LXi REIT

Long Indexed Income

Secure, diversified, long-dated and inflation-linked income and growth

Half-year ended 30 September 2020

Agenda and presentation team

Agenda

1. Company introduction
2. Current lockdown
3. Highlights
4. The portfolio
5. Forward funding
6. Capital recycling
7. Active portfolio management
8. Conservative leverage
9. ESG
10. Financial results
11. Outlook
12. Questions

Presentation team

Simon Lee – Fund Manager

Freddie Brooks – CFO

Company introduction: investment strategies

Long and Diversified Income

- Long triple-net leases with no cost leakage
- Regular upward only inflation linked or fixed uplifts
- Broad range of institutional quality tenants well diversified by sector
- Actively manage the portfolio exposures where risk profile changes or value is identified

Active Portfolio Management

- Ongoing recycling of capital with regular acquisitions and disposals to grow income and NAV
- Forward funding provides significant advantages in terms of yield on cost and asset quality
- Executing value enhancing asset management. e.g. accretive lease re-gears

Conservative Approach

- Low leverage capped at 35% LTV
- Material covenant headroom
- Focus on low cost, long dated, fixed rate debt
- RCF for capital efficiency
- Focus on cherry picking assets from across a wide universe to find value and to exit sectors where values have peaked

ESG Focus

- 10% pot of investments that are ESG focused
- Activities focused on improving energy efficiency of assets in conjunction with our occupiers
- Recent examples include investments in EV charging points across our car parks

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Current lockdown for LXi

- 97% of rent already received for the quarter to 24 Dec 2020 - underpinning the dividend target announced of 1.44p, the target exceeds the Company's pre Covid-19 quarterly dividend
- Largest exposures to industrial (28%), healthcare (13%) and foodstores (12%) have been largely unimpacted and all remain open
- Hotels (24%) remain open for workers – with construction work ongoing this is positive for budget hotels as a key driver of occupancy
- Under our leisure (12%) exposure:
  - Costa/Starbucks drive-thru coffee shops (3%) are unaffected
  - Dobbies garden centre stores (3%) remain open - essentials status
  - Greene King pubs (5%) are closed but continue to do takeaways (food and drink) and Pure Gyms (1%) are closed – both tenants have paid 100% of rent
- Our car parks (8%) and student property (3%) will also remain open
- Construction work will continue at all of our forward funding sites and licence fees will continue to accrue
- Debt remains low with Pro-forma LTV at 30% (on fully drawn basis), well below 50% covenant. Recent extension takes term loan maturity to 13 years and reduces all-in rate to 2.85%

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Financial highlights

121p
EPRA NTA

£893m
Portfolio value

11%
Above purchase price

£17.6m
Operating profit before valuation changes

(0.6)%
Total return

10%
Average total NAV return PA to date

91%
Rent collection for the two quarters

2.65p
Dividend per share

3.3p
Adjusted EPS

30%
Pro Forma LTV

Post period end highlights

97%

Rent collection September quarter date

1.44p

Quarterly dividend per share target

13 yrs

Debt maturity

2.85%

All in debt cost

BCA, Corby - disposal

£68m

Disposal proceeds on sale of BCA

14%

Geared IRR per annum

13

Separate accretive assets in advanced legals to redeploy the proceeds

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Portfolio highlights

£893m
Valuation HY21

5.1%
EPRA NIY
vs 5.8% avg acq'n NIY

£49.3m
Annual rents*

22 yrs
WAULT to break

23% pa
Avg. geared IRR

£180m
Asset disposals

2.1%
Average
Rental growth pa
On 41 reviews

96%
Index-linked rents

72%
Min. uplift (avg. 2%)

115
No. of assets

£6m
Average lot size

0%
Portfolio vacancy

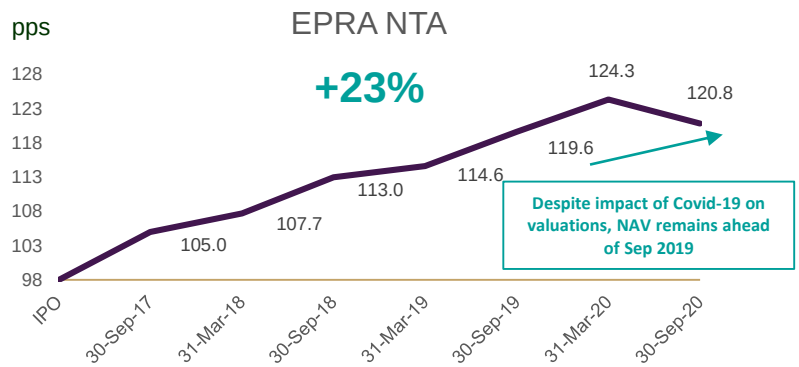
100%
FRI leases

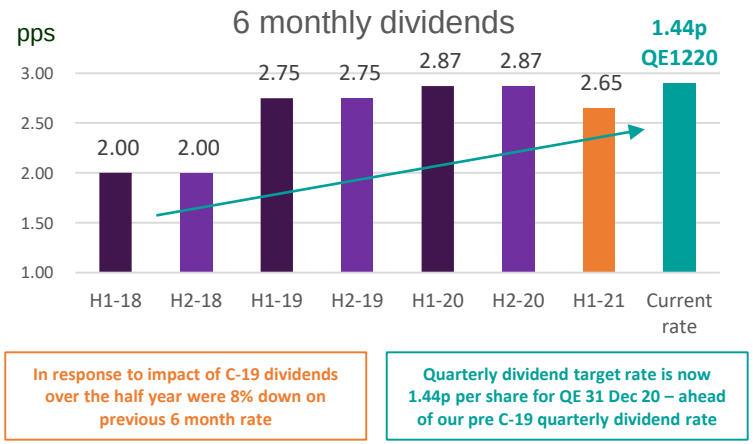
51
Quality tenants

8
Separate sectors

* Includes assets where acquisitions had exchanged but not completed at 30 September 2020 with contracted rents totalling £1.3m and asset disposals that had exchanged but not completed at 30 September 2020 with contracted rents totalling £0.5m.

Highlights: delivering consistent growth





Consistent NAV growth pre C-19 and capital protection, with NAV still up on 12 months prior:

- NAV 23% ahead of IPO in 2017
- Forward funding discount for smaller lot sized assets – average 12% uplift from acquisition price to first valuation post acquisition
- Capitalisation of index-linked rental growth
- Off-market purchases – relationship-driven; reputation for speed and certainty of transacting
- Efficient transaction costs due to SDLT saving
- Profitable disposal of assets ahead of acquisition cost and book value – average geared IRR 23% p.a. to date

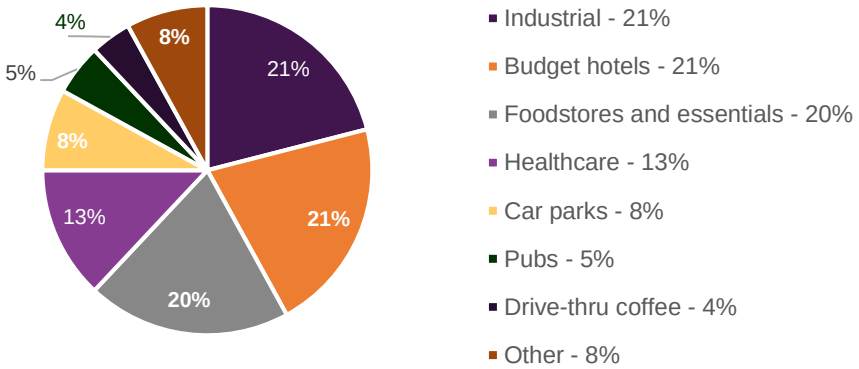
Consistent dividend growth prior to C-19, with dividend target rate returning to growth H2 2021:

- Dividends grown annually ahead of inflation pre C-19 and expected to return to regular annual growth
- Quarterly target rate now ahead of pre C-19 level for QE 31 Dec 2020
- 96% index-linked rental uplifts with 72% of the portfolio rental growth fixed or collared at avg. 2% pa
- Accretive recycling of capital generating income growth through a spread between exit yield and reinvestment yield
- Fast and efficient deployment of new equity raised
- Always covering dividends with adjusted earnings

The portfolio – post year end update

Secure, diversified, long-let and index-linked with strong residual values

Sector exposures including redeployment of BCA proceeds into assets in advanced legals to be announced in short order

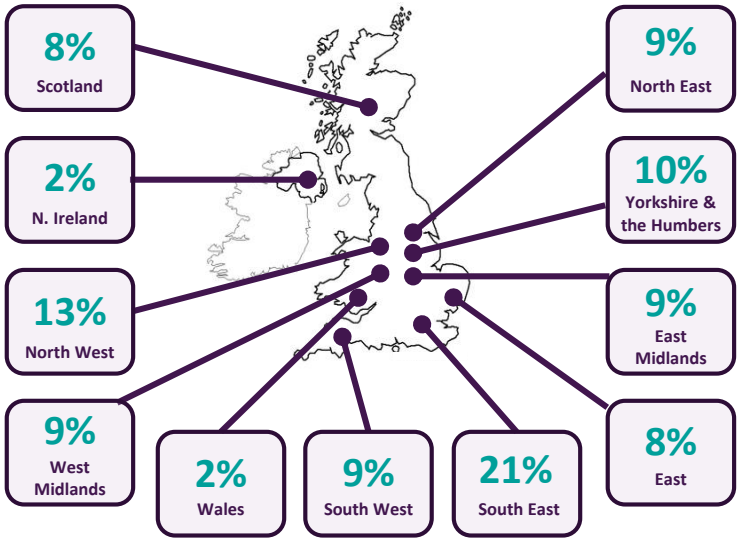


- A defined multi-sector approach, but not a generalist strategy and not sector agnostic
- 8 diverse property sectors
- Cherry-pick assets across wide range of sub-sectors to find value
- Sectors we particularly like today – low rents, institutional-quality tenants and operators, positive demographic/structural change:
  - Discount foodstores
  - Industrial/logistics
  - Healthcare

Low spread to residual land value

- Underlying trading performance (underpins investment value)
- Strategic importance to tenant (e.g. main distribution or head office facility)
- Low current rents and low capital cost (e.g. budget hotels and discount foodstores)
- Alternative use potential (e.g. industrial, residential)

Geographic diversification



The portfolio (2)

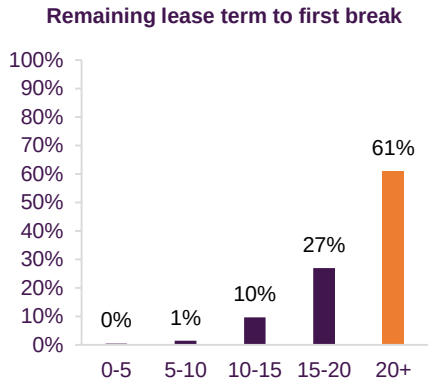
Secure, diversified, long-let and index-linked with strong residual values

Institutional-quality tenant covenants

- Rental income secured against >50 institutional-quality tenants – providing significant income diversification
- Table showing sector exposures at 30 September 2020 – subject to post period end changes

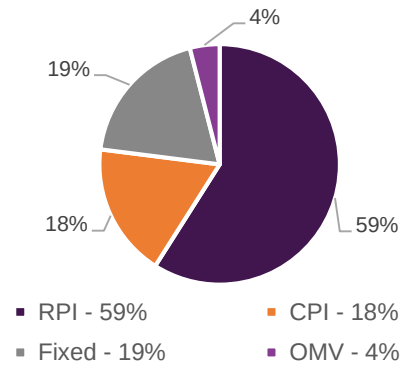
Top tenants	Of passing rent
Travelodge	9%
Q-Park	8%
Bombardier	7%
*BCA Group**	*7%**
Greene King	5%
Premier Inn	5%
BUPA	4%
Jurys Inn	4%
Stobart Group	4%
Priory Group	4%
Lidl	3%
Starbucks	3%
Mears	3%
Qhotels	3%
Aldi	3%
Dobbies Garden Centres	3%

Long, index-linked leases

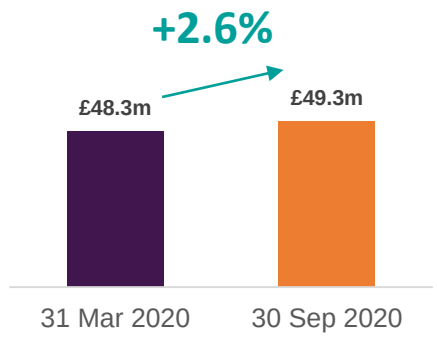


- Long average lease length to first break of 22+ years
- 88% of rents with over 15 years of unexpired income to first break

Portfolio rent review profile



Portfolio rent review profile



** asset sold after half year end and proceeds in solicitors hands to be reinvested in short order into diversified asset and tenant exposures all below 4%*

Forward funding in smaller lot sizes

Benefits of forward funding include:

- Discount to investment values (average 12% uplift achieved*)
  - Less competitive market for smaller developments
  - Different where lot sizes much larger or sectors very hot
- Materially lower purchase costs - only pay stamp duty on land price, not construction costs
  - c.2%, rather than 6.8%
- Full unexpired lease term
- Ability to source brand new, high quality and state of art buildings

Risk mitigation:

- Licence fee charged to developer during construction phase (cash-backed) protecting against development delays and voids
- No speculative developments – all pre-let
- Full planning consent in place prior to purchase
- Fixed price paid to the developer
- Developer receives profit when building achieves practical completion
- Construction costs are paid to the developer monthly in arrears

Aldi anchored scheme, St Albans

Description: Discount scheme anchored by Aldi located in St Albans
Purchase price: £25.9 million, reflecting blended 5.7% NIY
Valuation yield: 4.7% NIY reflecting a 100 bps spread to acquisition yield
Acquisition Structure: Pre-let forward funding
Date acquired: 2019
Comment: Acquired from a developer who was on a critical path with a larger institutional open-ended fund that had to pull out due to fund redemptions

Forward funding statistics

- 34 separate fundings
- 36% of portfolio forward funded to date
- 12% average uplift *
- 9% of income from licence fees **

** Variance between actual purchase price and first valuation post acquisition*

*** Licence fees as a percentage of total income during the half-year ended 30 September 2020*

Capital recycling

Since IPO the Group has sought to actively manage portfolio exposures and crystallise gains through regular recycling of capital. To date the Investment Advisor has executed 50 assets disposals at an average geared IRR of 23% pa. Disposal proceeds have been re-deployed in short order into the Group's accretive forward funding pipeline at a wider yield generating income and NAV growth.

National Express bus storage facility, Birmingham

Description: Bus Storage facility let to National Express
Purchase price: £5.1 million, reflecting a 5.7% NIY (sold at 4.2% exit yield)
Acquisition structure: Sale and Leaseback
Date acquired: 2018
Comment: The Group acquired two bus storage facilities directly from National Express in 2018 at a blended yield of 5.7% across both assets, in similar locations with identical lease terms. The Birmingham asset was sold to an industrial specialist REIT in 2020 at a 34% uplift on purchase price, generating a 36% pa geared IRR for the Group. The Company retains its other bus storage facility in West Bromwich let to National Express Group PLC, which it acquired at the same time and on the same lease and pricing terms as Yardley Wood.

50
Number of Assets sold

23% pa
Weighted geared IRR

£180m
Capital Recycled

Active portfolio management and capital recycling

The fund is not a passive asset owner and is focussed on identifying accretive asset management opportunities that will generate value and/or income growth to our shareholders.

BCA Car storage facility, Corby

Description: Car storage facility let to BCA in Corby
Purchase price: £60 million, reflecting 5.25% NIY
Acquisition Structure: Built asset
Date acquired: 2018
Asset management:

- Acquired with a 17.5 year remaining lease term with 2.5 years to next rent review.
- Re-gear agreed to extend lease to 25 years in July 2020, and insert a collar and cap to the rent review,
- No reduction in rental income through re-gear but RR pushed to 5 years time

Disposal:

- Disposal announced in November 2020
- £68 million proceeds generated to be redeployed into accretive assets (See below)
- 4.45% exit yield (vs 5.25% acquisition yield)
- Geared IRR of 14% pa generated on disposal

Update on use of disposal proceeds:

- in legals on 13 assets let to 7 different strong tenants from 5 vendors in the foodstore and essentials space
- focus on smaller lot sizes (10k to 30k sq ft) with online connectivity through home delivery/click and collect
- low average rent of £14 per sq ft and low cap value of £230 per sq ft
- and 5.7% average yield (versus 4.45% exit yield on BCA and 5% portfolio valuation)

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Conservative leverage

Long dated, low cost, fixed rate debt

LXi REIT plc strength of debt metrics

Scottish Widows long term facilities:	Facility quantum	Fixed all-in rate	Facility maturity
Total/average	*£170m*	*2.85%*	*13 years*
Facility 1	£55m	2.74%	Dec 2033
Facility 2	£40m	2.74%	Dec 2033
Facility 3	£75m	2.99%	Dec 2033

Repayment structure: Interest only

Revolving credit facility: £100m revolving credit facility with Lloyds Bank at an attractive margin of 1.55% pa (capped at 2.95%) being drawn to finance forward funding commitments at c.350 bps arbitrage

Pro-forma LTV: 30% (current level 25%)

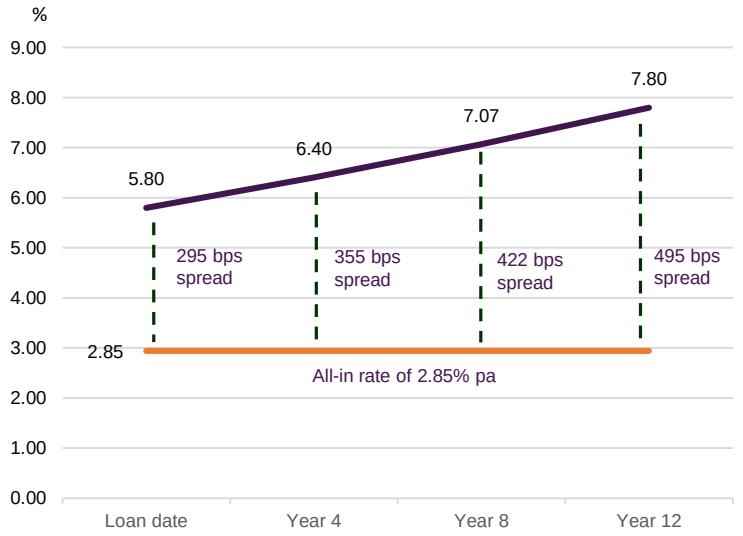
Target maximum LTV: 35%

Financial covenant LTV: 50%

Appendix 1: Significant headroom on financial covenants

Free cash-flow generation

- **295 bps** spread between triple-net rental income (5.8% average NIY) and low fixed cost of debt (2.94% pa)
- Spread rising to c. **495 bps** by expiry of the loan term*
- No property cost leakage – all leases triple net, full repairing and insuring



Illustrative example only, assuming a 2.5% pa rental growth rate based on the average annual forecasts for RPI and CPI over the next five years

ESG

Environmental	
EPC rating A to C	>85%
Target asset exposure with underlying use with environmental focus. This includes Recycling plants, Biomass facilities, EV charting points and Solar panelling	10%

Social	
Investment Advisor's chosen charity	Shelter
Female employees of Investment Advisor	38%
Bribery, corruption and AML training	Yes
Job creation and focus on local supply chain through forward funding projects	Yes

Governance	
Independent Board members	100%
Female Board members	40%
Management remuneration linkage	Share price
Voting rights for shareholders	Equal

ESG initiatives

Solar panelling initiative:

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;
- the Company, both by the provision of an income stream and by increasing the attractiveness of our properties to tenants

EV Charging Scheme case study:

- Aldi scheme, Bradford
- funded the installation of 13 charging points
- InstaVolt Limited is lessor/tenant
- initial yield of 6% on cost
- a new 25-year lease term

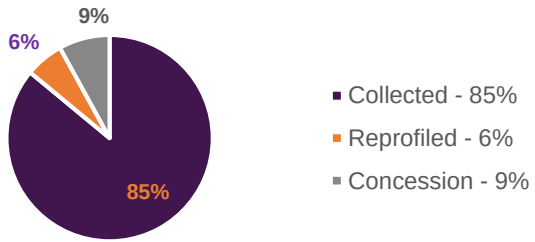
Half-year results: Income statement

	(£m) Half-year ended		Change
	30 Sep 2020	30 Sep 2019	
Rental income	20.3	16.7	
Administrative expenses	(2.7)	(2.8)	
Operating profit before valuation changes	**17.6**	**13.9**	**+ 26.6%**
Change in fair value	(18.9)	22.3	
Gains on disposal	(0.1)	-	
Operating profit	**(1.4)**	**36.1**	**- 103.9%**
Net finance cost	(2.6)	(2.5)	
Profit for the period	**(4.0)**	**33.8**	**- 111.8%**
Dividend per share	**2.65p**	**2.875p**	**- 7.8%**
Adjusted EPS	**3.3p**	**2.9p**	**+ 13.8%**
Adjusted cash EPS	**2.6p**	**2.4p**	**+ 8.3%**

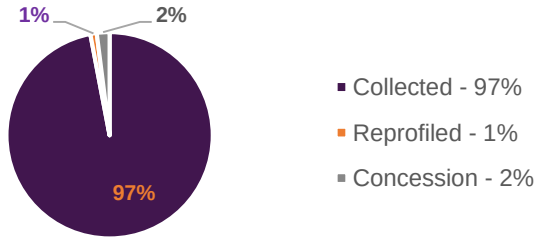
2.65p
Dividend per share

3.3p
Adjusted EPS
1.2 X dividend cover

91% half-year rent collection



97% QE December rent collection



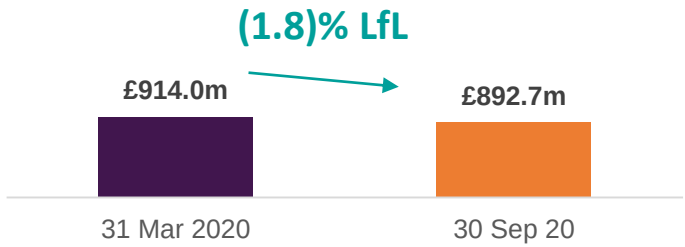
Annual results: Balance sheet

	(£m) as at		Variance
	30 Sep 2020	31 Mar 2020	
Investment property	822.3	809.7	
Cash at bank	9.7	13.4	
Other assets	33.1	10.6	
Total assets	**865.1**	**833.7**	↑ + 3.8%
Current liabilities	(23.4)	(16.1)	
Borrowings & other long term liabilities	(211.9)	(169.6)	
Net assets	**629.8**	**648.0**	↓ - 2.8%
NAV per share	**120.8p**	**124.3p**	↓ - 2.8%
EPRA NTA per share	**120.8p**	**124.3p**	↓ - 2.8%

120.8p
EPRA NTA

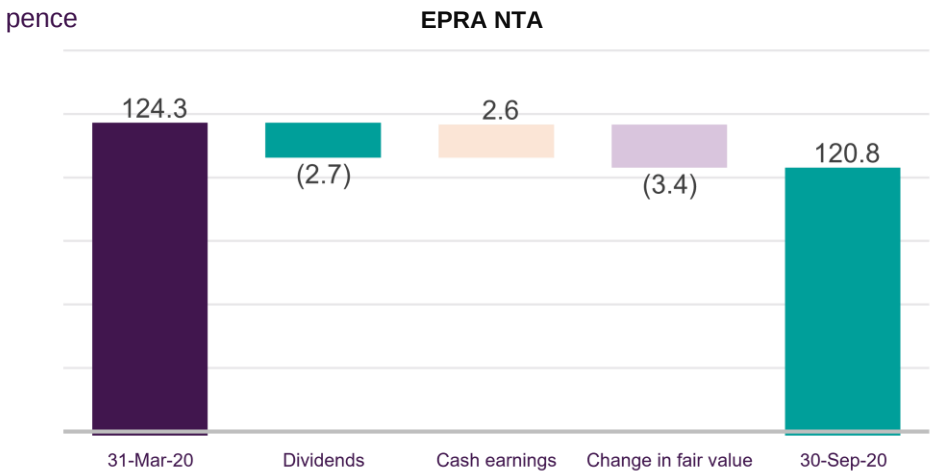
30%
Pro-forma LTV

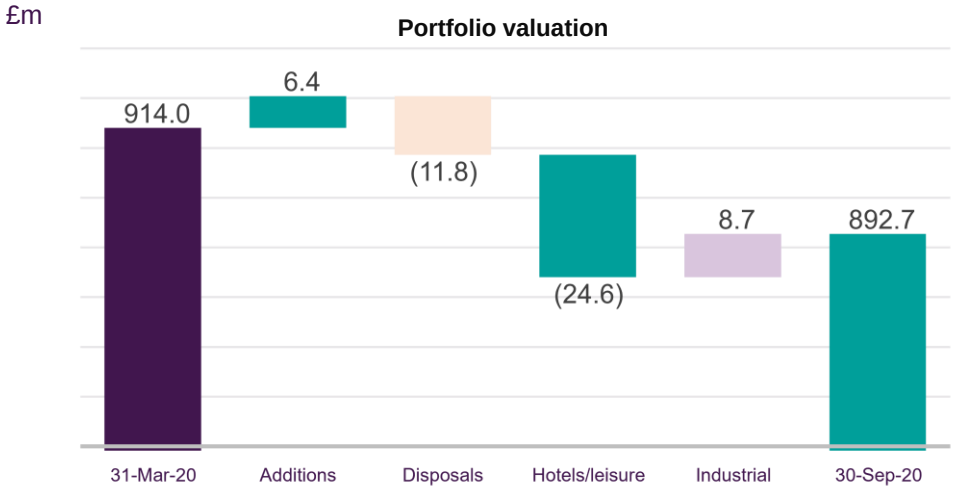
Investment property valuation



Investment property	30 Sep 2020	31 Mar 2020
Investment property valuation	£892.7m	£914.0m
Costs to complete	£(67.7)m	£(101.2)m
Other accounting adjustments	£(2.7)m	£(3.1)m
Fair value under IFRS	**£822.3m**	**£809.7m**

Annual results: NAV and portfolio bridge





Resilient NAV performance during the pandemic

-2.8%
6 month NTA growth

+23%
NTA growth from IPO

(0.6)%
Total NAV Return
Dividends in the period broadly offsetting the NAV change

Portfolio valuation summary

- Industrial, which is the Group's largest sector exposure, demonstrated like for like valuation change of +3.3%
- Hotel and leisure assets like for like valuation change of -7.7%
- Foodstores, car parks, care homes and other sector assets were broadly flat over the six-month period
- Valuations remain 11% ahead of purchase price on average

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Outlook

- Potential for further market yield compression in industrial and foodstore space, not yet reflected in latest valuations
- Rental growth prospects strong given collar/fixed uplifts and completion of existing forward fundings
- Higher Government tolerance for inflation, given ballooning sovereign debt, to benefit LXI through 96% index-linked rental uplifts
- ‘Lower for longer’ interest rate environment and growing rental income widening the significant spread and generating enhanced earnings growth
- Continuing focus on asset management and capital recycling:
  - Significant interest in the Group’s assets at pricing ahead of book value
  - Pipeline assets offer material spread to portfolio valuation yield particularly through forward fundings
- Recent vaccine announcements have driven optimism and there is potential for sentiment and valuations to improve in sectors that have suffered the worst but remain structurally supported

Questions

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Appendix 1 – financial covenant headroom

Interest Cover Ratio

300% covenant test

SENSITIVITY ANALYSIS	
Annual contracted rent (current)	£48.5m
Pro forma interest charge pa*	£8.0m
Pro forma interest cover ratio	**> 600%**
Required rental income to satisfy ICR covenant of 300%	£23.9m
Tolerable variance in annual contracted rent	**> 50%**

** Pro-forma interest charge per annum is based on fully drawn RCF and capped cost of debt*

Loan to value

50% covenant test

SENSITIVITY ANALYSIS	
Valuation yield	5.0%
Portfolio value (31 March 2020)	£893m
Pro forma borrowings*	£270m
Pro forma LTV	**30%**
Required valuation to satisfy LTV covenant	£540.0m
Tolerable variance in value	**36%**
Tolerable variance in valuation yield	**330bps**

** When RCF is fully drawn against forward fundings over next 18-months*

Appendix 2 – key terms

Company	LXI REIT plc
Investment Advisor	LXI REIT Advisors Limited
Structure	Closed-ended, listed REIT
Exchange	Main Market, London Stock Exchange (Premium Listing) FTSE 250 and FTSE EPRA/NAREIT Index member
Target returns	Total return target of a minimum of 8% pa over the medium-term; Currently targeting 1.44p dividend for the quarter to Dec 2020
Dividend growth	Anticipated to continue grow broadly in line with inflation
Dividend frequency	Quarterly
Investment strategy	- Inflation-protected income and capital growth underpinned by a portfolio of secure, long-let and index-linked UK property assets, diversified by sector, tenant and geography and demonstrating a strong residual land value - No speculative development or assumption of direct development risk
Average lease length	22 year current weighted average unexpired lease term to first break
Geography	United Kingdom
Loan-to-value	Pro forma 30% (capped at 35%)
Loan/Lender	Scottish Widows Limited. Three separate facilities with weighted average maturity of 13 years and all-in fixed cost of debt of 2.85%. Lloyds bank plc. Revolving credit facility on a 3+1+1 term to July 2024.
Fees	No performance fee. Management fee: • 0.75% pa on market cap up to and including £500 million • 0.65% pa on market cap above £500 million
Board	Independent, non-executive Board of Directors, significant holding in locked-in shares

Appendix 3 - Management team and Board of Directors

Management team

- Over 50 years of combined experience and transacted £2bn+ of real estate assets mainly through forward funding long lease properties
- Strong team of support - part of Alvarium Investments (formerly LJ Partnership), multi-family office and asset manager with $18bn AUM

John White – Co-Manager
- 31 years' property industry experience
- Previously Partner at Cushman & Wakefield. Qualified Chartered Surveyor, Fellow of RICS
- Co-founded Osprey in 2011 and LXI in 2016

Simon Lee – Co-Manager
- 20 years' property industry experience
- Qualified and practised as a solicitor at City law firm, Slaughter and May
- Co-founded Osprey in 2011 and LXI in 2016

Freddie Brooks – CFO
- Qualified Chartered Accountant in BDO's Real Estate and Construction team
- Qualified Chartered Surveyor (property finance and investment pathway), Member of RICS
- 10 years' property industry experience

Charlotte Fletcher – Head of Transactions
- Qualified and practised as a solicitor for over five years at Travers Smith LLP, specialising in commercial property
- Significant experience advising real estate funds on a range of commercial property transactions.

Simon Haarer – Head of Asset Management
- Qualified as Chartered Surveyor at Knight Frank
- 10 years in commercial lease advisory roles, latterly at CBRE, before moving into asset management.
- Significant experience managing a wide range of asset classes across the UK

Non-Executive Directors

- Governance structure strongly aligned with shareholder interests
- Five highly experienced, independent non-executive directors
- Non-Executive Board approves all acquisitions, disposals and other key transactions

Stephen Hubbard – Non-Executive Chairman
- Previously Executive Chairman of CBRE UK, having spent 40 years at the firm
- Member of the Chairman's Advisory Board of Redevco
- Chairman of Workspace Group plc

Colin Smith OBE – Non-Executive Director
- Formerly Chairman of Poundland for 10 years and two as a NED
- Previously at Safeway for 20 years in senior finance roles including Finance Director and for the last 6 years as CEO
- Formerly Chairman of Hilton Food Group plc between 2016 and 2018, having served as a NED since 2010

Jan Etherden – Non-Executive Director
- Former Investment COO and Fund Manager at Newton IM
- Former Head of UK Equities at Confederation Life / Sun Life of Canada
- Previously NED of Ruffer Investment Company Limited

John Cartwright – Non-Executive Director
- Previously Head of Retail and Institutional Funds at M&G Real Estate (formally, PRUPIM)
- Board member of the Association of Real Estate Funds (AREF)
- Non-Executive Member of the Investment Committee of Lothbury Property Trust

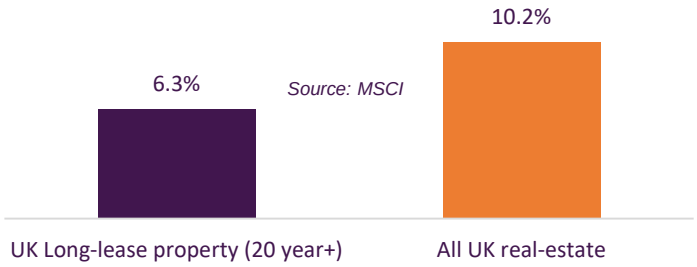
Patricia Dimond – Non-Executive Director
- Previously at McKinsey & Deloitte, with international executive career advising large PLC, Private Equity and owner operated companies
- Chartered Financial Analyst (CFA), a Chartered Accountant (CA) with MBA from IMD Switzerland
- Non-Executive Director of the English National Opera

Appendix 4 - Benefits of long triple-net leases

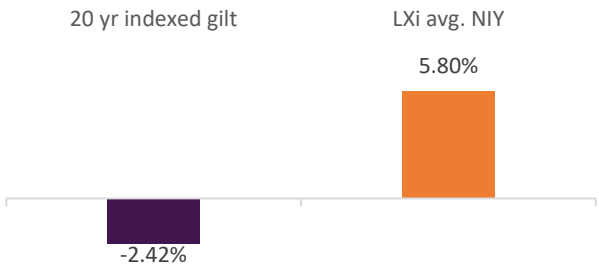
- No ongoing capex requirements or cost leakage
- Compounding effect of income growth through contracted fixed and indexed uplifts
- Low yield volatility versus short lease assets – *see below*
- Allow for cheaper and longer term debt to mitigate refinancing risk and costs and interest rate risk
- Yield spread to other long dated index linked products – *see below*

Long lease vs all UK real estate yield volatility

Low yield volatility – 10-year annual standard deviation (% pa)



UK index linked. gilt rate vs LXi NIY on acquisitions***



LXi's long lease portfolio

22yrs WAULT

96% Index linked

100% FRI leases

- **96%** of leases contain **index-linked or fixed** uplift rent reviews
- **Inflation growth** forecast materially **higher** than open market rental growth forecast
- **72%** of rents subject to **minimum uplift** averaging **2% pa**
- Rents reviewed **annually 38%**
- Rents reviewed **5-yearly 62%**
- **41 index linked or fixed rent reviews in HY2020, averaging 2.1% pa uplift – ahead of RPI and CPI in the same period**

* At 24 Sep 2020 0 5/8% Index-linked Treasury Gilt 2040 ISIN GB00B3LZBF680.62522 Mar 2040 - 19 yrs 6 mths to maturity

** LXi average net initial yield on acquisition

Appendix 5 – Sourcing assets

Secure, diversified, long-let and index-linked with strong residual values

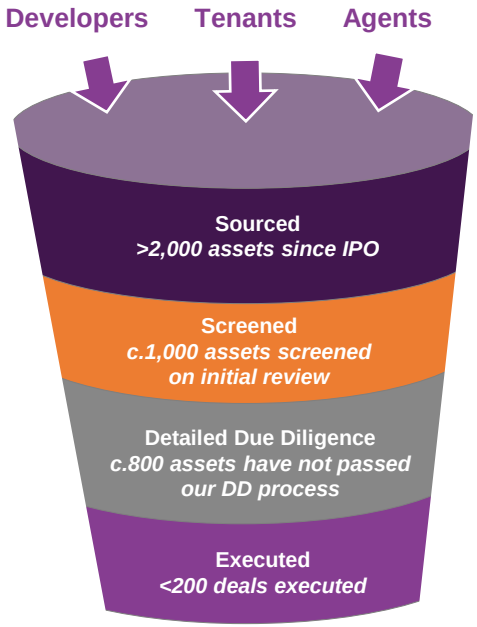
Sourcing long term triple net leases

- Competitive tenant markets – supply/demand imbalance
- Strategically important assets
- Tenants accustomed to long term freehold ownership
- Tenants reliant on developers forward funding

Key selection criteria

- Underlying trading performance and low sustainable rents
- Strong micro-location
- Competitive operator market and low specialisation
- Strategic business partnering – quality operators and strong covenants
- ESG focus

Prudent approach to asset selection



Acquisition process summary

- Developer relationships through forward funding specialism
- Direct tenant relationships - reputation as landlord of choice
- Property agents or existing vendor relationships
- 83% of its assets sourced and transacted on an off market basis
- Reputation for speed and certainty of transacting
- Stringent DD and the vast majority of assets fail these procedures
- Focus on key selection criteria opposite

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Long Indexed Income