the continuing appointment of the Investment Advisor and the AIFM is in the best interests of shareholders as a whole.

In addition, following our review and analysis, we agreed with the Investment Advisor that the performance of all the Company's current professional advisors, as described in the Directors' Report, was satisfactory and with the Investment Advisor's recommendation, that each be retained until the next review.

Investment Management and Investment Advisory fees

Under the Investment Management Agreement, the AIFM receives a fee of £24,000 per annum.

No performance fee is payable to the AIFM.

Under the terms of the Investment Advisory Agreement, the Investment Advisor is entitled to a fee payable monthly in arrears calculated as below:

Market Capitalisation	One twelfth of relevant percentage
Up to or equal to £500 million	0.75%
Above £500 million	0.65%

No performance fee is payable to the Investment Advisor.

The Management Engagement Committee reviews the continuing performance and appointment of principal professional advisors and the Investment Advisor and AIFM of the Company on an annual basis to ensure that their continuing appointments are in the best interest of the shareholders.

Jan Etherden
Chairman of the Management Engagement Committee

15 May 2020

Depositary Statement

Established in 2013, Langham Hall UK Depositary LLP is an FCA regulated firm that works in conjunction with the Manager and the Company to act as depositary. Consisting exclusively of qualified and trainee accountants and alternative specialists, the entity represents net assets of US $50 billion and we deploy our services to over 90 alternative investment funds across various jurisdictions worldwide. Our role as depositary primarily involves oversight of the control environment of the Company, in line with the requirements of the Alternative Investment Fund Managers Directive (AIFMD).

Our cash monitoring activity provides oversight of all the Company held bank accounts with specific testing of bank transactions triggered by share issues, property income distributions via dividend payments, acquisitions and third-party financing. We review whether cash transactions are appropriately authorised and timely. The objective of our asset verification process is to perform a review of the legal title of all properties held by the Company, and shareholding of special purpose vehicles beneath the Company. We test whether on an ongoing basis the Company is being operated by the Manager in line with the Company's prospectus, and the internal control environment of the Manager. This includes a review of the Company's and its subsidiaries' decision papers and minutes.

We work with the Manager in discharging our duties, holding formal meetings with senior staff on a quarterly basis and submit quarterly reports to the Manager and the Company, which are then presented to the Board of Directors, setting our work performed and the corresponding findings for the period.

In the year ended 31 March 2020 our work included the review of one equity share issue, 21 investment property acquisitions, 7 investment property disposals, one third-party financing arrangement, and 4 property income distributions. Based on the work performed during this period, we confirm that no issues came to our attention to indicate that controls are not operating appropriately.

Joe Hime
Head of Depositary

For and on behalf of Langham Hall UK Depositary LLP, London, UK

15 May 2020

Langham Hall UK Depositary LLP is a limited partnership registered in England and Wales (with registered number OC388007).

Directors' remuneration report

Directors' remuneration policy

The remuneration policy was put forward for approval by shareholders at the AGM held on 26 June 2019. The provisions set out in this policy apply until they are next put forward for shareholder approval. The remuneration policy must be put forward for shareholder approval at a maximum interval of three years. The next time the remuneration policy will be put forward for shareholder approval will be in 2021. In the event of any proposed material variation to the policy, shareholder approval will be sought for the proposed new policy prior to its implementation.

Fees

The Directors' fees are determined within the limits set out in the Company's Articles of Association and they are not eligible for bonuses, pension benefits share benefits share options, long-term incentive schemes or other benefits.

The Directors' fees are paid at fixed annual rates and do not have any variable or performance related elements. The Board may determine that additional remuneration may be paid, from time to time, to any one or more Directors in the event such Director or Directors are requested by the Board to perform extra or special services on behalf of the Company.

The non-executive Directors shall be entitled to fees at such rates as determined by the Board subject to the maximum aggregate fee limit of £500,000 set out in the Company's Articles of Association.

The Directors shall also be entitled to be reimbursed for all expenses incurred in performance of their duties. These expenses are unlikely to be of a significant amount. Fees are payable from the date of appointment as a Director of the Company and cease on date of termination of appointment.

The Directors are not entitled to compensation for loss of office. The Board will not pay any incentive fees to any person to encourage them to become a Director of the Company. The Board may, however, pay fees to external agencies to assist the Board in the search and selection of Directors.

Current and future policy

Component	Director	Purpose of reward	Operation
Annual fee	Chairman of the Board	For services as Chairman of a plc	Determined by the Board
Annual fee	Other Directors	For services as non-executive Directors of a plc	Determined by the Board
Additional fee	Chairman of the Audit Committee	For additional responsibility and time commitment	Determined by the Board
Additional fee	Chairman of the Management Engagement Committee	For additional responsibility and time commitment	Determined by the Board
Expenses	All Directors	Reimbursement of expenses incurred in the performance of duties	Submission of appropriate supporting documentation

Statement of consideration of conditions elsewhere in the Company

The Company has no employees. Therefore, the process of consulting with employees on the setting of the remuneration policy is not applicable.

Review of the remuneration policy

The Directors' remuneration will be reviewed on an annual basis by the Board and any changes are subject to approval by the Board.

The remuneration payable to the Directors will take into account a number of factors, inter alia, the experience of the Directors, the complexity of the Company and prevailing market rates for the real estate investment trust sector.

Effective date

This Remuneration Policy was approved by the shareholders at the Annual General Meeting held on 26 June 2019 and was effective from that date.

Directors' service contracts

The Directors do not have service contracts with the Company.

The Directors are not entitled to compensation on loss of office. The Directors have appointment letters which do not provide for any specific term. However, in accordance with the AIC Code, they are subject to annual re-election.

Lock-in deed

By way of a deed between each of the Directors, the Company and Peel Hunt dated 6 February 2017, the Directors have agreed that they will not sell, grant options over or otherwise dispose of any interest in any Ordinary shares acquired by them in satisfaction of their entitlement to Directors' fees (save in certain circumstances, including: (i) in acceptance of a general offer made for the entire issued share capital of the Company; or (ii) pursuant to an intervening court order; or (iii) following termination of their appointment as a non-executive Director of the Company) prior to the date which is eighteen months after the date of acquisition of the relevant ordinary shares. There are no special rights attached to such shares.

Statement of consideration of shareholders' views

The Company is committed to ongoing Shareholder dialogue and takes an active interest in voting outcomes. If there are substantial votes against resolutions in relation to Directors' remuneration, the Company will seek the reasons for any such vote and will detail any resulting actions in the next Directors' remuneration report.

The Directors' remuneration report (excluding the Directors' remuneration policy) will be put forward for shareholder approval at the AGM to be held on 30 June 2020.

Annual statement on policy implementation

As the Board consists only of five non-executive Directors, it does not consider it necessary to establish a separate remuneration committee. The Board as a whole consider the pay awards for the Directors with recommendations on level of pay made by the Management Engagement Committee. An ordinary resolution for the approval of this report will be put forward at the forthcoming AGM.

Remuneration

The Company currently has five non-executive Directors.

Directors' fees were previously payable at the rate of £28,160 per annum for each Director other than the Chairman, whose fees were payable at the rate of £40,960. The Chairman of the Audit Committee was entitled to an additional fee of £5,120 per annum and the Chairman of the Management Engagement Committee was entitled to an additional fee of £2,560 per annum.

Given the significant growth of the Company since its IPO, the level of time commitment by the Board and in order to continually attract the most qualified candidates as Non-Executive Directors, the Board have reviewed the Directors' remuneration arrangements that were put in place before the Company's IPO in 2017 and have taken independent advice in doing so.

Carmichael Fisher were engaged to undertake a review of the Board's fees. Carmichael Fisher recommended, and the Board have agreed, to an increase in Directors Remuneration.

The Board has also determined that with effect from 1 January 2020 the Directors' remuneration will be paid to the Directors in cash.

The following new rates of Directors' remuneration were effective from 1 January 2020:

Role	Remuneration £
Chairman's fee	75,000
Director's fee	40,000
Audit Committee Chair additional fee	5,000
Management Engagement Committee Chair additional fee	3,000

The Board believes that this fee structure appropriately reflects the prevailing market rates for the Company's complexity and size, and will also enable the Company to attract appropriately experienced additional Directors in the future.

Carmichael Fisher are independent of the Board and the Company and were paid fees for their services relating to Board amounting to £35,000, which also included the fees in relation to new Director search, detailed below.

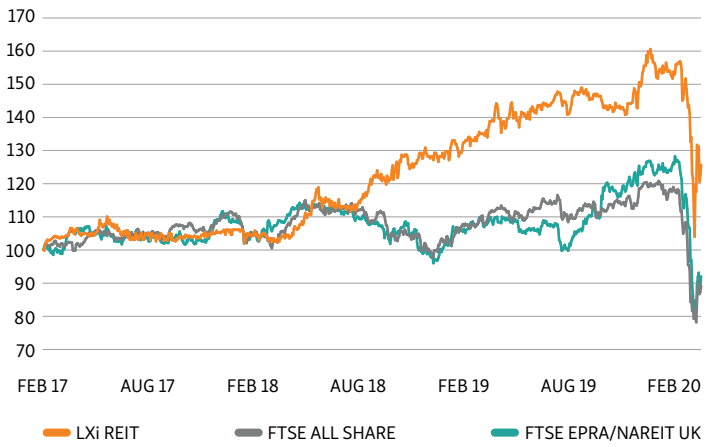
Director search and selection fees

During the year Carmichael Fisher were also engaged to undertake a search for an additional Board Member. Carmichael Fisher are independent of the Board and the Company and the fees for this service were included in the total fee noted above.

Performance

The following graph compares, since IPO, the total shareholder return of the Company's ordinary shares relative to a return on a hypothetical holding over the same period in the FTSE EPRA/NAREIT UK Index and the FTSE All share Index. These indices have been chosen by the Board as the most appropriate to compare the Company's performance.

TOTAL SHAREHOLDER RETURN



Total shareholder return is the measure of returns provided by a company to shareholders reflecting share price movements and assuming reinvestment of dividends.

Directors' emoluments for the year (audited)

The Directors who served during the year received the following fees as remuneration for qualifying services.

Director	Year ended 31 March 2020	Year ended 31 March 2019
Stephen Hubbard	£50,000	£41,000
John Cartwright	£37,000	£33,000
Jan Etherden	£35,000	£31,000
Colin Smith OBE	£32,000	£28,000
Patricia Dimond	10,000	–
Total	£164,000	£133,000

There are no other taxable benefits payable by the Company other than certain expenses which may be deemed to be taxable. None of the above fees was paid to third parties.

A non-binding ordinary resolution to approve the Directors' Remuneration Report (excluding the Remuneration Policy) contained in the Annual Report for the year ended 31 March 2020 will be put forward for approval at the Company's AGM to be held on 30 June 2020.

A non-binding ordinary resolution to approve the Directors' Remuneration Report contained in the Annual Report for the period ended 31 March 2019 was put forward at the AGM held in 2019. The resolution was passed with 99.99% of the shares voted being in favour of the resolution.

The Directors' Remuneration Policy was last put forward at the AGM held on 26 June 2019. The resolution was passed with 99.99% of the shares voted being in favour of the resolution.

Relative importance of spend on pay

The following table sets out the total level of Directors' remuneration compared to the distributions to shareholders by way of dividends, and the management fees and other expenses incurred by the Company.

	Year ended 31 March 2020	Year ended 31 March 2019
Directors' fees	£164,000	£133,000
Investment Advisor's Fee	£4,547,000	£2,337,000
Dividends paid and proposed	£27,550,000	£15,100,000

Directors' shareholdings (audited)

The directors had the following shareholdings in the Company all of which are beneficially owned.

Director[1]	Ordinary shares at 31 March 2020	Ordinary shares at 31 March 2019
Stephen Hubbard	169,389	120,156
John Cartwright	66,687	54,958
Jan Etherden	57,274	44,242
Colin Smith OBE	222,909	173,812
Patricia Dimond[2]	–	–

The shareholdings of the Directors are not significant and therefore do not compromise their independence as non-executive Directors.

The law requires the Company's Independent Auditor to audit certain disclosures provided in the annual report on remuneration. Where disclosures are audited they are indicated as such. The Independent Auditor's opinion is given in the Independent Auditor's Report.

Statement

On behalf of the Board and in accordance with Part 2 of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, I confirm that the above Report on Remuneration Policy and Remuneration Implementation summarises, as applicable, for the financial year to 31 March 2020:

a) the major decisions on Directors' remuneration;

b) any substantial changes relating to Directors' remuneration made during the financial year to 31 March 2020; and

c) the context in which the changes occurred and decisions have been taken.

Stephen Hubbard
Chairman of the Board of Directors

15 May 2020

1 Includes Directors and persons closely associated (as defined by the EU Market Abuse Regulation) shareholdings

2 Appointed on 1 January 2020

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 subject to any material departures disclosed and explained in the financial statements;
- for the Parent Company financial statements, state whether applicable they have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"), subject to any material departures disclosed and explained in the Parent Company financial statements;
- prepare financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business; 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 into 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 have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and hence for taking reasonable steps for the prevention and detection of 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.

Having taken advice from the Audit Committee, the Directors consider that the Annual Report and financial statements taken as a whole are 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

Stephen Hubbard
Chairman of the Board of Directors

15 May 2020

Independent Auditor's report to the members of LXi REIT plc

Opinion

We have audited the financial statements of LXi REIT plc (the "Parent Company") and its subsidiaries (the "Group") for the year ended 31 March 2020 which comprise the consolidated statement of comprehensive income, the consolidated and company statement of financial position, the consolidated and company statement of changes in equity, the consolidated cash flow statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Accounting Standards; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the Directors' confirmation set out on page 45 in the annual report that they have carried out a robust assessment of the Group's emerging and principal risks and the disclosures in the annual report that describe the principal risks and the procedures in place to identify emerging risks and explain how they are being managed or mitigated;
- the Directors' statement set out on page 34 in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group and the Parent Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the Directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 34 in the annual report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Emphasis of matter: Property valuations

We draw attention to the disclosures made in the Investment property note 9. As described in the note, due to the fact that the valuers attached less weight to previous market evidence for comparison purposes, property valuations are therefore reported on the basis of 'material valuation uncertainty' per VPGA 10 of the RICS Valuation – Global Standards. Consequently, less certainty should be attached to the valuation of the investment properties than would normally be the case. Investment property fair value as at 31 March 2020 determined by valuers was £914.0m. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the scope of our audit addressed the key audit matter
Investment property valuations *Refer to notes 2 and 3 in relation to significant estimates and accounting policies.* *Refer to note 9 in relation to investment property.* The valuation of investment property requires significant judgement and estimates by the Directors and the independent valuer and is therefore considered a key audit matter due to the subjective nature of certain assumptions inherent in each valuation. Any input inaccuracies or unreasonable bases used in the valuation judgements (such as in respect of estimated rental value and yield profile applied) could result in a material misstatement of the income statement and balance sheet. There is also a risk of fraud in relation to the valuation of the property portfolio where the Directors may influence the significant judgements and estimates in respect of property valuations in order to achieve property valuation and other performance targets to meet market expectations. Additionally, properties under construction involve license fee income receivable from the developer during the construction phase. Accounting for such assets is typically more complex than for standing assets.	***Experience of valuer and relevance of its work*** • We obtained the valuation report prepared by the independent valuer and discussed the basis of the valuations with them. We confirmed that the basis of the valuations was in accordance with the requirements of accounting standards. • We assessed and confirmed the external valuer's qualifications, independence and basis of valuation. • We obtained a copy of the instructions provided to the independent valuer and reviewed for any limitations in scope or for evidence of Management bias. ***Data provided to the valuer*** • We validated the underlying data provided to the valuer by the Manager. This data included inputs such as current rent and lease term, which we agreed to a sample of the executed lease agreements as part of our audit work. ***Assumptions and estimates used by the valuer*** • We developed yield expectations on each property using available independent industry data, reports and comparable transactions in the market around the period end. • We discussed the assumptions used and the valuation movement in the period with both the Manager and the independent valuer. Where the valuation was outside of our expected range we challenged the independent valuer on specific assumptions and reasoning for the yields applied and corroborated their explanations where relevant, including agreeing to third party documentation. We also challenged the valuer regarding their views on the expected impact of Covid-19 and Brexit on the valuation of these assets. Further, we challenged the appropriateness of the discounts rates applied to the valuations with the valuer and where possible obtained evidence of comparable transactions since the declaration of the Covid-19 pandemic. • For properties under construction we assessed the project costs and progress of development and verified the forecast costs to complete included in the valuations to third party information. ***Accounting for assets under construction*** • We examined all forward funding agreements entered into during the year for assets under construction and confirmed that the accounting treatment of the asset recognition and the license fee income was appropriate under accounting standards. ***Key observations*** • Based on our work we concur that the assumptions adopted by the Directors in the valuation were reasonable and the methodology applied was appropriate. The emphasis of matter paragraph on page 55 gives details of the material valuation uncertainty highlighted by the valuer in relation to the property valuations.

Key audit matter	How the scope of our audit addressed the key audit matter
Going Concern *Refer to the Going concern disclosures made in note 1.* As at 31 March 2020 the Group had external borrowings of £166.1m (£167.3m 31 March 2019) that are subject to certain financial covenants and fall due for repayment on the dates disclosed in the Bank borrowings note 14 with cash and cash equivalents of £13.4m (£62.6m 31 March 2019). We identified a key audit matter in respect of going concern which relates to the ability of the Group to meet its financial borrowing covenants and its liabilities as they fall due for a period of at least 12 months from the day of approval of the financial statements, and how this may potentially be impacted by Covid-19. Whilst there is headroom in the loan to value covenant requirement a downwards movement in property valuations could adversely impact on this covenant. In the event of a fall in property valuations, should any of the group's lenders call for a valuation under the terms of the loan agreement, the group may not meet its covenant. As a result of Covid-19 the valuations may be subject to further reductions. As a result of Covid-19 there may be a delay or fall in the Group's rent collection during the period of one year from the date of approval of these financial statements. Whilst the Directors forecast significant headroom in relation to its interest cover covenants in this period a deterioration in rent collection could lead to a covenant breach.	We considered the nature of the group, its business model and related risks including the impact of Covid-19 pandemic. We evaluated the Directors' assessment of the group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment. Our work included: • We have examined the forecasting and viability model provided by the Manager. We tested the integrity of the model by checking the formulas, the arithmetic accuracy and any hard coding. We have also assessed the appropriateness and challenged the term used by the Directors for the long term viability. • Enquiries were made as to any future events or conditions that may affect the Group's ability to continue to act as a going concern in the future. Furthermore we considered the availability of financing and cash to the Group. • We have considered the impact Covid-19 has had on the Group's tenants. We obtained details of ongoing negotiations between the Group and tenants that had not paid their quarters rent and considered the risk around remaining un-negotiated amounts. • We considered the risk of non-collection of future rental income from tenants that have been impacted by Covid-19 and assessed the impact this may have on the Group's future cash flows. • We analysed the stress testing and sensitivities in the model and assessed any assumptions that had been made including worst case scenarios • We checked the financial covenants and the headroom on these covenants when key inputs were stressed. ***Key observations*** Our key observations are set out in the conclusions related to principal risks, going concern and viability statement section of our audit report.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in the evaluation of the effect of misstatements on the audit and in forming our audit opinion. Materiality is assessed on both quantitative and qualitative grounds.

Group	Financial statement	Specific
Materiality	£8,300,000	£1,350,000
Performance materiality	£4,980,000	£810,000
Reporting threshold	£166,000	£67,500

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements.

We determined materiality for the Group financial statements as a whole to be £8,300,000 (2019: 5,700,000), which was set at 1% of Group total assets (2019: 1% of Group total assets). This provides a basis for determining the nature and extent of our risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature and extent of further audit procedures.

We determined that total assets would be the most appropriate basis for determining overall materiality as we consider it to be one of the principal considerations for users of the financial statements in assessing the financial performance of the Group.

We determined that for other account balances, classes of transactions and disclosures not related to investment properties a misstatement of less than materiality for the financial statements as a whole could influence the economic decisions of users. We determined that materiality for these areas should be £1,350,000 (2019: £740,000). This was set at 5% of European Public Real Estate Association ("EPRA") earnings (2019: 5%). EPRA earnings excludes the impact of the net surplus on revaluation of investment properties and profit of disposal of investment properties.

We determined that the same measures as the Group for financial statement and specific materiality were appropriate for the Parent Company, and the materiality levels applied were £6,300,000 (2019: £4,000,000) and £270,000 (2019: £480,000) respectively.

Whilst materiality for the financial statements as a whole was as outlined above, each significant component of the Group was audited to a lower level of materiality which is used to determine the financial statement areas that are included within the scope of our audit and the extent of sample sizes used during the audit. Significant component materiality ranged from £220,000 to £6,300,000.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessment, together with our assessment of the Group's overall control environment, our judgement was that overall performance materiality for the Group should be 60% (2019: 50%) of materiality. As such, performance financial statement materiality was set at £3,780,000 (2019: £2,850,000) and specific performance materiality was set at £810,000 (2019: £370,000).

We determined that the same measure as the Group was appropriate for the Parent Company, and the performance materiality and specific performance materiality applied were £3,780,000 and £162,000 (2019: £2,000,000 and £240,000) respectively.

Reporting threshold

An amount above which identified misstatements are reported to the Audit Committee.

We agreed with the Audit Committee that we would report to the Committee all individual audit differences in excess of £166,000 (2019: £114,000) as well as differences below this threshold that, in our view, warranted reporting on qualitative grounds.

We agreed that the reporting threshold for the Parent Company would be £126,000 (2019: £80,000).

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in the light of other relevant qualitative considerations.

An overview of the scope of our audit

Our audit of the Group was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, applicable legal and regulatory framework and the industry in which it operates, and assessing the risks of material misstatement at the Group and Parent Company level. This included consideration of the risk that the Group was acting contrary to applicable laws and regulations, including fraud.

The Group operates solely in the United Kingdom and operates through one segment, investment property, structured through a number of subsidiary special purpose vehicle ("SPV") companies. The Group audit team performed all the work necessary to issue the Group and Parent Company audit opinions. At the planning phase we identified five significant components, being five of the Group's SPVs. The audit approach included undertaking audit work on the key risks of material misstatement identified for the Group and auditing the five significant components to a lower threshold of materiality as outlined in the materiality section above. All of the work was carried out BDO LLP.

We undertook audit procedures to respond to the risk of non-compliance with laws and regulations, focussing on those that could give rise to a material misstatement in the Group and Parent Company financial statements, including, but not limited to, the Companies Act 2006, the UK Listing Rules, the REIT regime requirements and legislation relevant to the rental of properties. We made enquiries of management to obtain further understanding of risks of non-compliance. We used a BDO tax specialist to consider compliance with the REIT regime requirements. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We addressed the risk of management override of internal controls, by undertaking procedures to review journal entries processed during and subsequent to the year end and evaluate whether there was evidence of bias that represented a risk of material misstatement due to fraud. We identified the valuation of investment properties as a key audit matter related to the potential risk of fraud. Further details of our response to this fraud risk are given in the key audit matter section on page 56.

We consider that the audit procedures we planned and performed in accordance with ISAs (UK) have provided us with reasonable assurance that irregularities, including fraud, would have been detected to the extent that they could have resulted in material misstatements in the financial statements. Our audit was not designed to identify misstatements or other irregularities that would not be considered to be material to the financial statements.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable as set out on page 48 – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting as set out on page 48 – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- Directors' statement of compliance with the UK Corporate Governance Code as set out on page 40 – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Independent Auditor's report to the members of LXi REIT plc

Responsibilities of Directors

As explained more fully in the statement of Directors' responsibilities as set out on page 54, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the Directors on 16 December 2016 to audit the financial statements for the year ending 31 March 2018 and subsequent financial periods. The period of total uninterrupted engagement is three years, covering the years ending 31 March 2018 to 31 March 2020.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

Use of our report

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

Thomas Edward Goodworth (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor
London
United Kingdom

15 May 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Financial Statements

Financial Statements

Consolidated statement of comprehensive income

	Note	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Rental income	4	**38.5**	**21.6**
Administrative and other expenses	5	(6.6)	(3.5)
Operating profit before change in fair value and gain on disposal of investment property		**31.9**	**18.1**
Change in fair value of investment property	9	45.4	15.9
Gain on disposal of investment property	9	1.2	3.3
Change in fair value of financial instruments		(0.1)	–
Operating profit		**78.4**	**37.3**
Finance income	6	0.2	0.1
Finance costs	7	(5.0)	(3.3)
Profit before tax		**73.6**	**34.1**
Taxation	8	–	–
Profit and total comprehensive income attributable to shareholders		**73.6**	**34.1**
Earnings per share – basic and diluted	25	**15.2p**	**12.7p**

The notes on pages 66 to 87 form part of the consolidated financial statements.

Consolidated statement of financial position

Company number: 10535081

	Note	31 March 2020 £m	31 March 2019 £m
Non-current assets			
Investment property	9	809.7	511.5
Total non-current assets		**809.7**	**511.5**
Current assets			
Trade and other receivables	11	10.1	4.8
Deferred acquisition costs		0.5	1.2
Restricted cash	12	–	43.2
Cash and cash equivalents	12	13.4	19.4
Total current assets		**24.0**	**68.6**
Total assets		**833.7**	**580.1**
Current liabilities			
Trade and other payables	13	16.1	9.0
Total current liabilities		**16.1**	**9.0**
Non-current liabilities			
Bank borrowings	14	166.1	167.3
Trade and other payables	13	3.5	–
Total non-current liabilities		**169.6**	**167.3**
Total liabilities		**185.7**	**176.3**
Net assets		**648.0**	**403.8**
Equity			
Share capital	15	5.2	3.5
Share premium reserve	16	423.2	229.3
Capital reduction reserve		90.9	115.9
Retained earnings		128.7	55.1
Total equity		**648.0**	**403.8**
Net asset value per share – basic and diluted	26	**124.3p**	**114.6p**
EPRA net asset value per share	26	**124.3p**	**114.6p**

The consolidated financial statements were approved and authorised for issue by the Board on 15 May 2020 and signed on its behalf by:

Stephen Hubbard
Chairman of the Board of Directors

The notes on pages 66 to 87 form part of the consolidated financial statements.

Consolidated statement of changes in equity

Year ended 31 March 2020	Note	Share capital £m	Share premium reserve £m	Capital reduction reserve £m	Retained earnings £m	Total equity £m
Balance at 1 April 2019		**3.5**	**229.3**	**115.9**	**55.1**	**403.8**
Profit and total comprehensive income attributable to shareholders		–	–	–	73.6	73.6
Transactions with owners						
Issue of ordinary shares in the year	15,16	1.7	197.9	–	–	199.6
Share issue costs	16	–	(4.0)	–	–	(4.0)
Dividends paid in the year	17	–	–	(25.0)	–	(25.0)
Balance at 31 March 2020		**5.2**	**423.2**	**90.9**	**128.7**	**648.0**

Year ended 31 March 2019	Note	Share capital £m	Share premium reserve £m	Capital reduction reserve £m	Retained earnings £m	Total equity £m
Balance at 1 April 2018		1.9	59.0	130.1	21.0	212.0
Profit and total comprehensive income attributable to shareholders		–	–	–	34.1	34.1
Transactions with owners						
Issue of ordinary shares in the year	15,16	1.6	173.7	–	–	175.3
Share issue costs	16	–	(3.4)	–	–	(3.4)
Dividends paid in the year	17	–	–	(14.2)	–	(14.2)
Balance as at 31 March 2019		**3.5**	**229.3**	**115.9**	**55.1**	**403.8**

The notes on pages 66 to 87 form part of the consolidated financial statements.

Consolidated cash flow statement

	Note	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Cash flows from operating activities			
Profit before tax		73.6	34.1
Adjustments for:			
Finance income	6	(0.2)	(0.1)
Finance costs	7	5.0	3.3
Change in fair value of investment property	9	(45.4)	(15.9)
Gain on disposal of investment property	9	(1.2)	(3.3)
Change in fair value of derivative		(0.1)	–
Accretion of tenant lease incentives	4	(5.4)	(3.0)
Operating results before working capital changes		**26.3**	**15.1**
(Increase)/decrease in trade and other receivables		(4.9)	0.8
Increase in trade and other payables		4.4	3.6
Net cash flow generated from operating activities		**25.8**	**19.5**
Cash flows from investing activities			
Purchase of derivative		0.2	–
Purchase of investment properties		(260.1)	(288.0)
Proceeds from sale of investment property		20.9	54.7
Interest received		0.2	0.1
Net cash flow used in investing activities		**(238.8)**	**(233.2)**
Cash flows from financing activities			
Proceeds from shares issued in the period		199.6	175.3
Share issue costs paid		(3.9)	(3.4)
Dividend paid		(25.0)	(14.2)
Interest paid		(4.7)	(3.7)
Drawdown of borrowings		43.2	49.7
Loan arrangement fees paid		(2.2)	(1.4)
Net cash flow generated from financing activities		**207.0**	**202.3**
Net decrease in cash and cash equivalents		(6.0)	(11.4)
Cash and cash equivalents at the beginning of the year		19.4	30.8
Cash and cash equivalents at the end of the year	12	**13.4**	**19.4**

The notes on pages 66 to 87 form part of the consolidated financial statements.

Notes to the consolidated financial statements

1. Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) as adopted by the UK and in accordance with the Companies Act 2006 and Article 4 of the IAS Regulations.

The financial statements have been prepared for the year ended 31 March 2020. The comparative information included in the financial statements relates to the year ended 31 March 2019.

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

The consolidated financial statements are presented in Sterling, which is also the Group's functional currency, and values are rounded to the nearest hundred thousand except where indicated otherwise.

Standards effective from 1 April 2019

New standards impacting the Group that have been adopted for the first time in this set of financial statements are:

IFRS 16 Leases

IFRS 16 replaces IAS 17 Leases and introduced a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Previously, the Group was required to classify all leases as either operating or finance leases.

The Group adopted IFRS 16 using the modified retrospective approach with recognition of any transitional adjustments being made on the date of application (1 April 2019), without restatement of comparative figures. The Group elected to apply the practical expedient to not reassess whether a contract is (or contains) a lease at the date of initial application. Contracts entered into before the transition date that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. The definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 April 2019. The impact of the adoption of IFRS 16 is outlined below.

The Group has purchased a number of leasehold properties in the year. The accounting policy adopted by the Group is:

All leases where the Group is a lessee are accounted for by recognising a right-of-use asset and a lease liability except for leases of low value assets and leases with a term of 12 months or less.

Lease liabilities are measured at the present value of the lease payments of ground rents due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used. Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. The Group presents lease liabilities as headlease liabilities within trade and other payables (Note 13) in the Statement of Financial Position.

Right of use assets are initially measured at the amount of the lease liability, reduced for any tenant lease incentives received. As leasehold properties meet the definition of investment property, the right-of-use assets are presented within investment property (Note 9) and are subsequently measured at fair value.

The Directors have given due consideration to the impact on the financial statements of IFRS 16 and have concluded that the adoption of the standard did not have a material impact on the financial statements at the date of initial application. This is because at the date of initial adoption, the Group had no material headlease obligations as lessee i.e. leasehold properties. Further, no changes have been identified in respect of these leases where the Group also acts as a lessor.

Standards issued not yet effective

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:

- Definition of a Business (Amendments to IFRS 3) (effective 1 January 2020);
- Amendments to IAS 1 Presentation of Financial Statements (effective 1 January 2020);

The Directors are currently assessing the impact of these amendments and have given due consideration to the impact on the financial statements of the amendments to IFRS 3. Under the amendments of IFRS 3, to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to

the ability to create outputs. An optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is a business has been added.

At present they do not anticipate that the adoption of the amendment and interpretation will have a material impact on the financial statements in the period of initial application. This is because the amendment narrows the definition of a business, however, subsidiaries acquired by the Group to date have all been treated as the acquisition of a group of assets rather than a business as there was not an integrated set of activities acquired in addition to the property. The Group does not intend to purchase any subsidiaries which incorporate anything other than an investment property.

Going concern

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

Assessment of the Group's ability to continue as a going concern is subject to more uncertainty than has previously been prevalent since inception of the Company. This is as a result of the Covid-19 global pandemic and the unprecedented impact it is having on the operations of the Group and the disruptions caused by the virus and necessary short-term Government measures, to the operation and trading performance of many of our tenants and assets.

The Board believes that the Company remains well placed to navigate effectively a prolonged period of uncertainty and to mitigate the risks presented by it. We draw comfort from the Group's robust balance sheet and high-quality portfolio of commercial property assets let or pre-let on very long term, index-linked leases to a wide range of strong tenant covenants highly diversified by tenant, sector and location.

The health and safety of colleagues, tenants, shareholders and wider stakeholders continues to remain the Company's top priority, especially during this period of uncertainty and volatility and the Group is continuing to monitor closely the recommendations issued by the World Health Organisation, Public Health England, the NHS and other relevant authorities and is complying with these across its business

The Group remains in constant communication with all its advisers, tenants and key service providers and, as part of its Business Continuity Procedures, the Company has a Pandemic Response Plan in place which includes travel restrictions and remote working policies that has been in effect since 16 March 2020 and is operating well.

Low, long dated and low-cost debt facilities, with significant covenant headroom

- The Group's loan to value ("LTV") as at 31 March 2020 was 20%, this provides significant headroom to the covenant of 50%
- The Group's portfolio is currently valued at £914.0m reflecting a valuation yield of 5.0%. Assuming full drawing of the RCF pro-forma LTV is 30%
- On the basis of the Group's pro-forma LTV[1], the valuation of the property portfolio would have to reduce by 41%, an outward yield movement of 343 bps, in order for the Group to breach its LTV covenant
- Whilst material uncertainty relating to property values exists and short-term fluctuations may be expected, factors contributing to the resilience of the property portfolio valuation are detailed below. The Board has reasonable comfort that no yield shift in the region noted above will occur
- The Investment Advisor is in regular contact with the Group's lenders who are supportive of the Group, take comfort in the valuations by the Standing Independent Valuer and have not instructed their own valuation to test covenant compliance
- Similarly, the Group's forward looking interest cover ratio ("ICR") is c.600%[2] versus the interest cover test of 300%
- In order to support the Group's ongoing negotiations with tenants in respect of rent recovery, the Group's term-loan lender has suspended the ICR covenant until December 2020, when normality is widely anticipated to have returned to the rent collection cycle
- The Group has no short or medium term refinancing risk given the 11-year average maturity of its long term debt facilities with Scottish Widows the first of which expires in July 2029, which are fully fixed at an all-in average rate of 2.94% pa
- The Company also has a committed £100 million revolving credit facility ("RCF") with Lloyds Bank, which was completely undrawn at 31 March 2020 and fully covers its commitments on forward fundings
- The RCF is being drawn to match the developer drawdowns as they fall due and generates significant arbitrage between the funding rate received on developments and the interest rate paid on the drawn element

1 Pro-forma LTV is calculated as the Group's total bank borrowings, assuming the RCF is fully drawn (£270.0m), as a percentage of the Group's investment property valuation as at 31 March 2020, which includes forward funded commitments outstanding at that date

2 Assumes all rents are paid by tenants as they fall due

1. Basis of preparation (continued)

Defensive and diversified portfolio that is 100% let or pre-let on very long leases to strong tenant covenants

- The Company's portfolio is 100% let or pre-let to over 50 strong tenants, across nine sub-sectors. Further security is provided through the tenants and guarantors being the main trading or parent companies within the tenant groups
- The Company's leases average 22 years to first break and each lease is drawn on a fully repairing and insuring basis – tenants are responsible for repair, maintenance and outgoings, so there is no cost leakage for the Company
- Each property is let on a fixed rent basis (i.e. not related to turnover or trading), with 96% of the income benefitting from index-linked or fixed uplifts
- The Company's portfolio benefits from low, sustainable rents, making the assets highly profitable and valuable to our tenants. This is in part a consequence of the Company forward funding, on a pre-let basis, brand new buildings and carefully structuring sale and leasebacks
- A number of the Company's tenants, such as Aldi, Lidl and BUPA, are in sectors which are trading robustly in the current climate
- In the sectors which Covid-19 has spot-lit, such as budget hotels, pubs and drive-thru coffee shops, the Company's tenants – Premier Inn, Travelodge, Greene King, Costa Coffee and Starbucks – are market leading operators, with strong balance sheets and material cash holdings

Strong liquidity

- At 31 March 2020 the Group had net assets of £648.0m (31 March 2019: £403.8m) and available uncommitted cash reserves of £13.4m (31 March 2019: £19.4m)
- The Group has exchanged unconditionally on the disposal of two assets for proceeds of £2.1m, representing an uplift of 15.1% on purchase price, 2.8% on current book value and generating a geared IRR of 15.1% pa
- Disposal proceeds will be used in the short-term to support the Group's liquidity and in the medium-term we expect to redeploy the capital into our existing pipeline of accretive assets and/or other opportunistic purchases that may arise in the current crisis
- The Group could continue to meet its ongoing operational and financing cost obligations at a recovery rate of 17% of rental income

Rent recovery and dividends

- The majority of the Group's tenants continue to pay as normal, or have moved to monthly payments for one quarter
- The Board notes that, like the vast majority of large commercial property landlords, we have been impacted by the Government's guidance in respect of the current quarter that non-payment of rents would not result in forfeiture, and as a result some of our tenants have withheld their rental payments in respect of the quarter ending 30 June 2020
- £3.3m of the quarterly rent roll was unpaid as at the quarter date in March and subject to deferral negotiations, representing 6.8% of the Group's £48.3m annual contracted rent roll
- The Investment Advisor has been in negotiations with those tenants that had not paid their quarter's rent and provides the following update, which demonstrates good progress towards recovery of the vast majority of the unpaid rents:
  - £1.7m is now subject to agreed terms with the tenant, which represents 3.6% of the Group's contracted annual rent roll. Of this amount:
    - £0.3m has been received in cash;
    - £1.2m is now due to be paid within three months;
    - £0.2m is now due to be paid between three and twelve months; and
    - less than £0.1m has been given as a rent concession
  - £1.6m remains the subject of detailed discussions with the tenant, which represents 3.2% of the Group's contracted annual rent roll. The Investment Advisor expects the majority of this to be received within twelve months
- The strong financial performance of the Group in the year ended 31 March 2020 and the current liquidity has given the Board confidence to propose the final quarterly dividend in respect of that year, meeting the Company's annual dividend target, which will be paid to shareholders on 17 July

- The Board confirms that it expects to approve the payment of the Company's first quarterly dividend for the financial year ending 31 March 2021 at the rate of 1.30 pence per share. This dividend is in respect of the quarter ending 30 June 2020 and is scheduled to be declared and paid in September 2020
- The Board believes this is an appropriate level for the period which it expects to be covered by the rents collected for the quarter ending 30 June 2020 (i.e. the March 2020 in advance rents)
- The Company will continue to monitor the improving visibility on its future rent collection as the UK moves out of lockdown and is keeping its dividend guidance under careful review on a quarterly basis

Going concern statement
Based on the consideration above, the Board believes that the Group has the ability to continue in business at least twelve months from the date of approval of these financial statements and therefore have adopted the going concern basis in the preparation of this financial information.

2. Significant accounting judgments, estimate and assumptions

In the application of the Group's accounting policies the Board is required to make 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 (Note 9)
The Group uses the valuation carried out by Knight Frank LLP (the "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 its 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').

The valuation report includes reference to material uncertainty that existed at the valuation date. Details are included in Note 9.

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 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 (Note 18)
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.

In considering the classification of lease arrangements, at inception of each lease the Group considers key factors, including 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.

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 year 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 recognised at the point where conditions to the purchase are substantially met and 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 described in Note 3.

Financial instruments

a. Financial assets

The Group classifies its financial assets as fair value through profit or loss or amortised cost, depending on the purpose for which the asset was acquired and based on the business model test. There are no financial assets held at fair value through profit or loss. The Group's accounting policy for financial assets classified as amortised cost is as follows:

Amortised cost
These assets arise principally from the provision of goods and services to customers (e.g. rent receivables), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost being the effective interest rate method, less provision for impairment.

Impairment provisions for receivables are recognised based on the simplified approach within IFRS 9 using a provision matrix in the determination of the lifetime expected credit losses. During this process the probability of the non-payment of the rent receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the rent receivables. For rent receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised in the consolidated statement of comprehensive income. On confirmation that the receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Group's financial assets measured at amortised cost comprise rent receivable, restricted cash and cash and cash equivalents in the consolidated statement of financial position.

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 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.

b. Financial liabilities
The Group classifies its financial liabilities as fair value through profit or loss or other financial liabilities, depending on the purpose for which the liability was acquired and based on the business model test. There are no financial liabilities held at fair value through profit or loss. The Group's accounting policy for financial liabilities classified as other financial liabilities is as follows:

Other financial liabilities
Bank borrowings which are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensure that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the Group Statement of Financial Position. For the purposes of each financial liability, interest expense includes initial transaction costs and any premium payable on redemption, as well as any interest or coupon payment while the liability is outstanding.

Trade and other payables that are financial liabilities are initially recognised at fair value. Where a financing component is identified in respect of long term payables the fair value is calculated with reference to an imputed interest rate and subsequently amortised using the effective interest rate method. Short term financial liabilities are carried at their expected settlement value.

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.

Sub-leases of leasehold properties are classified with reference to the right of use asset arising from the head lease. All other leases are classified as operating leases.

3. Summary of significant accounting policies (continued)

Leases – the Group as lessee

The accounting policy for leases where the Group is a lessee can be found on Note 1.

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.

Dividends 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. Rental income

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Rental income from investment property	33.1	18.6
Accretion of tenant lease incentives (Note 9)	5.4	3.0
	38.5	**21.6**

5. Administrative and other expenses

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Investment advisory fees (Note 20)	4.5	2.3
Legal and professional fees	0.6	0.4
Other administrative costs	0.4	0.3
Corporate administration fees	0.3	0.2
Fees paid to the Company's Independent Auditor	0.2	0.1
Directors' fees (Note 20)	0.2	0.1
Advertising & Marketing	0.1	0.1
Expected credit loss	0.3	–
	6.6	**3.5**

Fees paid to the Company's Independent Auditor comprise the review of the Interim Report, the audit of the Annual Report and the audit of the financial statements of the Company's subsidiaries.

The Company paid £0.1 million of additional fees to the Company's Independent Auditor in respect of reporting accountant services in the year which have been recognised directly in equity as share issue costs (31 March 2019: £0.1 million). Refer to the Report of the Audit Committee section.

6. Finance income

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Interest on cash held at bank	0.2	0.1
	0.2	**0.1**

7. Finance costs

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Interest payable on bank borrowings	4.4	3.1
Amortisation of loan arrangement fees	0.6	0.2
	5.0	**3.3**

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

(i) the interest payable on bank borrowings totalling £5.4m of which £1.0m was capitalised (31 March 2019: £3.4m of which £0.3m was capitalised); and

(ii) the amortisation of loan arrangement fees totalling £0.6m of which £nil was capitalised (31 March 2019: £0.2m of which £nil was capitalised).

The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation during the year was 2.94% PA.

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 year.

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Current tax	–	–
Total current tax	–	–
Origination and reversal of temporary differences	–	–
Total deferred tax	–	–
Tax charge	–	–

8. Taxation (continued)

Reconciliation of the total tax charge

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

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Profit before tax	73.6	34.1
Tax at the standard rate of UK corporation tax of 19%	14.0	6.5
Effects of:		
REIT exempt income	(5.4)	(3.5)
Revaluation of investment properties	(8.6)	(3.0)
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

Year ended 31 March 2020	Investment property long leasehold £m	Investment property freehold £m	Investment property in course of construction £m	Total £m
Balance at 1 April 2019	33.2	451.2	27.1	511.5
Property acquisitions	71.8	105.2	92.2	269.2
Licence fee receivable (Note 25)	–	–	(2.1)	(2.1)
Tenant lease incentives (Note 4)	0.5	4.9	–	5.4
Property disposals	–	(19.7)	–	(19.7)
Change in fair value	1.8	9.2	34.4	45.4
Transfers of completed property	–	41.5	(41.5)	–
Balance at 31 March 2020	**107.3**	**592.3**	**110.1**	**809.7**

Year ended 31 March 2019	Investment property long leasehold £m	Investment property freehold £m	Investment property in course of construction £m	Total £m
Balance at 1 April 2018	12.6	216.0	26.6	255.2
Property acquisitions	19.9	230.5	39.7	290.1
Licence fee receivable (Note 25)	–	–	(1.5)	(1.5)
Tenant lease incentives (Note 4)	0.2	2.8	–	3.0
Property disposals	(1.3)	(49.9)	–	(51.2)
Change in fair value	1.8	10.6	3.5	15.9
Transfers of completed property	–	41.2	(41.2)	–
Balance at 31 March 2019	**33.2**	**451.2**	**27.1**	**511.5**

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 Board.

The Independent Valuer valued the entire property portfolio at £914.0m at 31 March 2020 (31 March 2019: £589.5m) including capital commitments on forward funded assets and assets that had exchanged but not completed.

The Independent Valuer has included the following disclosure relating to material uncertainty as at the valuation date:

The outbreak of Covid-19, declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries. In the UK, market activity is being impacted in all sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to Covid-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement. Our valuation(s) is / are therefore reported on the basis of 'material valuation uncertainty' per VPGA 10 of the RICS Valuation – Global Standards. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that Covid-19 might have on the real estate market, we recommend that you keep the valuation under frequent review.

For the avoidance of doubt, the inclusion of the 'material valuation uncertainty' declaration above does not mean that the valuation cannot be relied upon. Rather, the phrase is used in order to be clear and transparent with all parties, in a professional manner that – in the current extraordinary circumstances – less certainty can be attached to the valuation than would otherwise be the case. The material uncertainty clause is to serve as a precaution and does not invalidate the valuation.

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

Reconciliation of fair value to total portfolio valuation

	31 March 2020 £m	31 March 2019 £m
Investment property at fair value	809.7	511.5
Capital commitments on forward funded assets (Note 23)	101.2	22.4
Vendor discount in respect of rent-free periods and top-ups	4.7	2.6
Licence fee receivable	1.9	0.7
Leasehold liability (Note 13)	(3.5)	–
Total completed portfolio valuation	**914.0**	**537.2**
Valuation of property that has exchanged but not completed	**–**	**52.3**
Total portfolio valuation	**914.0**	**589.5**

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 and top-ups represent amounts by which a purchase price was reduced by the vendor on acquisitions to cover future rent-free periods or periods to the next rent review under the lease. The total portfolio valuation assumes the property to be income generating during the unexpired rent-free periods and passing rent to be the topped-up rent during the unexpired period to next rent review 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.

Investment property at fair value

Valuation	Quoted prices in active markets (Level 1) £m	Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m	Total £m
31 March 2020	–	–	809.7	809.7
31 March 2019	–	–	511.5	511.5

There have been no transfers between levels during the year.

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.

9. Investment property (continued)

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

Valuation techniques

Standing assets

Standing assets are valued using the investment valuation method. Using the investment valuation method the passing rent is divided by an appropriate yield with a deduction of standard purchaser's costs. The method uses analysis of appropriate comparable investments, rental and sale transactions, together with evidence of demand within the vicinity of the subject property and of properties of a similar nature. The yield applied takes into account the size, location, terms, covenant strength and other material factors.

Investment property in the course of construction

For property in the course of construction the fair value is calculated by estimating the fair value of the completed property using the income capitalisation technique less estimated costs to completion under fixed price developer funding agreements which include an appropriate developer's margin.

Observable input: passing rent

The prevailing rent at which space is let at the date of valuation. Passing rents are dependent upon a number of variables in relation to the Group's property. These include property use, 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.

Sector	Passing rent pa 31 March 2020 £m	Passing rent pa range £m	Valuation 31 March 2020 £m	Valuation yield range %
Industrial	13.4	0.2 – 3.5	277.8	3.8 – 5.8
Budget hotel	11.5	0.2 – 1.8	213.8	4.2 – 6.5
Healthcare	7.2	0.0 – 1.0	119.9	5.2 – 6.5
Leisure	5.9	0.1 – 0.9	105.7	4.8 – 6.1
Discount foodstores	4.5	0.3 – 1.5	81.9	4.5 – 6.4
Car parks	3.7	0.2 – 1.0	76.2	3.9 – 4.9
Other	2.2	0.4 – 1.4	38.7	4.2 – 6.4
Portfolio	**48.4**	**0.0 – 3.5**	**914.0**	**3.8 – 6.5**

Sector	Passing rent pa 31 March 2019 £m	Passing rent pa range £m	Valuation 31 March 2019 £m	Valuation yield range %
Budget hotel	8.7	0.3 – 1.2	162.9	4.2 – 6.5
Industrial	8.0	0.2 – 3.2	150.7	4.7 – 6.0
Healthcare	6.8	0.0 – 0.9	116.3	5.2 – 6.3
Discount foodstores	3.0	0.3 – 0.7	54.1	4.5 – 5.9
Leisure	2.5	0.1 – 0.9	45.9	4.8 – 5.7
Other	3.2	0.4 – 1.3	59.6	4.5 – 6.3
Portfolio	**32.2**	**0.0 – 3.2**	**589.5**	**4.2 – 6.5**

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. The table below shows the sensitivities of measurement of the Group's investment property to certain inputs:

Valuation	–5% in passing rent £m	+5% in passing rent £m	+25bps in net initial yield £m	–25bps in net initial yield £m
31 March 2020	(45.7)	45.7	(43.5)	48.1
31 March 2019	(27.8)	25.8	(26.1)	26.8

Realised gain on disposal of investment property

During the year, the Group disposed of certain of its investment property. The table below shows a reconciliation of the gain recognised on disposal through the consolidated statement of comprehensive income and the realised gain on disposals in the year which includes changes in fair value of the investment property recognised in previous periods.

	31 March 2020 £m	31 March 2019 £m
Consideration received	20.9	54.7
Less:		
Carrying value	(19.7)	(51.3)
Selling costs	–	(0.1)
Gain on disposal of investment property	**1.2**	**3.3**
Add:		
Change in fair value recognised in previous periods	2.9	3.1
Realised gain on disposal of investment property	**4.1**	**6.4**

10. Financial instruments

Set out below is a comparison of the book value and fair value of the Group's financial instruments where a difference exists. The fair value of financial instruments not included in the comparison is equal to book value.

Bank borrowings	Book value £m	Fair value £m
31 March 2020	166.1	186.3
31 March 2019	167.3	166.1

11. Trade and other receivables

	31 March 2020 £m	31 March 2019 £m
Recoverable VAT	1.2	0.3
Licence fee receivable	1.1	0.6
Rent receivable	7.5	3.5
Prepayments and other receivables	0.3	0.4
	10.1	**4.8**

All amounts were due for receipt within one year.

The carrying value of trade and other receivables classified at amortised cost approximates fair value.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses on a collective basis, trade receivables are grouped based on similar credit risk and ageing.

11. Trade and other receivables (continued)

The expected loss rates are based on the Group's historical credit losses experienced over the period from incorporation to 31 March 2020. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's customers. The expected credit loss provision and the incurred loss provision as at 31 March 2020 is £0.3m (31 March 2019: £Nil).

Trade and other receivables that are financial assets amount to £8.6m (31 March 2019: £4.1m) which comprises licence fee receivable and rent receivable.

The following table sets out the ageing of trade and other receivables that are financial assets:

	31 March 2020 £000	31 March 2019 £000
30 days or fewer	8.6	4.1
31 to 60 days	–	–
61 to 90 days	–	–
91 days or more	–	–
	8.6	**4.1**

12. Cash reserves

	31 March 2020 £m	31 March 2019 £m
Cash at bank	13.2	19.2
Cash held by lawyers	0.2	0.2
Cash and cash equivalents	**13.4**	**19.4**
Restricted cash	–	43.2
Total cash at bank	**13.4**	**62.6**

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 2020 £m	31 March 2019 £m
Accrued investment property costs	2.2	1.2
Deferred rental income	7.3	4.6
Accruals	0.7	0.4
Trade and other payables	5.0	1.8
Corporation tax payable[1]	0.9	1.0
Amounts due within one year	**16.1**	**9.0**
Leasehold liability (Note 9)	3.5	–
Amounts due in more than one year	**3.5**	**–**

Trade and other payables that are financial liabilities amount to £11.4m (31 March 2019: £3.3 million) which comprises accrued investment property costs, accruals, trade and other payables and the leasehold liability.

1 Corporation tax payable are liabilities of the Company's subsidiaries that accrued prior to acquisition and entry to the REIT regime. No tax liabilities have arisen within the Group and the tax charge for the year disclosed in Note 8 is £Nil (31 March 2019: £Nil)

14. Bank borrowings

	Drawn £m	Undrawn £m	Total £m
Year ended 31 March 2020			
At beginning of the year	170.0	–	170.0
New facilities	–	100.0	100.0
Drawdowns	–	–	–
At end of the year	170.0	100.0	270.0
Less: unamortised loan arrangement fees	(3.9)	–	(3.9)
	166.1	**100.0**	**266.1**
Year ended 31 March 2019			
At beginning of the year	95.0	–	95.0
New facilities	–	75.0	75.0
Drawdowns	75.0	(75.0)	–
At end of the year	170.0	–	170.0
Less: unamortised loan arrangement fees	(2.7)	–	(2.7)
	167.3	**–**	**167.3**

Maturity of bank borrowings

	31 March 2020 £000	31 March 2019 £000
Repayable between 1 and 2 years	–	–
Repayable between 2 and 5 years	–	–
Repayable after 5 years	166.1	167.3
	166.1	**167.3**

At 31 March 2020, the Group's borrowings comprise the following three term loan facilities with Scottish Widows Limited and one RCF with Lloyds Bank plc:

Term Loans Facilities

- A fixed rate, interest only loan facility of £55.0m. The facility has an all-in rate of 2.93% pa, for the duration of the loan term and is due for repayment in July 2029;
- A fixed rate, interest only loan facility of £40.0m. The facility has an all-in rate of 2.85% pa, for the duration of the loan term and is due for repayment in July 2029; and
- A fixed rate, interest only loan facility of £75.0m. The facility has a fixed all-in rate payable of 2.99% pa, for the duration of the loan term and is due for repayment in December 2033.

RCF

- A revolving credit facility of £100.0m with Lloyds at a 1.55% margin over Libor on a three-year term ending August 2022, with two one-year extension options. The Group has traded an interest rate derivative to cap the interest on the £100.0m at a total of 2.95% for the three-year term.

The Group has remained compliant with the covenants throughout the period up to the date of this report. The facilities are secured against respective pools of the Group's investment property.

14. Bank borrowings (continued)

Reconciliation of liabilities to cash flows from financing activities

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Bank borrowings at start of the year	167.3	93.5
Cash flows from financing activities		
Bank borrowings drawn	43.2	49.7
Loan arrangement fees paid	(2.2)	(1.4)
Non-cash movements		
Amortisation of loan arrangement fees	1.0	0.2
(Decrease)/increase in restricted cash	(43.2)	25.3
Bank borrowings at end of the years	**166.1**	**167.3**

15. Share capital

Shares of £0.01 each	31 March 2020 Number	31 March 2020 £m	31 March 2019 Number	31 March 2019 £m
At the beginning of the year	352.3	3.5	196.9	1.9
Issued during the year	169.1	1.7	155.4	1.6
At the end of the year	**521.4**	**5.2**	**352.3**	**3.5**
Issued and fully paid	**521.4**	**5.2**	**352.3**	**3.5**

On 16 October 2018 the Company issued 155.4 ordinary shares at 112.75p per share (1p nominal value and a premium of 111.75p) for total consideration of £175.3 million.

On 17 June 2019 the Company issued 169.1 ordinary shares at 118.0p per share (1p nominal value and a premium of 117p) for total consideration of £200 million.

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.

Share premium reserve	31 March 2020 £m	31 March 2019 £m
At the beginning of the year	229.3	59.0
Premium on issue of ordinary shares	197.9	173.7
Share issue costs	(4.0)	(3.4)
At the end of the year	**423.2**	**229.3**

17. Dividends

Dividends paid and declared	£m
Year ended 31 March 2020	
Final dividend in respect of year ended 31 March 2019 at 1.375p per share	4.8
First quarterly dividend in respect of year ended 31 March 2020 at 1.4375p per share	5.2
Second quarterly dividend in respect of year ended 31 March 2020 at 1.4375p per share	7.5
Third quarterly dividend in respect of year ended 31 March 2020 at 1.4375p per share	7.5
Total dividends paid	**25.0**

Total dividend per share paid in the year	**5.6875p**
Total dividend per share paid and proposed in respect of the year	**5.75p**

Dividends in respect of the year ending 31 March 2020

On 5 June 2019, the Company announced a first quarterly dividend in respect of the year ended 31 March 2020 of 1.4375p per share which was paid on 23 September 2019 to shareholders on the register on 14 June 2019.

On 26 November 2020, the Company announced a second quarterly dividend in respect of the year ended 31 March 2020 of 1.4375p per share which was paid on 20 December 2019 to shareholders on the register on 6 December 2019.

On 13 February 2020, the Company announced a third quarterly dividend in respect of the year ended 31 March 2020 of 1.4375p per share which was paid on 27 March 2020 to shareholders on the register on 6 March 2020.

On 15 May 2020, the Board proposed a final dividend in respect of the year ended 31 March 2020 of 1.4375p per ordinary share, payable to shareholders on the register at the close of business on 26 June 2020.

Dividends paid and declared	£m
Year ended 31 March 2019	
Final dividend in respect of period ended 31 March 2018 at 2.00p per share	3.9
First quarterly dividend in respect of year ended 31 March 2019 at 1.375p per share	2.7
Second quarterly dividend in respect of year ended 31 March 2019 at 1.375p per share	2.7
Third quarterly dividend in respect of year ended 31 March 2019 at 1.375p per share	4.9
Total dividends paid	**14.2**

Total dividend per share paid in the year	**6.125p**
Total dividend per share paid and proposed in respect of the year	**5.50p**

Dividends in respect of the year ending 31 March 2019

On 6 August 2018, the Company announced a first quarterly dividend in respect of the year ended 31 March 2019 of 1.375p per share which was paid on 28 September 2018 to shareholders on the register on 7 September 2018.

On 4 October 2018, the Company announced a second quarterly dividend in respect of the year ended 31 March 2019 of 1.375p per share which was paid on 21 December 2018 to shareholders on the register on 12 October 2018.

On 14 February 2019, the Company announced a third quarterly dividend in respect of the year ended 31 March 2019 of 1.375p per share which was paid on 29 March 2019 to shareholders on the register on 8 March 2019.

On 20 May 2019, the Company announced a final dividend in respect of the year ended 31 March 2019 of 1.375p per share, payable to shareholders on the register at the close of business on 31 May 2019.

18. Leases

The Group as lessor

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

Lease receivables	< 1 year £m	2–5 years £m	> 5 years £m	Total £m
31 March 2020	38.7	159.7	694.4	892.8
31 March 2019	25.9	107.1	491.4	624.4

An overview of the Group's leasing activities is given in the Investment Advisors Report.

The Group as lessee

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be paid after the reporting date:

Lease receivables	< 1 year £m	2–5 years £m	> 5 years £m	Total £m
31 March 2020	0.1	0.3	13.3	13.7
31 March 2019	–	–	–	–

The above is in respect of leasehold properties held by the Group. There are 30 properties (2019: 9) held under leasehold with lease ranges from 99 years to 999 years.

The Group's leasing arrangements with lessors are headlease arrangements on land and buildings that have been sub-let under the Group's normal leasing arrangements (see above) to tenants. The Group carries its interest in these headlease arrangements as long leasehold investment property (Note 9).

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 Board, 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 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 consolidated financial statements. These internal financial reports include the IFRS figures but also report the non-IFRS figures for the EPRA and alternative performance measures as disclosed in Notes 25 and 26 and the Additional Information.

The Group's property portfolio comprises investment property, diversified across nine different property sub-sectors. The Board considers that all the properties have similar economic characteristics. Therefore, in the view of the Board, 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.

During the year the Group had no tenant (31 March 2019: one tenant) that is considered a major customer, contributing more than 10% of the Group's turnover. The Group's turnover is allocated to major customers as follows:

	31 March 2020		31 March 2019	
		£m		£m
Major customers	0%	–	10%	1.9
Other tenants (each less than 10%)	100%	33.1	90%	16.7
Rental income from investment property (Note 4)	**100%**	**33.1**	**100%**	**18.6**

20. Related party transactions

Transactions with the Board of Directors

In respect of the year ended 31 March 2020 fees of £0.2m were payable to the Directors (31 March 2019: £0.1 million).

Until 31 December 2019 the Directors' fees were settled by way of purchase of shares in the Company on the open market. Shares acquired by the Directors pursuant to this arrangement are subject to an 18-month Lock-in Deed.

Outside of the Directors' fee share purchases, the following purchases of shares in the Company by Directors took place during the year:

- on 19 March 2020 Colin Smith OBE purchased 40,000 shares; and
- on 20 March 2020 Stephen Hubbard purchased 36,000 shares.

The following table summarises the number of ordinary shares purchased during the year the year by Directors, including the two purchases above, and the number of ordinary shares held at 31 March 2020:

		31 March 2020 Number	31 March 2019 Number
Stephen Hubbard	Purchased	49,233	49,099
	Held	**169,389**	**120,156**
Colin Smith OBE	Purchased	49,097	13,131
	Held	**222,909**	**173,812**
John Cartwright[1]	Purchased	11,729	16,928
	Held	**66,687**	**54,958**
Jan Etherden	Purchased	13,032	13,404
	Held	**57,274**	**44,242**
Patricia Dimond[2]	Purchased	–	–
	Held	**–**	**–**

None of the Directors sold any shares in the Company during the year.

From 1 January 2020 the Directors' fees were settled in cash.

The increase in fees year on year has resulted in the following new rates of Directors' remuneration also with effect from 1 January 2020, which followed consultation by the Board with an independent expert:

Role	Remuneration £
Chairman's fee	75,000
Director's fee	40,000
Audit Committee Chair additional fee	5,000
Management Engagement Committee Chair additional fee	3,000

Transactions with the Investment Advisor

A fee of £4.5 million was payable to the Investment Advisor in respect of the year (31 March 2019: £2.3 million). At 31 March 2020, £0.4 million was due to the Investment Advisor (31 March 2019: £0.3 million).

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 calendar month of market capitalisation up to or equal to £500 million; and

(b) One-twelfth of 0.65% per calendar month of market capitalisation above £500 million.

No performance fee is payable to the Investment Advisor.

1 During the year John Cartwright transferred 42,814 of his shares into Calvi Capital Limited, a company wholly owned by him and persons closely associated (as defined by the EU Market Abuse Regulation) with him. These shares are still treated as being held by John Cartwright in the table above

2 Appointed to the Board on 1 January 2020

21. Consolidated entities

The Company owns 100% of the 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 Board of the Company has concluded that the Company has control over all these entities and all these entities have been consolidated within this set of 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%
LXi Property Holdings 3 Limited	Property Investment	UK	100%
LXi Property Holdings 4 Limited	Property Investment	UK	100%
LXi Property Holdings 4a Limited*	Property Investment	UK	100%
Alco 1 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%
LXi Cowdenbeath Limited*	Property Investment	UK	100%
SM Plymouth Hotel Limited*	Property Investment	UK	100%
Corby (General Partner) Limited*	Property Investment	UK	100%
Corby Rail Services Limited*	Property Investment	UK	100%
Corby Limited Partnership*	Property Investment	UK	100%
Corby (No.2) Unit Trust*	Property Investment	Jersey	100%
Grove Asset 8 S.A R.L.*	Property Investment	Luxembourg	100%
LXi Spirit Limited	Property investment	Isle of Man	100%

The registered office for UK subsidiaries is Mermaid House, 2 Puddle Dock, London, England, EC4V 3DB.

The registered office of Jersey subsidiaries is 26 New Street St Helier Jersey JE2 3RA.

The registered office of Luxembourg subsidiaries is 2 rue du Fosse, L-1536, Luxembourg.

The registered office of Isle of Man subsidiaries is First Names House, Victoria Road, Douglas, IM2 4DF.

22. Financial risk management

The Group is exposed to 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.

* Subsidiaries indirectly owned

Credit risk related to financial instruments and cash deposits

One of the principal credit risks of the Group arises 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 of low counterparty risk, the counterparties being 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 in Note 11.

Credit risk related to leasing activities

In respect of occupational leasing arrangements, in the event of a default by a tenant, the Group may suffer a period a void period where no rents are received and additional re-letting costs. The quality of the tenant is assessed based on an extensive tenant covenant review scorecard prior to acquisition of the property. The assessment of the tenant credit worthiness is also monitored on an ongoing basis. Credit risk is assisted by the vast majority of occupational leases requiring that tenants pay rentals in advance. The Investment Advisor monitors the rent collection in order to anticipate and minimise the impact of defaults by tenants. Outstanding rent receivables are regularly monitored. The status of rents due on the March quarter date that were deferred is described in detail in the Going concern section of Note 1 to the financial statements.

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 liabilities on contractual undiscounted payments:

31 March 2020	< 3 months £m	3–12 months £m	1–5 years £m	> 5 years £m	Total £m
Financial liabilities					
Bank borrowings (Note 14)	–	–	–	170.0	170.0
Interest payable on bank borrowings	1.2	3.7	20.0	31.2	56.1
Trade and other payables (Note 13)	8.6	–	0.9	1.9	11.4
	9.8	**3.7**	**20.9**	**203.1**	**237.5**

31 March 2019	< 3 months £m	3–12 months £m	1–5 years £m	> 5 years £m	Total £m
Financial liabilities					
Bank borrowings (Note 14)	–	–	–	170.0	170.0
Interest payable on bank borrowings	1.2	3.7	19.4	34.7	59.0
Trade and other payables (Note 13)	3.3	–	–	–	3.3
	4.5	**3.7**	**19.4**	**204.7**	**232.3**

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 structure of the Group.
- The Board intends to maintain a conservative level of aggregate borrowings with a medium term maximum target of 35% of the Group's total assets.

The Group has remained compliant with all of its banking covenants during and since the year.

23. Capital commitments

At 31 March 2020 the Group had capital commitments of £101.2m (31 March 2019: £22.4m) in relation to the cost to complete its forward funded pre-let development assets. All commitments fall due for settlement within one year from the date of this report.

24. Contingent liabilities

The Group had no contingent liabilities at 31 March 2020 (31 March 2019: £49.0m).

25. Earnings per share

Earnings per share is 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. Amounts shown below are both basic and diluted measures as there were no dilutive instruments in issue throughout the current or comparative periods.

	Year ended 31 March 2020 £m	Year ended 31 March 2019[1] £m
Earnings	**73.6**	**34.1**
Weighted average number of ordinary shares (million)	485.4	267.6
Earnings per share ("EPS")	**15.2p**	**12.7p**
Adjustments to remove:		
Change in fair value of investment property	(45.4)	(15.9)
Gain on disposal of investment property	(1.2)	(3.3)
Change in fair value of interest rate derivative	0.1	–
EPRA earnings	**27.1**	**14.9**
Weighted average number of ordinary shares (million)	485.4	267.6
EPRA EPS	**5.6p**	**5.6p**
Adjustments to include:		
Licence fees receivable	2.1	1.5
Amortisation of cash backed rental top ups and rent-free periods	1.3	0.4
Adjusted earnings	**30.5**	**16.8**
Weighted average number of ordinary shares (million)	485.4	267.6
Adjusted EPS	**6.3p**	**6.3p**

Adjusted EPS is a performance measure used by the Board to assess the Company's dividend payments. The metric adjusts EPRA earnings to include licence fees receivable from developers.

The Group's accounting policy for licence fees, cash backed rental top ups received from vendors and rent-free periods that are cash covered by developers receivable is to recognise them as a discount to the cost of the investment property, however the Board considers these returns an important component of the Group's performance and key to underpinning the Company's dividend targets and payment.

1 Reported Adjusted EPS for the year ended 31 March 2019 did not include an amount in respect of cash backed rental top ups and rent free periods as they were not material at £0.4m. The Board considers the amortisation of these balances over the period to which they relate as key in assessing the level of dividend payment and has therefore updated its definition of adjusted earnings to include these amounts as they are now material. Comparative balances have been updated to reflect this change

26. Net asset value per share

Net asset value per share is calculated by dividing the consolidated net assets attributable to ordinary equity holders of the Company by the number of ordinary shares outstanding at the reporting date. Amounts shown below are both basic and diluted measures as there were no dilutive instruments in issue throughout the current or comparative periods.

	31 March 2020 £m	31 March 2019 £m
Net asset value ("NAV")	**648.0**	**403.8**
Number of ordinary shares (million)	521.4	352.3
NAV per share	**124.3p**	**114.6p**
Adjustments to calculate EPRA NAV	0.1	–
EPRA NAV	**648.1**	**403.8**
Number of ordinary shares	521.4	352.3
EPRA NAV per share	**124.3p**	**114.6p**

27. Post balance sheet events

On 30 April 2020 the Group exchanged unconditionally on the disposal of two assets for proceeds of £2.1m.

On 15 May 2020, the Board proposed a final dividend in respect of the year ended 31 March 2020 of 1.4375p per ordinary share, payable to shareholders on the register at the close of business on 26 June 2020.

28. Controlling parties

There is no ultimate controlling party of the Group.

Company statement of financial position

Company number: 10535081

	Note	31 March 2020 £m	31 March 2019 £m
Non-current assets			
Investment in subsidiaries	4	597.7	384.6
Investment property	5	4.1	4.1
Total non-current assets		**601.8**	**388.7**
Current assets			
Trade and other receivables	6	25.7	6.6
Cash and cash equivalents	7	2.8	0.1
Total current assets		**28.5**	**6.7**
Total assets		**630.3**	**395.4**
Current liabilities			
Trade and other payables	8	103.6	33.8
Total current liabilities		**103.6**	**33.8**
Total liabilities		**103.6**	**33.8**
Net assets		**526.7**	**361.6**
Equity			
Share capital	10	5.2	3.5
Share premium reserve	11	423.2	229.3
Capital reduction reserve		90.9	115.9
Retained earnings		7.4	12.9
Total equity		**526.7**	**361.6**
Net asset value per share – basic and diluted	12	**101.0p**	**102.6p**

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 loss and total comprehensive income attributable to shareholders of the parent Company for the year amounted to £5.5m (31 March 2019: £10.0m profit).

The Company financial statements were approved and authorised for issue by the Board on 15 May 2020 and signed on its behalf by:

Stephen Hubbard
Chairman of the Board of Directors

The notes on pages 90 to 94 form part of the Company financial statements.

Company statement of changes in equity

Year ended 31 March 2020	Note	Share capital £m	Share premium reserve £m	Capital reduction reserve £m	Retained earnings £m	Total equity £m
Balance at 1 April 2019		3.5	229.3	115.9	12.9	361.6
Loss and total comprehensive income attributable to shareholders		–	–	–	(5.5)	(5.5)
Transactions with owners						
Issue of ordinary shares in the year	10,11	1.7	197.9	–	–	199.6
Share issue costs	11	–	(4.0)	–	–	(4.0)
Dividends paid in the year	9	–	–	(25.0)	–	(25.0)
Balance at 31 March 2020		**5.2**	**423.2**	**90.9**	**7.4**	**526.7**

Year ended 31 March 2019	Note	Share capital £m	Share premium reserve £m	Capital reduction reserve £m	Retained earnings £m	Total equity £m
Balance at 1 April 2018		1.9	59.0	130.1	2.9	193.9
Profit and total comprehensive income attributable to shareholders for the year		–	–	–	10.0	10.0
Transactions with owners						
Issue of ordinary shares in the year	10,11	1.6	173.7	–	–	175.3
Share issue costs	11	–	(3.4)	–	–	(3.4)
Dividends paid in the year	9	–	–	(14.2)	–	(14.2)
Balance at 31 March 2019		**3.5**	**229.3**	**115.9**	**12.9**	**361.6**

The notes on pages 90 to 94 form part of the Company financial statements.

Notes to the Company financial statements

1. Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 100 Application of Financial Reporting Requirements ("FRS 100") and Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The Company is registered in England and Wales under company registration number 10535081.

Disclosure exemptions adopted

In preparing these financial statements the Company has taken advantage of disclosure exemptions conferred by FRS 101 and 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 Group 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.

Standards effective from 1 April 2019

New standards impacting the Group that have been adopted for the first time in this set of financial statements are:

IFRS 16 Leases

IFRS 16 replaces IAS 17 Leases and introduced a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Previously, the Company was required to classify all leases as either operating or finance leases.

The Company adopted IFRS 16 using the modified retrospective approach with recognition of any transitional adjustments being made on the date of application (1 April 2019), without restatement of comparative figures. The Company elected to apply the practical expedient to not reassess whether a contract is (or contains) a lease at the date of initial application. Contracts entered into before the transition date that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. The definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 April 2019. The impact of the adoption of IFRS 16 is outlined below.

The Directors have given due consideration to the impact on the financial statements of IFRS 16 and have concluded that the adoption of the standard did not have a material impact on the financial statements at the date of initial application. This is because at the date of initial adoption, the Company had no headlease obligations as lessee i.e. leasehold properties. Further, no changes have been identified in respect of these leases where the Company also acts as a lessor.

2. Significant accounting judgments, estimate and assumptions

In the application of the Company's accounting policies, which are described in Note 3, the Board is 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 3 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 3 to the consolidated financial statements.

3. Principal accounting policies

The principal accounting policies adopted in the preparation 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.

Loans to subsidiaries

Impairment provisions for receivables from and loans to subsidiaries are recognised based on a forward-looking expected credit loss model. The methodology used to determine the amount of provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset, twelve month expected credit losses along with gross interest income are recognised. For those for which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

4. Investment in subsidiaries

	31 March 2020 £m	31 March 2019 £m
At beginning of the year	384.6	183.9
Additions in the year	213.1	200.7
At end of the year	**597.7**	**384.6**

A list of the Company's subsidiary undertakings is included in Note 21 to the consolidated financial statements.

5. Investment property

Year ended 31 March 2020	Freehold £m
Balance at 1 April 2019	4.1
Balance at 31 March 2020	**4.1**

Year ended 31 March 2019	Freehold £m
Balance at 1 April 2018	6.5
Property acquisitions	4.0
Property disposals	(6.7)
Change in fair value	0.3
Balance at 31 March 2019	**4.1**

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 2020 £m	31 March 2019 £m
Amounts due from subsidiaries	20.5	6.2
Recoverable VAT	5.1	0.2
Rent receivable	–	0.1
Prepayments and other receivables	0.1	0.1
	25.7	**6.6**

All amounts are due for receipt within one year.

7. Cash and cash equivalents

	31 March 2020 £m	31 March 2019 £m
Cash held at bank and with lawyers	**2.8**	**0.1**

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 2020 £m	31 March 2019 £m
Amounts due to subsidiary undertakings	101.9	33.3
Accruals and deferred income	0.7	0.4
Other creditors	1.0	0.1
	103.6	**33.8**

All amounts are due for payment within one year.

9. Dividends

	31 March 2020 £m	31 March 2019 £m
Dividends paid	**25.0**	**14.2**

Detailed information about the dividends paid by the Company is included in Note 17 to the consolidated financial statements.

10. Share capital

	31 March 2020 £m	31 March 2019 £m
Share capital	**5.2**	**3.5**

Detailed information about the share capital of the Company is included in Note 15 to the consolidated financial statements.

11. Share premium reserve

	31 March 2020 £m	31 March 2019 £m
Share premium	**423.2**	**229.3**

Detailed information about the share premium of the Company is included in Note 16 to the consolidated financial statements.

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 2020 £m	31 March 2019 £m
NAV	**526.7**	**361.6**
Number of ordinary shares (million)	521.4	352.3
NAV per share	**101.0p**	**102.6p**

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

The Company has given a full guarantee of the Group's loan facilities to the lender.

15. Ultimate controlling party

There is no ultimate controlling party of the Company.

Additional Information

Additional Information

Notes to the EPRA and alternative performance measures (unaudited)

EPRA NNNAV

	31 March 2020 £m	31 March 2019 £m
EPRA net asset value	648.1	403.7
Include:		
Fair value of debt[1]	(16.1)	1.2
EPRA NNNAV	**632.0**	**404.9**
Shares in issue (million)	521.4	352.3
EPRA NNNAV per share	**121.2p**	**115.0p**

EPRA NIY and EPRA 'Topped Up' NIY

	31 March 2020 £m	31 March 2019 £m
Investment property – wholly owned	914.0	589.5
Less: development properties	(204.1)	(88.4)
Completed property portfolio	**709.9**	**501.1**
Allowance for estimated purchasers' costs	48.3	33.5
Gross up completed property portfolio valuation (B)	**758.2**	**534.6**
Annualised passing rental income	48.3	32.2
Less: contracted rental income in respect of development properties	(9.6)	(4.7)
Property outgoings	–	–
Annualised net rents (A)	**38.7**	**27.5**
Contractual increases for lease incentives[2]	9.3	4.7
Topped up annualised net rents (C)	**48.0**	**32.2**
EPRA NIY (A/B)	**5.1%**	**5.1%**
EPRA Topped Up NIY (C/B)	**6.3%**	**6.0%**

EPRA Vacancy Rate

	31 March 2020 £m	31 March 2019 £m
Annualised estimated rental value of vacant premises	–	–
Portfolio estimated rental value[3]	46.2	26.6
EPRA Vacancy Rate	**0.0%**	**0.0%**

EPRA Cost Ratio

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m
Property operating costs	–	–
Vacant property costs	–	–
Administration expenses[4]	6.6	3.5
Total costs (both including and excluding vacant property costs[5])	**6.6**	**3.5**
Total gross rental income	38.6	21.6
Total EPRA cost ratio (including and excluding vacant property costs)	**17.1%**	**16.4%**

Total NAV return

	Year ended 31 March 2020 pence	Year ended 31 March 2019 pence
EPRA NAV per share at beginning of the period	114.6	107.7
EPRA NAV per share at end of the period	124.3	114.6
Change in EPRA NAV per share in the period	**9.7**	**6.9**
Dividend per share paid in the period	5.6875	6.125
Total of change in EPRA NAV and dividend per share	**15.3875**	**13.025**
Total NAV return	**13.4%**	**12.1%**

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

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

3 Excludes contracted rents receivable on development properties

4 The Group does not have a policy of capitalising overheads and all administrative expenses are recognised in the P&L in the period to which they relate

5 The Group has no vacant property costs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Glossary

Average acquisition net initial yield	The annualised rents at the date of acquisition of the entire portfolio, net of costs, expressed as a percentage of the acquisition price paid for the Group's investment property, after adding purchase costs paid
Average debt maturity	The remaining period to maturity of each of the Group's debt facilities, multiplied by the respective capital borrowed on each tranche of debt divided by the sum of the results
Average fixed cost of debt	The fixed cost of debt of each of the Group's debt facilities, multiplied by the respective capital borrowed on each tranche of debt divided by the sum of the results
Average valuation net initial yield	The annualised rents at valuation date of the entire portfolio, net of costs, expressed as a percentage of the independent valuation of the Group's investment property, after adding purchase costs paid
Completion	The point at which ownership of the property is legally transferred by dating the transfer deed
Dividend per share	The total dividend paid and proposed in respect of a period divided by the number of ordinary shares eligible for the dividend on the record date
Exchange	The point on a property transaction at which the contract to sell is exchanged and dated and becomes legally binding
Forward commitment	A property transaction in which contracts are exchanged subject to the completed development of a pre-let asset with. The risks and rewards are transferred at the point of completion after practical completion of the development is reached
Forward funded	A property transaction in which land is acquired subject to a funding agreement with the developer to build a pre-let asset with approved planning permission. The risks and rewards are transferred at land completion prior to the commencement of development
Geared internal rate of return	A measure of the profitability of an investment property ignoring external factors being the discount rate at which all the associated cash flows of the investment property, net of related borrowings and interest costs, are equal to zero.
IPO	Initial public offering
Liquidity	The extent to which investments can be realised at short notice
Loan to value	The carrying value of bank borrowings as a percentage of the carrying value of total assets
Market capitalisation	The mid-market price for an ordinary share of the Company multiplied by the number of ordinary shares in issue
Net initial yield	The current annualised rent, net of costs, expressed as a percentage of capital value, after adding notional purchaser's costs
Portfolio valuation	The total value of the Group's investment property including capital commitments on forward funded assets determined by the independent valuer on an individual asset basis and assuming no portfolio premium
Practical completion	The point at which a building project is complete, except for minor defects that can be put right without undue interference or disturbance to the tenant
Total shareholder return	The growth in value of a shareholding over a specified period, assuming dividends are reinvested to purchase additional units of stock

Company information

Company number: 10535081
Country of incorporation: England and Wales

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