LXi REIT
Long Indexed Income

# Annual Report

For the year ended 31 March

# 2022

# Contents

# Overview



LXi REIT plc (the "Company"), the specialist inflation-protected long income real estate investment trust, aims to provide shareholders with secure, attractive, and inflation-linked 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 long (typically 20 to 30 years to first break), inflation-linked leases to institutional-quality tenants across a diverse range of structurally supported property sub-sectors. Our assets demonstrate robust underlying property fundamentals, including low starting rents.

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.

# Annual results for the year ended 31 March 2022

## Financial highlights

| Alternative performance measures | 31 March 2022 | 31 March 2021 | Change |
|---|---|---|---|
| Total NAV return | 18.2% | 5.6% | +12.6pts |
| EPRA NTA per share | 142.6p | 125.7p | +13.4% |
| Total shareholder return | 23.3% | 21.7% | +1.6pts |
| Portfolio value[1] | £1,544.4m | £938.4m | +64.6% |
| Loan to value | 22% | 23% | -1pt |
| Adjusted EPS | 7.0p | 7.5p | -6.7% |
| Dividend per share | 6.0p | 5.55p | +8.1% |
| Total expense ratio | 1.0% | 0.9% | +10bps |

| IFRS performance measures | 31 March 2022 | 31 March 2021 | Change |
|---|---|---|---|
| Rental income | £58.5m | £42.8m | +36.7% |
| Operating profit before fair value changes[2] | £49.2m | £36.9m | +33.3% |
| Equity raised in the year | £354m | £125m | +183.2% |
| Earnings per share | 22.8p | 7.6p | +200.0% |
| Investment property at fair value | £1,499.1m | £887.5m | +68.9% |
| Total assets | £1,592.9m | £990.1m | +60.9% |
| Net assets | £1,300.7m | £781.4m | +66.5% |
| NAV per share | 142.7p | 125.7p | +13.5% |

- EPRA net tangible assets ("NTA") per share of 142.6p (up 13.4% on prior year), with growth predominantly driven by like for like portfolio value growth in the year and the value achieved at purchase on new acquisitions
- Total NAV return of 18.2% comprising NAV growth and dividends paid during the year. Since IPO, the Group has delivered an annualised total NAV return of 11.2% pa, well ahead of our 8%+ medium-term target[3]
- Portfolio independently valued at £1,544.4m reflecting like for like growth of 10.5% in the year. The growth was broadly spread across sub-sectors as follows, with detail of the key drivers given in the Investment Advisor's report:
  - Foodstores and essentials like for like growth of +10.2%
  - Industrial assets like for like growth of +18.5%
  - Hotels like for like growth of +4.3%
  - Healthcare like for like growth of +4.2%
  - Car parks like for like growth of +3.4%
  - Drive-thru coffee like for like growth of +9.2%
  - Pubs like for like growth of +10.4%
  - Garden centres like for like change of +9.9%
- Loan to value ("LTV") ratio of 22% with significant headroom to our medium-term borrowing policy cap of 35% and banking covenant of 50%
- Adjusted EPS of 7.0p (31 March 2021: 7.5p), down slightly on the prior year as a result of the significant increase in scale of the Group's capital base during the year, but still representing 1.17x dividend cover
- Dividends paid and declared in respect of the year total 6p per share (31 March 2021: 5.55p), up 8.1% on the prior year
- Gross equity proceeds raised of £354m in the year and fully deployed into a pre-identified pipeline of accretive assets that further strengthened the Group's portfolio

## Operating highlights

| | 31 March 2022 | 31 March 2021 |
|---|---|---|
| Average NIY on acquisitions to date | 5.5% | 5.7% |
| Average geared IRR on disposals to date | 24% pa | 23% pa |
| Rents containing index-linked/fixed uplifts | 96% | 96% |
| Rents containing minimum uplifts | 76% | 69% |
| Average minimum uplift | 2% pa | 2% pa |
| WAULT to first break | 21-years | 21-years |
| EPC A or B on forward fundings | 99% | 98% |
| Triple-net leases | 100% | 100% |
| Portfolio let or pre-let | 100% | 100% |
| Property sectors | 11 | 8 |
| Separate tenants | >70 | >50 |

- Average net initial yield ("NIY") on acquisitions to date of 5.5% net of purchase costs (31 March 2021: 5.7%) with significant compression to valuation at 31 March 2022, reflecting a 4.5% NIY (31 March 2021: 4.9%)
- 65 separate properties acquired during the year, including acquisitions that had exchanged but not completed at the reporting date, with the proceeds from two equity raises, for a combined purchase price of £558.2m (including forward funded commitments) at an accretive average NIY of 5.2%
- Disposals to date generated a weighted average geared internal rate of return ("IRR") of 24% pa (31 March 2021: 23% pa), well ahead of our 8+% medium-term target[3]
- Two separate disposals during the year, generating an average geared IRR on disposal of 24% pa to date
- The portfolio now comprises 193 separate properties and is spread across 11 subsectors, having entered two new subsectors during the year in education and life sciences and splitting out garden centres into a separate sector (on which more detail is given in the Investment Advisor's report)
- 96% of contracted rents contain upward only index-linked rent reviews or fixed uplifts (31 March 2021: 96%)
- 76% of contracted rent reviews contain either a collared or fixed uplift (31 March 2021: 69%), averaging 2% pa (31 March 2021: 2% pa), an effective income growth hedge in a lower inflationary environment
- Portfolio weighted average unexpired lease term ("WAULT") of 21-years (31 March 2021: 21-years) to first break option
- Of the assets that the Group has forward funded to date, 99% have achieved an EPC rating or A or B (31 March 2021: 98%)
- Portfolio 100% let, or pre-let, to a diverse range of over 70 separate tenants, on full repairing and insuring ("FRI") leases (31 March 2021: 100%), avoiding exposure to void periods, cost leakage and capex requirements
- During the year, the Board has enhanced its own overview process to further integrate ESG factors such as energy efficiency and the ESG credentials of the tenant/use of the asset for acquisitions
- We are focussing on our reporting and the reduction of the portfolio's carbon footprint and our Climate Risk Working Group is developing asset management initiatives and carefully evaluating our policy towards new acquisitions
- The Board announced a target annual dividend of 6.3p per share for the financial year commenced 1 April 2022, to be paid in four equal quarterly instalments[3]. This represents a 5% increase over the 6.0p per share dividend target for the year ending 31 March 2022

1 Includes forward funding commitments
2 Operating profit before change in fair value and gain on disposal of investment property
3 These are targets and not profit forecasts

## Highlights (continued)

- Stephen Hubbard, Non-Executive Chairman of the Company, and Colin Smith OBE, Non-Executive Director and Senior Independent Director of the Company, stepped down from the Board on 11 March 2022. The Board appointed three new members on 13 January 2022: Cyrus Ardalan as Non-Executive Chairman, Hugh Seaborn as Non-Executive Senior Independent Director and Ismat Levin as Non-Executive Director

### Post year end highlights

#### Dividends

- The Board proposed and approved a dividend of 1.5p per share for the quarter ended 31 March 2022, meeting the Group's dividend target for the year ending 31 March 2022

#### Acquisitions and disposals

- The Group completed on an Asda foodstore in Halesowen, Birmingham with a 22-year unexpired lease term and five yearly fixed uplifts of 3% per annum compounded. The asset exchanged pre-year end and completed in May 2022
- The Group exchanged contracts to forward fund an M&S grocery store in Scotland, with a total funding commitment of £5.7m
- Further details of the acquisitions and disposals during and since the year end are included in the Investment Advisor's report

#### Recommended share & cash offer for Secure Income REIT plc

- On 11 May 2022, the Company announced the terms of a proposed merger with Secure Income REIT plc. The merger remains conditional on, *inter alia*, shareholders voting to approve the transaction as outlined in the Company's circular to shareholders posted on 1 June 2022 with the vote expected to be held at a general meeting of shareholders on 22 June 2022

### 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 24 and 25 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 section of this report.


# Strategic Report

**Strategic Report**

# Chairman's statement

CYRUS ARDALAN
Chairman

## Dear shareholder

This report covers the twelve-month period from 1 April 2021 to 31 March 2022, in which I was very pleased to be appointed as a Director, and shortly thereafter as Chairman, of LXi REIT plc. I am delighted to report to you for the first time on what has been another busy and successful year.

The year saw the easing of lockdown restrictions and gradual reopening of those businesses that had suffered enforced closure in the UK in response to the pandemic. We are all continuing to learn to live with the Covid-19 virus and the restrictions are still having an impact on the economy. I thank the Board and all of our advisers for the work that they have done to guide the Company through this period whilst continuing to strengthen the platform.

We now find ourselves battling another economic crisis with inflation at its highest level in 40-years, causing a national cost of living crisis with growth in the UK widely forecast to be the lowest of the G7 countries in 2023. The Bank of England is attempting to combat soaring inflation and has increased interest rates four times in six months.

Our portfolio is purpose built to provide defensive and resilient characteristics. Our portfolio is well diversified across sub-sector exposures and underlying uses with high barriers to entry. Our assets benefit from very long leases and sustainable rents and are strategically important to our broad range of institutional-quality tenant operators. Virtually all of our rent is inflation-linked or contains contractual uplifts.

The Group delivered a total NAV return of 18.2% for the year (31 March 2021: 5.6%), comprising growth in the Group's portfolio and dividends paid to the shareholders.

In February, the Company also reached the five-year anniversary of its IPO, providing a valuable opportunity to reflect on our considerable growth and consistently strong financial performance in a period that has not been without its challenges.

In that five year period, the Group delivered a total NAV return of 69.9%, averaging 11.2% pa on a compounded basis, significantly outperforming the medium-term target (8+% pa). The Company has achieved every annual dividend target that has been set, and has consistently grown the dividend at a rate ahead of UK inflation and averaging a compounded annual growth rate of 5% per annum, ahead of the 5p stabilised dividend target set at IPO.

My congratulations and thanks go to the management team at the Investment Advisor, and to all of those who have served and continue to serve as Directors of the Company, for their sound stewardship and prudent decision making that have built the solid platform that exists today.

## Results and dividends

This has been another year of positive growth for the Group in which existing and new shareholders continued to support the Company to issue a further £354m of gross equity capital. The net proceeds were deployed to grow the portfolio, to achieve scale and further diversification within the portfolio.

The Group's net assets grew by 66.5% to £1,300.7m in total, during the 12-month period. On a per share basis, the Group delivered EPRA NTA growth of 13.4%, primarily driven by:

- yield compression across many of the Group's sectors which have benefited from the 'unlocking' of Covid-19 restrictions in the UK and a return of liquidity to property assets in these sectors, most notably in the hotel and pub space;
- further yield compression in those sectors that were broadly unimpacted by Covid-19 from an investment perspective, but benefit from longer-term structural change such as industrials, convenience foodstores and healthcare assets;
- the Investment Advisor's continued sourcing of asset acquisitions 'off market', in particular through sale and leasebacks and forward fundings and have been valued ahead of purchase price when new equity capital has been deployed; and
- the capitalisation of rental growth in the portfolio.

We are pleased that the total of our four quarterly dividends paid and declared in respect of the year of 6.0p per share, has met the target that we set for the financial year. The Company is targeting a 6.3p[1] dividend per share for the financial year that commenced on 1 April 2022, representing 5% growth on the prior year.

## Environmental, Social and Governance

ESG matters remain high on the Board's agenda and we recognise both the risk and the opportunities presented. We are pleased that the Investment Advisor's commitment to this area has facilitated both appropriate focus on improving the ESG characteristics of the portfolio and appropriate investment in specialist resource that we look forward to announcing in due course.

Our ESG strategy is focussed on three key pillars:

1. Integration of ESG into the Company's investment policy – this has meant both uplifting our minimum requirements for the relevant criteria on asset acquisitions such as EPC ratings on built assets and BREAM ratings on forward fundings, as well as investing in portfolio analysis to identify and capitalise on opportunities to improve our existing portfolio. Both have contributed to the portfolio improvements outlined in the ESG section of this report.

1 These are targets and not profit forecasts

2. Charting a route map to a carbon neutral or net zero strategy – to date, this has involved categorising the Group's carbon output into relevant emission scopes (1, 2 and 3) and assessing the current level of emissions within scopes 1 and 2. We are fully committed to assessing our scope 3 emissions but recognise the challenge in data collection from such a broad range of tenants. The Group is committed to setting a science-based target date by the next annual report, for the year ending 31 March 2023.
3. Improving stakeholder reporting – we are delighted that we have included the two disclosure frameworks that we committed to in our last annual report in the ESG section of this annual report, the widely recognised EPRA sustainability measures and the 11 recommended disclosures under TCFD.

Our commitment to ESG reflects our wider commitment to good stewardship but also represents a great opportunity to identify asset management initiatives to unlock value in the Group's portfolio as our tenants face the same pressures that we do, to become more sustainable businesses and contribute positively to the move to a green economy.

### Board changes

Following a comprehensive handover to ensure an orderly transition Stephen Hubbard (Non-Executive Chairman of the Company) and Colin Smith OBE (Non-Executive Director and Senior Independent Director of the Company) stepped down from the Board during the year. Following their departure, I assumed the role of Chairman of the Company and Hugh Seaborn assumed the role of Senior Independent Director of the Company. We also welcomed Ismat Levin to the Board as a non-executive Director.

On behalf of the Board and Investment Advisor, I would like to express my deep thanks to Stephen and Colin for an efficient and orderly transition and for their invaluable contributions to the growth and success of the Company since its IPO in February 2017 and for the strong legacy they leave.

The Board changes have enhanced the Company's succession planning with a more staggered range of terms among the Board. I very much look forward to continuing to work closely with the Board to help steward the business to further great success.

### Share and cash offer for Secure Income REIT plc

On 11 May 2022, the Company announced the terms of a proposed merger with Secure Income REIT plc. The merger remains conditional on, inter alia, shareholders voting to approve the transaction as outlined in the Company's circular to shareholders posted on 1 June 2022 with the vote expected to be held at a general meeting of shareholders on 22 June 2022.

As outlined in the circular, my fellow Directors and I believe that the merger brings together two complementary portfolios whilst maintaining the conservative and highly attractive investment case that our shareholder have benefitted from since IPO and has therefore recommended by the Board.

### Outlook

The prospect of higher inflation in the UK for the longer term is now a key concern to many, with RPI exceeding 9% and CPI exceeding 7% (as at May 2022). Forecasts for 2022 showing RPI averaging 9.1% and CPI averaging 7.5% (The HM Treasury Forecasts for the Economy Medium-term forecasts, May 2022).

The inflation outlook for the Group is positive insofar as our portfolio is well placed to deliver superior returns given the portfolio's rent review linkage to UK inflation (58% RPI, 17% CPI), but we are also cognisant of the potential impact that current levels of inflation could have both on the economy and to the prospects of our tenant operators.

At current levels of inflation, the majority of the Group's rent reviews are being capped at the maximum uplift given that 67% of the portfolio contains a capped rent review averaging 3.6%. These caps offer important protection for the long-term sustainability of rental levels across our portfolio for tenant operators. Caps can also avoid rents moving materially out of kilter with market rents that might cause a significant softening of yields where a portfolio becomes overrented.

Our tenants are well capitalised and generally operate with the ability to pass on a good deal of inflationary cost increases to their own customers given the nature of their business operations.

As interest rates continue to rise as a measure to counter higher inflation, yields may begin to soften across property assets in general, but index-linked real estate, and in particular those with very long leases, have tended to more stable in such times, as the anticipation of future rental growth counteracts a higher cost of debt for investors.

Geopolitical uncertainty, as well as the cost of living crisis and inflation, have meant that global markets remain volatile but I am comforted by the defensive and robust platform that the Group enjoys through its diversified long-let assets and high quality tenant operators.

I look forward to continuing to develop the strategy of LXi REIT plc in the coming years, along with my fellow Board members and the Investment Advisor, as we enter an exciting new chapter for the Company.

I thank both the Board and the Investment Advisor's management team for their continued work in the year. Going forward we remain focused on managing both the risks and opportunities that the portfolio presents, to capitalise on growth opportunities that we continue to identify and to continue to provide a secure and growing income return to our investors whilst enhancing and unlocking sustainable value in our defensive, resilient portfolio.

**Cyrus Ardalan**
Chairman

6 June 2022

# Investment Advisor's report

This report covers the financial year from 1 April 2021 to 31 March 2022. Certain statistics and KPIs are alternative performance measures for which definitions are given in the Key performance indicators and EPRA performance measures sections or otherwise included in the Glossary.

## Portfolio overview

The Group's portfolio, adjusted for post balance sheet acquisitions and disposals, comprises 193 properties across 11 sectors with multiple underlying uses. Our assets are let on very long leases to over 70 separate tenant operators.

The Group's lease arrangements provide contracted annual rent of £79.7m and have a long weighted average term of 21-years to first tenant break, with 96% containing index-linked or fixed rental uplifts.

All leases require full repairing and insuring by the tenants, protecting the Group from property cost leakage and capex requirements.

The Group's property portfolio was valued at 31 March 2022 at £1,544.4m, excluding assets that had exchanged but not completed at the reporting date, representing strong like for like growth of 10.5% over the year. The valuation reflects a blended net initial yield of 4.5% (31 March 2021: 4.9%) and an average valuation of £8.3m for the individual assets.

The portfolio like for like growth of 10.5% was split 9.3% by like for like yield compression and 1.2% through rental growth in the portfolio.

## Sector exposures

The portfolio is well-diversified by sub-sector and our multi-sector strategy both provides downside protection and offers a broader universe of assets in which to deploy capital. The strategy gives investors a flexible portfolio where exposures can be increased or reduced as appropriate to address external factors such as changing consumer behaviour, and to pivot towards sectors where we expect the best returns for our shareholders over both the short and the longer-term.

The Group's sector weightings (by rental income), including asset acquisitions for which contracts have exchanged but have not yet completed, are as follows:

### Foodstores and essentials – 25% (2021: 27%)

Foodstores and essentials have continued to perform well, delivering a like for like valuation uplift of 10.2% in the year, predominantly through continued market yield compression. Investors continue to favour the sector due to the quality of long established tenant operators which are available and expectations of relative out performance during the inflationary environment.

We continue to see opportunities in the market to forward fund developments in the sector at attractive yields to create new, sustainable properties at a low market rent. In the past year, we have continued to acquire foodstores, deploying over £160m into the sector at an average net initial yield of 5.0%.

### Industrial – 18% (2021: 21%)

Industrial asset valuations have performed strongly in the year delivering like for like growth of 18.5%, predominantly due to yields being driven lower by a continuing supply and demand imbalance for strong industrial locations.

The performance of our industrial assets is underpinned by their strategic (and often mission-critical) importance to the occupiers. As open market rental levels continue to dislocate from passing levels set within the last five years, the Group's industrial assets look to be highly secure and under-rented. As many of the rent reviews are linked to inflation with an annual cap in the range of 3-4%pa, this ensures that the rents remain affordable for occupiers and the vacant possession value is close to or sometimes in excess of current valuation.

It is likely this demand/supply imbalance in occupier markets will continue further into 2022 as industrial property development is constrained by substantial rises in building costs making new schemes less profitable for developers and potentially unviable.

### Hotels – 13% (2021: 18%)

The hotel sector, and in particular the budget sub-sector, has shown strong signs of recovery following the easing of lockdown restrictions in the UK and our assets delivered like for like growth of 4.3% over the year. The investment market has picked up and has now returned to pre-Covid-19 levels for Premier Inn assets resulting in a tightening of cap rates. Travelodge valuation yields have started to improve on the best performing assets as investor demand returns for their covenant.

Operators have seen a significant boost in post-Covid trading with Whitbread and Travelodge reporting sales and RevPAR ahead of 2019 levels – we expect this trend to continue as business travel continues to recover and the cost-of-living crisis provides a boost to staycations in the UK.

The key operators in the budget hotel sectors have all returned to positive operational EBITDA with the peak period in RevPAR performance for regional hotels between June and September. The full lifting of social distancing restrictions, including the return to the office, was also positive for the hospitality industry and we look forward to seeing growth in the investment market and expect further transactional evidence to support future value growth.

### Healthcare – 8% (2021: 11%)

Occupancy rates across the sector improved slightly to around 80% in in the second half of 2021 and the operators are optimistic and predicting recovery to stabilised occupancy levels by the end of 2022.

Healthcare investment volumes in 2021 reached levels close to the long-term average as new sources of capital have been looking at the healthcare real estate market due to its needs-driven characteristics and widening supply and demand imbalance.

The flight to quality continues to drive a polarisation of pricing as investors demand high-quality real estate, high-quality operations and high-quality covenants. Private Equity investors are also returning to the care sector with a focus on the mid-market but their strategies will prioritise the location and performance of assets.

We are seeing an increase in demand as a result of the emergence of European REITs as investors in UK Healthcare assets and the sector continues to benefit from UK specialists who need to continue to acquire assets in the sector driving demand.

Car parks – 6% (2021: 6%)
Car park values also saw a 3.4% like for like increase in the year, driven by RPI linked rental growth across all but one of the Group's car park assets, with cap rates holding firm over the year.

Overall, the investment market in this sub-sector remains subdued, but we expect investment activity to return in 2022 as institutional investors are once again enticed by the long leases on offer. Annual, inflation linked rent reviews drive regular performance and assets are typically well located in resilient town centres and offer supportive vacant possession/alternative use values given the low relative capital cost of car parks.

Buoyed by the continued post-Covid reopening trend, we expect to see operators reporting an uptick following improved trading conditions over the year, allowing a return to positive earnings for operators.

The Group's only car park tenant Q-Park has a well-capitalised and liquid balance sheet and continued to meet all of its obligations as they fell due throughout the moratorium on commercial landlord forfeiture rights.

Life sciences – 4% (2021 -%)
During the year, the Group acquired its first life sciences asset, taking exposure to the sector to 4%.

In 2020, the sector witnessed a 45% year-on-year increase in the number of companies incorporated in the UK, and between 2021 and 2022, the UK Government plans to invest £14.6bn in research and development grants and facilities.

The occupational fundamentals in this sector are attractive, strong demand but a very limited supply of appropriate properties, as many buildings are unsuitable for life science requirements and planning issues often restrict new development.

As an asset class, life sciences properties are seeing a growing investment market looking to capitalise on a maturing and fast-growing rental market, underpinned by the sector fundamentals. The sector also provides strong ESG credentials to investors as tenant operators work to address an environmental and social focus. Increasing research and development activity by private entities as well as the public sector, with Government spending increasing at a significant pace, has increased occupier and investor demand alike for life science properties and in the longer-term this trend looks set to continue.

This has been evidenced by the weight of capital and the volume of deals in this sector in the past year, which bodes well for increased investor demand and attention and increasing property values going forward.

Garden centres – 4% (2021 -%)
Garden centres were previously classified within essentials (above), but with exposure reaching 4% following acquisitions in the year, we now disclose performance and exposure separately. Like for like growth in the sector was 9.9% in the year. This performance is driven in equal part by the Group's assets in the sector having annual rent reviews and yield compression from investor demand recognising the sector as an institutional asset class and bidding rental yields lower.

Trading continues to benefit from recent social trends, including the boom in experience-led leisure visits to garden centres, as well as a growing awareness of the positive environmental benefits of home grown food and the wider mental health benefits of gardening, and the sector itself continues to grow in the UK, counter to trends in other retail. The assets in the Group's holding also have concessions to major food retailers, underlining the asset classes' essential and 'key industry' designation and benefiting from the wide ranging planning/use consents that Garden Centres enjoy.

Drive-thru coffee – 3% (2021: 5%)
Drive-thru coffee assets delivered 9.2% like for like growth over the year, driven by yield compression in the sector. The key operators in the sector continue to see this as an area of growth focus with the properties benefitting from prominent locations with good visibility and footfall in the car parks of Morrisons stores that trade well.

This sub-sector also benefits from financially strong tenant covenants in Starbucks and Costa, both of whom are seeking to increase their drive-thru offering throughout the UK to meet rising consumer demand. Underlying rental values are also beginning to increase as more operators move into the sector to compete for the high level of profitability these sites can generate.

Pubs – 3% (2021: 5%)
Our pub assets delivered a like for like increase in value of 10.4% over the year. The growth was largely driven by accretive re-gears on six of our Greene King pubs in the middle of the year.

Rents on these assets were reduced by 10% and lease lengths increased to 20 years. This resulted in a 75 bp cap rate compression on those pubs. The remaining movement was a combination of market yield compression and fixed annual uplifts across the entire portfolio in the year.

Our only tenant in the pub space is Greene King who remains a strong covenant and market leading operator with significant liquidity.

Education – 2% (2021 -%)
Following the off-market sale and leaseback acquisition of a portfolio of 23 nursery schools in England during the year, the Group now reports on exposures to and performance of its Education sector assets separately, which currently constitute 2% of the Group's assets by rent.

The education sector provides an attractive investment opportunity for the Group, due to the significant rent cover demonstrated at an asset level (c.3X across the portfolio in the 6 months to February 2022) meaning that investment values in many cases are fully supported or exceeded by vacant possession values. There are also many potential alternative operators in the sector, that would be attracted to such a profitable portfolio as operators look to consolidate this highly fragmented market.

Income in the sector itself benefits from a significant element of Government funding with 15 hours per week of nursery age education Government funded for all children and 30 hours per week Government funded for lower income households.

Demographic and societal changes resulting in more single parent households, fewer multi-generational households and a greater number of households where both parents work full time, have created strong demand for nursery places. Education is a key pillar of the Government's levelling up agenda and we expect policy to continue to be supportive in the medium-term.

## Acquisitions and disposals

Shortly before the year, in March 2021, the Group raised new equity capital totalling £125m via an over-subscribed open offer and 12-month placing programme. The Group subsequently raised a further £354m of gross equity capital in the year, £104m via the placing programme in July 2021 and £250m via a subsequent issue in February 2022, again on an over-subscribed basis. The Group also extended its revolving credit facility with Lloyds Bank plc by £65m, bringing in RBSi as a new lender (see below), to gear the proceeds of the placing.

The Group has deployed or committed all of the proceeds from the above capital raises, acquiring 65 separate assets in the year, through a mix of forward fundings, sale and leasebacks and built asset purchases and which were acquired at an accretive blended NIY of 5.2%, net of purchase costs. The assets acquired during the year were:

- an Asda foodstore in Clydebank, Glasgow with a 22-year unexpired lease term and five yearly RPI linked uplifts
- a Cazoo logistics asset in Doncaster, Yorkshire, with a 19-year unexpired lease term and five yearly CPI linked uplifts
- a sale and leaseback acquisition of a logistics site let to BCA in Corby with a 25-year unbroken lease and five yearly RPI linked uplifts
- a Tesco foodstore in Welling, Greater London with a 15-year unexpired lease term and five yearly RPI linked uplifts
- a Dobbies garden centre in Gloucester that was re-geared on acquisition (see Asset Management section below) with a new 35-year unbroken lease and annual RPI linked uplifts
- a brand new Aldi-led scheme in Glasgow with a 15-year unbroken lease to Aldi with five yearly RPI linked uplifts and a 16 year weighted average unexpired lease term across the ancillary assets
- a Biffa recycling facility in Aberdeen with a 14-year unexpired lease term and annual CPI linked uplifts
- a pre-let forward funding of a Lidl in East Ham with a 20-year unbroken lease term from build completion and RPI linked uplifts
- a broadcasting studio and office let to STV (formerly Scottish Television) in Glasgow with a 20-year unexpired lease term and five yearly fixed uplifts
- a portfolio of 23 nursery assets diversified across the UK with a 30-year unexpired lease term and annual RPI linked uplifts
- a life sciences biotech campus in York with a 25-year unexpired lease term and five yearly RPI linked uplifts
- a pre-let forward funding of a portfolio of 7 Costa drive-thru assets across the UK with 15-year unbroken lease terms and five yearly RPI linked uplifts
- a Sainsbury's foodstore in Middlehaven, Middlesbrough with a 19-year unexpired lease term and five yearly RPI linked uplifts. The consideration of the acquisition was satisfied by the issue of 35,715,862 new ordinary shares in the Company and the remaining consideration settled in cash
- a pre-let forward funding of a Lidl foodstore and a Lok n' Store self-storage facility in Basildon, Essex with a 20-year unbroken lease term from build completion and five yearly RPI linked uplifts on the Lidl asset and a 25-year unbroken lease term with fixed uplifts on the Lok n' Store asset
- a pre-let forward funding of a Sainsbury's foodstore in Bewdley with a 15-year unbroken lease term from build completion and five yearly CPI linked uplifts
- a portfolio of three Co-op convenience stores with a 20-year unbroken lease term and yearly fixed uplifts of 2.5% per annum compounded
- a David Lloyd health and racquets club in Hamilton with a 25-year unexpired lease term and annual RPI linked uplifts
- a Q-Park car park in York with a 21-unexpired lease term and annual RPI linked uplifts
- a Premier Inn hotel in Exeter with a 16-year unexpired lease term and five yearly CPI linked uplifts
- a sale and leaseback acquisition of a Cazoo car storage facility in Edinburgh, Scotland with a 20-year unbroken lease with five yearly CPI linked uplifts

- a Cazoo car storage facility in Cardiff, Wales with a 20-year unbroken lease with five yearly RPI linked uplifts
- a sale and leaseback acquisition of a portfolio of four further Cazoo assets diversified across the UK with a 20-year unbroken lease term and five yearly CPI linked uplifts
- a Compass training facility in Milton Keynes with an 18 year-unexpired lease with annual RPI linked uplifts
- a second Compass training facility in Yarnfield with a 17-year-unexpired lease term and annual fixed uplifts
- a pre-let forward funding of a BT asset in Scotland with a 17.5-year unexpired lease term from build completion and five yearly CPI linked uplifts
- a pre-let forward funding of a portfolio of three Costa drive-thru assets with 15-year unbroken lease terms and five yearly RPI linked uplifts (completion expected Q2 of FY 2023 and not included in the March 2022 valuation)
- an Asda foodstore in Halesowen, Birmingham with a 22-year unexpired lease term and five yearly fixed uplifts of 3% per annum compounded (completion in Q1 of FY 2023 and not included in the March 2022 valuation)
- a sale and leaseback acquisition of a Dobbies garden centre in Reading with a 35-year unexpired lease term from build completion and annual CPI +1% linked uplifts (completion expected Q2 of FY 2023 and not included in the March 2022 valuation)
- a pre-let forward funding of a Tesco foodstore and a Home Bargains in Houghton le Spring with a 20-year unbroken lease term from build completion and five yearly CPI linked uplifts on the Tesco lease and five yearly uplifts in line with open market value on the Home Bargains lease (completion expected Q2 of FY 2023 and not included in the March 2022 valuation)
- an MKM building supplies industrial asset in Scotland with a 20-year unexpired lease term and five yearly RPI fixed uplifts (completion expected Q1 of FY 2023 and not included in the March 2022 valuation)
- a pre-let forward funding of an M&S grocery store in Scotland with a 15-year unexpired lease term from build completion and five yearly 2.5% fixed uplifts (contracts exchanged post year end with completion expected in Q1 of FY 2023 and not included in the March 2022 valuation)

The Group regularly recycles capital to refresh the portfolio and manage exposure. To date, these disposals have enhanced income and capital growth. The assets disposed of during the year were:

- a foodstore asset let to Lidl in Chard for £7.8m, crystalising a 26% geared IRR
- a parade of retail units that were originally acquired ancillary to the Co-op portfolio purchased in 2020, generating proceeds of £0.6m, reflecting a £0.3m uplift on acquisition price
- exchanged contracts on the disposal of a Premier Inn and connected retail park in Saffron Walden for £19.3m which will crystalise a 19% geared IRR
- exchanged contracts to sell a parcel of land in Nuneaton connected with a Travelodge site in Nuneaton for £0.3m, reflecting a £0.3m uplift on acquisition price

### Asset management

The Investment Advisor constantly reviews the portfolio for opportunities to unlock further value for our shareholders and to enhance the security of our income. During the year, the Group executed the following accretive asset management activities:

- The Group extended six of its leases to Greene King by seven additional years, to 20-year unbroken lease terms. In consideration for the extension, rents were reduced by 10%
- The Group extended its lease to Jurys Inn by five years, to a 26-year unbroken lease term. The extension was granted by Jurys in consideration for the short-term rent concessions that the Group had granted the Company during the Covid-19 lockdown periods in which the hotel could not trade
- The Group exchanged on a portfolio of six Fastned Electric Vehicle charging stations diversified across the UK with 25-year unbroken lease terms and five yearly RPI linked uplifts (completion expected for five of the charging stations in Q1 of FY 2023)
- When the Group identified the potential acquisition of the Dobbies garden centre in Gloucester, through our existing relationship with the tenant we negotiated an immediate re-gear of the lease, to reduce the rent (to the current level implicit in the 5.6% NIY on acquisition) providing enhanced rent cover for the tenant, extending the lease term to 35-years unbroken and converting the rent review to CPI+1%, capped at 4% pa and collared at 1.5% pa

### Forward fundings

At the reporting date, the Group has 14 assets in the course of development. 12 are expected to reach practical completion in the financial year to 31 March 2023, with the remaining two completing in the first half of the financial year to 31 March 2024.

To date, the Group's ability to forward fund has contributed materially to the returns delivered to our shareholders, and through this method we are able to achieve a material valuation uplift on purchase (compared to built values) whilst eliminating development risks.

The Group only forward funds assets that are pre-let on long leases to tenants, and where full planning has already been granted before acquiring the land and executing the development contract. Throughout the build period, the Group receives a coupon from the developer akin to the net initial yield on acquisition, to ensure that there is no void period and the asset produces an income return from day one.

During and since the year, the Group achieved practical completion on the following six developments:

- in April 2021 a hotel let to Travelodge in Sandwich with a new 25-year unexpired lease and five yearly CPI linked uplifts
- in September 2021 a foodstore let to Co-op in Ellistown with a new 20-year unexpired lease and five yearly CPI linked uplifts
- in October 2021 a hotel let to Premier Inn in Romford with a new 25-year unexpired lease and five yearly CPI linked uplifts
- in February 2022 a foodstore let to Lidl in West Bridgford with a new 15-year lease to first break and five yearly RPI linked uplifts
- in March 2022 an airport hangar let to Bombardier in Biggin hill with a new 35-year unexpired lease and annual fixed uplifts of 2.5%
- in May 2022 a hotel let to Premier Inn in Porthmadog with a new 25-year unexpired lease and five yearly CPI linked uplifts

## Inflation and rent reviews

Since the reopening of the UK economy, inflation has picked up significantly and CPI averaged 7.0% pa and RPI averaged 9.0% pa in March 2022. The Group's 59 contracted rental uplifts in the period reflected average growth of 3.1% pa with, delivering like for like rental growth of 1.2% in the year.

The Group's portfolio is 96% index linked or contains fixed rental uplifts, which breaks down between RPI 54%, CPI 19% and fixed 23%. The Group's fixed uplifts average 2.4% pa. Of the Group's portfolio 54% of the rents are subject to collared uplifts, which average 1.5% and 67% are subject to capped uplifts, which average 3.6% and we therefore expect to capture the vast majority of inflation over the medium-term, but are also well protected against lower inflationary periods.

The portfolio's rent reviews are either on annual (37%) or five-yearly (63%) cycles, and over the following five year period the Group expects the following percentage of rental income to review in each financial year:

| Year ending 31 March | Annual | Five-yearly | Total* |
|---|---|---|---|
| **2023** | 37% | 5% | 42% |
| **2024** | 37% | 8% | 45% |
| **2025** | 37% | 8% | 45% |
| **2026** | 37% | 19% | 56% |
| **2027** | 37% | 11% | 48% |

* the remaining 13% of rents relate to forward fundings where agreement for leases have five yearly rent reviews that had not completed at the reporting date. These rents are expected to be reviewed in the year to 31 March 2028.

Linking rental growth in the Group's portfolio to indexation seeks to provide investors with inflation protection, whilst also capitalising on the traditional faster pace of inflation in the UK beyond commercial real estate open market rents.

The possibility for continued higher inflation, represents an opportunity for the Group to generate superior returns for investors, given the inflation linkage in our portfolio rent reviews and the long-term lease arrangements. That said, levels of inflation that are currently being experienced in the UK could, over the longer-term, cause rents in the portfolio to grow to the point where they materially exceed equivalent market rental values, as well as potentially resulting in unsustainable rental growth for tenants or less attractive properties to alternative operators due to profit erosion.

The Investment Advisor protects against this risk in a number of ways, including (i) capped and fixed rental uplifts giving the tenant (and the Group) certainty of rental growth, (ii) regularly entering brand new leases at very low rents through forward fundings and sale and leaseback that provide a higher level of rent cover and are therefore better able to withstand rental growth, (iii) constant recycling of capital into new assets to refresh the portfolio and maintain a low spread to market rents, and (iv) focussing on well capitalised tenants with a high proportion of freehold ownership and lower exposure to rents that are better able to ride out such inflationary periods. The successful implementation of these strategies is evident in the consistency of the portfolio passing rents with market rents, with the spread less than 1% across the portfolio.

## Financial results

### Total NAV return

| | 31 March 2022 | 31 March 2021 |
|---|---|---|
| **Total NAV return** | **18.2%** | 5.6% |

The Group's total NAV return comprises income, through dividends paid to shareholders, and capital returns, through changes in EPRA NTA during the year. A summary of the dividends paid and EPRA NTA growth is given below.

### EPRA NTA

| | 31 March 2022 | 31 March 2021 |
|---|---|---|
| **EPRA NTA per share (ex dividend)** | **142.6p** | 125.7p |

During the year, the Group's EPRA NTA increased by 13.4%, reflecting market yield compression across some sectors, rental growth through index linked rent reviews and the value achieved through asset management initiatives.

The assets acquired during the year also provided value growth through forward funding at a discount to built values and 'off market' sale and leasebacks.

### Dividend per share

| | 31 March 2022 | 31 March 2021 |
|---|---|---|
| **Dividend per share** | **6.00p** | 5.55p |

In respect of the year, the Company has proposed dividends totalling 6.00p per share. The dividend per share reflects an increase of 8% on the previous year, which was impacted by a reduction in the Group's rent collection during the first UK lockdown.

### Total expense ratio

| | 31 March 2022 | 31 March 2021 |
|---|---|---|
| **Total expense ratio (annualised)** | **1.0%** | 0.9% |

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

Basing the fee on market capitalisation brings a degree of responsiveness to our cost base, meaning that it is aligned with our share price. The counter to this is that there is a slightly higher degree of volatility in our cost base as it moves with the market.

We operate stringent capital discipline on all of the Group's costs and use the best quality counterparties to ensure that income is passed on to our shareholders and that we have a market leading total expense ratio.

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

### Loan to value

| | 31 March 2022 | 31 March 2021 |
|---|---|---|
| **Pro-forma LTV** | **22%** | 23% |

In the medium-term, in line with our conservative leverage policy, our LTV is expected to reach and be maintained at approximately 30%.

This level of target LTV provides significant 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%.

The Group's current debt pool is secured against the majority of the Group's investment properties and comprises three term loan facilities with a blended security pool and a revolving credit facility with a self-contained security pool. There is no cross collateralisation between the term loans and the RCF.

A summary of the facilities is included below:

| Facility | Lender | Size | Interest rate | Expiry |
|---|---|---|---|---|
| Term loan | Scottish Widows | £55m | 2.74% fixed | Dec 2033 |
| Term loan | Scottish Widows | £40m | 2.74% fixed | Dec 2033 |
| Term loan | Scottish Widows | £75m | 2.99% fixed | Dec 2033 |
| RCF | Lloyds Bank and RBSi | £165m | 1.55% margin | Aug 2024 |

The three term loan facilities were chosen because of their long-dated maturity, to take advantage of the low interest rate environment. The term loans have a weighted average fixed interest cost of 2.85% pa and mature coterminously in December 2033.

Fixing the rate of interest on these facilities gives 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 with Lloyds Bank plc was extended by £65m and committed by RBSi during the year, who entered the facility agreement as an additional lender.

The Group's RCF carries a cost at 155 bps margin to three-month SONIA and provides the Group with operational flexibility and reduced finance costs, 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
- debt drawing to match developers' funding requests on forward funding projects, ensuring that interest is only suffered to the extent that a return is being generated on those drawdowns through licence fee arrangements.

The Group renegotiated the terms of the interest to transition to SONIA from LIBOR. This transition had no material effect.

The Group has used derivatives to cap the interest cost of the RCF at 2.95% pa.

The Investment Advisor regularly reviews the Group's financing arrangements and considers options for refinancing. Our consideration focusses on what timing and structure of a refinancing arrangement would provide maximum accretion of earnings, maintenance of a gearing level within the Company's conservative borrowing policy and provide operational flexibility to the Investment Advisor in executing its investment strategy.

## Outlook

At the year end date, the Group had exchanged on assets totalling £90m, excluding purchase costs, that have either completed at the reporting date (£43m) or that we expect to complete in the calendar year (£47m).

The Group has £53.6m of costs to complete on its ongoing forward fundings. As the projects move toward practical completion, the Group's income will increase and we expect to provide significant embedded income growth over the next 12-months.

We continually build our pipeline through relationship driven forward funding opportunities with developers and off-market sale and leaseback opportunities with corporates and we are still able to transact at attractive pricing compared to built asset deals that we see marketed. Our pipeline assets have the potential to provide further organic growth whilst being accretive to the Group's earnings and medium-term total return targets.

Crucially, we also continue to see tenant operators willing to take long term (20+ year) index linked leases. These opportunities generally exist where certainty is a requirement due to the strategic importance of an asset and/or where significant competition exists amongst tenants in the sector.

Our recent pipeline has included investment in the Group's newer sectors, education and life sciences, that are relatively immature in terms of the long income property investment market. As such, we believe that these sectors are likely to see significant further yield compression as they mature in the medium term and new investors enter the market, increasing competition for these assets.

There remains the potential for the tightening of valuation yields on our own assets in those sectors that saw more significant operational disruption during the UK's lockdowns, and as a result saw reduced levels of investment activity in their sectors. As we see volumes begin to pick up this should contribute to further NAV growth.

With RPI inflation expected to be 9.1% in 2022 and 5.9% in 2023 (The HM Treasury Forecasts for the Economy Medium-term forecasts, May 2022), the portfolio possesses the potential for significant rental growth in the short-term and the Group's long weighted average unexpired lease term suggests that the vast majority of our inflationary rent reviews will be capitalised to provide future NAV growth.

We continue to evaluate our portfolio for opportunities to unlock further value and extend lease terms by working closely with our tenants to build mutually beneficial relationships.

The Group's high-quality portfolio regularly attracts unsolicited interest in our assets, and we 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 and grow value for our shareholders.

For and on behalf of the Investment Advisor

**Simon Lee**
Director
LXi REIT Advisors

6 June 2022

**Frederick Brooks**
Director
LXi REIT Advisors

6 June 2022

# Environmental, Social and Governance

## Statement

The Company is committed to integrating sustainability matters into its strategy and to continually enhancing its approach.

The Board of Directors and the Investment Advisor recognise that many of the company's stakeholders both share and benefit from this. We therefore seek to execute our investment strategy whilst contributing positively to the environment and society and maintaining the highest standards of governance.

This report has been prepared in accordance with the EPRA Sustainability Best Practice (sBPR) Recommendations on Sustainability Reporting. The report aims to outline progress we have made against our previously set targets, as well as introduce new goals for the future.

This report contains the following information:

- Our ESG goals and focus areas
- Year in review: Our key highlights and progress
- Disclosures in line with the Task Force on Climate-related Financial Disclosures (TCFD)
- Carbon Emissions and Energy Performance Certification
- Social and Community Investment
- Governance
- EPRA Sustainability Performance Measures and the Global Reporting Initiative.

## Our ESG goals and focus areas

ESG will continue to rise in prominence as the UK focuses on confronting climate change and as our stakeholders demand sustainable buildings and investments. We are confident that our proactive approach and understanding of the ESG issues material to our business, provides us with a solid foundation to further improve the sustainability of our portfolio and continue to deliver long-term value.

Every year we review our performance and revise our short and longer terms goals to ensure that we continue to keep up with new ESG standards and expectations.

| Short-term initiatives (within the next 12-18 months) | Longer-term goals (three plus years): |
|---|---|
| • Obtain first GRESB rating on the portfolio (September 2022)<br>• Obtain first EPRA sBPR rating (September 2022)<br>• Instruct decarbonisation reports on a further, pre-established tranche of assets (March 2023)<br>• Move all energy provision in landlord-controlled areas to suppliers that provide green tariffs (September 2022)<br>• Recruit for the role of Head of Sustainability (start date confirmed in September 2022)<br>• Improve tenant engagement in providing emissions data to improve on our Scope 3 emissions reporting (March 2023) | • To continue to integrate climate-related matters into the Company's investment process<br>• To develop a road map to deliver a science-based carbon neutral target for the business<br>• To provide investors and our wider stakeholder group with relevant and comparable disclosure relating to ESG matters<br>• To achieve EPC ratings on all assets of A or B by 2030 |

## Year in review: Our key ESG highlights and progress

We have made significant progress in the current year, and this report covers our performance against the targets set in the 2021 ESG report as we work toward improving the way we consider ESG in the way we invest and manage our portfolio. Except for moving all energy supplies in landlord-controlled areas to green tariffs, we have successfully completed everything we set out to in this year.

### Investment strategy

- Climate-related issues are now a standing agenda point at all quarterly Board meetings
- A materiality assessment was carried out to develop an ESG strategy that is relevant and appropriate for our wider stakeholder group. This involved identifying our stakeholders and ranking over 100 sustainability related issues by prioritising those issues that are both important and significant to the Company and its stakeholders. This enabled us to enhance our ESG policy and identify where we should target our efforts
- The Group's existing ESG policy was enhanced to include our stance on climate-risk. To do this, we drew heavily on the experience of integrating sustainable investment strategies that already exists within the business and consulted individuals from the Investment Advisor as well as those at all levels within the Company, including the Board. The new ESG policy has been published on the Company's website and is available from the Investment Advisor on request

  Furthermore, a process has been established to monitor compliance with the new elements of this policy
- Our standard investment acquisition due diligence process now includes instructing Zero Carbon Strategy reports on all newly acquired assets with an EPC rating of lower than a B. These map out ways to decarbonise each asset and estimate potential uplifts in EPCs and the costs associated with recommended works. These reports can be shared with our tenant partners to promote a collaborative approach to facilitating improvements where viable.

### Sustainability Reporting

- During the year, the Group appointed CBRE to carry out the data collection and reporting of the EPRA sBPR measures, including Scope 1, 2 and 3 carbon emissions which are presented in this report
- The Global Real Estate Sustainability Benchmark ("GRESB") assesses the ESG performance of real estate and infrastructure portfolios and assets worldwide, providing standardised and validated data to investors. With help of external advisers, an initial submission has been made and a recommendation report received. We have implemented a significant number of these recommendations ahead of our first formal submission and expect to announce our achieved rating in the 2022 half-yearly report
- We are now reporting on all 11 recommendations of the TCFD, including the addition of a scenario analysis in the current year. Staff of the Investment Advisor have also been provided with TCFD training to build experience in climate-related financial reporting. See further detail below.

### Tenant engagement/asset management initiatives

- Collaboration with tenants is key in creating new asset management opportunities. The Group has had positive engagement with a range of tenants to promote improvements in environmental performance of our assets. We are working up strategies with tenants on a case-by-case basis. For example, we are in discussions with a newly acquired industrial tenant to install a PV array and battery storage facility along with other green projects to assist them in their journey from being carbon neutral to net zero. The building achieved carbon neutrality in 2021
- This year we have approved standardised Green lease wording which we strive to incorporate into all new leases and lease regears
- During the year, through successful asset management we facilitated the installation of a PV array on a newly built forward funded industrial asset. Following on from this, we identified a number of other sites where we have had positive engagement from tenants and are in the process of designing PV systems. This will result in a significant reduction in the overall Scope 3 emissions of our portfolio
- We added five new EV charging sites to our portfolio which are expected to go live by the end of 2022. Another three sites are in legals at the reporting date, expecting to go live by the end of Q2 2023
- We have engaged an Ecologist to put together an ecology strategy report for one of our landlord controlled areas. This report will cover a range of initiatives designed to add more native landscaping and will encourage wildlife. If successful we will initiate similar projects at other landlord-controlled areas
- We have focussed on landlord-controlled areas where we can create value for society through supporting a variety of initiatives and activities that benefit the development of the community and surrounding area. In addition to this, the Investment Advisor has also recently become a member of The Academy of Real Assets. This is philanthropic group whose aim is to have a significant, positive social impact on underprivileged students from schools across the UK.

### Portfolio improvements

- We have obtained EPCs for all assets that previously did not have accurate, up to date or relevant EPC ratings. 0% of the portfolio by rental value are now 'non-rated'. The proportion of assets with EPCs rated C or above has increased in the year from 83% to 85%. This is a result of obtaining more accurate EPCs based on actual data rather than estimated data, as well as acquisitions having a large proportion of EPC ratings C and above. A comprehensive update on the EPC analysis of our portfolio can be found later in this report
- We have instructed and obtained decarbonisation reports for all assets with ratings of E or lower, regardless of size, and reports on higher-value assets (greater than £10m capital value or >0.5% of portfolio value) that are C or lower. The total value of assets for which reports are being obtained represents 19% of the passing rent from non-exempt properties. Our intention is to use these reports to improve the EPC ratings of our assets and make the most meaningful improvements to our existing portfolio
- We have successfully transferred all landlord-controlled areas without long-term contracts to renewable tariffs, which constitutes 83% of the total landlord-controlled areas. The remaining sites will be moved to renewable energy tariffs by September 2022, when the last of our non-renewable energy contracts is due to expire.

## Task Force on Climate-related Financial Disclosures ("TCFD")

We have made disclosures in line with all the TCFD recommendations and are continuously refining the quality of our reporting. The Company recently became an official supporter of the TCFD, joining more than 2,000 organisations in demonstrating a commitment to building a more resilient financial system and safeguarding against climate risk through better disclosures.

| Governance | |
|---|---|
| Describe the Board's oversight of climate-related risks and opportunities | Climate-related strategy has been a standing agenda point for the Board since May 2021. This facilitates reporting on a quarterly basis directly to the Company's Board of Directors on the implementation of the Group's climate risk strategy.<br>In the previous year, the Board, along with the Investment Advisor, determined that climate-related strategy should be broadened and the integration of climate-related matters in the investment process should be better established.<br>As such we have worked hard to further integrate climate-related risks into strategic and other decisions made. This has been achieved by updating the format of Board reporting on acquisitions to include climate-related matters that are aligned with our ESG policy. The acquisition process now also includes instructing decarbonisation reports for all assets that have EPC ratings lower than a B, with the aim of identifying specific risks and opportunities of potential assets.<br>The Board oversees and monitors the ESG strategy and progress towards approved ESG goals and targets on a quarterly basis. |
| Describe management's role in assessing and managing climate-related risks and opportunities | Representatives from the Investment Advisor and the Board of Directors came together to form the Company's Climate Risk Working Group (CRWG). This makes recommendations to the Board regarding climate-risk, including the current strategy which has been approved by the Board.<br>The CRWG meets a minimum of once a quarter to assess implementation of the strategy and reports directly to the Board of Directors at each quarterly Board meeting. |
| **Strategy** | |
| Describe the climate-related risks and opportunities identified by the organisation over the short, medium and longer-term | Short-term (12 months) – market shift in terms of stricter legislation e.g. the introduction in the UK of the potential new minimum energy efficiency standards (MEES) for commercial and domestic property in response to the UK committing to becoming net zero carbon by 2050. There is also a risk of physical damage to real estate as a result of immediate environment-related factors such as flood risks, which is likely to impact the long-term horizon due to changing climates.<br>Medium-term (up to 3 years) – lower yields as a larger pool of capital is likely to chase the most energy efficient assets. This represents an opportunity for those best-in-class assets to achieve a 'green premium'. The Company's position (in terms of exposure to more energy efficient assets and strategy of forward funding new assets which tend to benefit from higher efficiency levels), puts the Group in a strong position to benefit from this. Conversely, the Group has certain assets that are comparatively less energy efficient and as such these assets are likely to see any potential purchasers taking a deduction for capex required to improve the performance of an asset and valuation yields widening over time.<br>The impact of these 'green premiums' and 'brown discounts' will create greater polarity in valuations depending on the energy performance of an asset and is expected to be seen in the medium-term.<br>There is a further risk that the Company's ability to grow through continued investment from existing and new shareholders is restricted because it is not aligned with their investment criteria or seen to be effectively managing climate-risk within the portfolio. This may also have a medium-term impact on share price and access to capital.<br>Long-term (3+ years after which point leases and other material arrangements, such as long-term loans, are expected to expire)<br>As we see an increase in 'green debt' issues (bonds and RCFs), we are seeing an increased preference for lenders toward products with 'green' parameters and a cheaper cost of debt for those instruments. Providers of finance for the Company may set specific climate risk related parameters for counterparties (by policy or by law) that will reduce the Company's access to capital if it does not meet the relevant criteria, or increase the Company's cost of debt.<br>Over the long-term, as a result of climate-change, the built environment and the impact of climate-related factors such as changes in weather systems may significantly change. As such, the Group's assets may become more greatly exposed to physical risk for example from flooding or tropical cyclone remnants and therefore no longer be viable to tenants. Environmental due diligence is carried out on all new acquisitions to highlight any potential physical risk to the asset (e.g. flooding). To date, the fund has not acquired any asset with a considered 'high' physical risk, however as assets are owned for a longer period of time we recognise the need to re-assess this physical risk.<br>Changes in legislation over the longer-term as well as factors such as the energy efficiency of real estate being incompatible with legislation and targets that impact the occupier, may result in our assets becoming unlettable or other costs, such as taxes or levies against assets that perform poorly in terms of climate impact. Net Zero reports are obtained for any assets that fall below a minimum standard to understand the feasibility and costs of future improvement works. |

## Strategy

| | |
|---|---|
| Describe the impact of climate-related risks and opportunities on the business model, strategy, and financial planning | Acquisitions – During the acquisition process, we look to assess the true cost of a potential purchase and how we can transition it to a net zero carbon pathway, including the eventual adoption of higher EPC standards. The Group have instructed Zero Carbon reports on all acquisitions with EPC ratings lower than a B.<br><br>Financial planning (capital expenditure and allocation) – We are looking to include the cost of EPC improvements in our financial appraisals and forecasting. For example, we have instructed the first tranche of decarbonisation reports on high value assets with poor EPC ratings to determine the estimated capex costs of carrying out improvements. This will be factored into our financial planning as we are likely to have to share some of the capex costs with tenants. The Company Secretary, corporate lawyers and other third parties continue to keep the Company abreast with changes in legislation, enabling us to remain ahead of compliance and take a forward-view.<br><br>Access to capital – Our climate risk strategy is designed to ensure we meet appropriate 'green' credentials so we can continue to access debt and partner with lenders at low cost. We are planning to manage the risk associated with access to capital by providing investors and other stakeholders with relevant and comparable ESG metrics and disclosures. The Investment Advisor communicates regularly with the Company's shareholders to understand their changing parameters and requirements and to ensure we continue to meet their expectations when it comes to sustainability and climate-related matters. These conversations have led us to evaluate the Company's own carbon footprint so we can determine a timeframe in which to become carbon neutral. This is separate to the impact of the underlying real estate which is outside of its control. |
| Describe the resilience of the organisation's strategy against different climate-related scenarios e.g., different impacts on infrastructure at higher future temperatures, including a 2°C or lower scenario. | We recognise that climate change does have an impact on our business, both directly and indirectly. As part of our strategic evolution, we are committed to transparently addressing the transitional and physical risks and opportunities which apply to our business.<br><br>If average global temperatures increase by 2°C by the year 2100, there will be a higher likelihood of greater physical risk facing our assets. These physical impacts may include "acute" physical damage from variations in weather patterns (such as severe storms, floods, drought and over-heating) as well "chronic" impacts such as sea level rise.<br><br>Although all of our leases are full repairing and insuring leases, meaning for the duration of the tenancy the tenant is responsible for all repair, we recognise potential financial impacts on our tenants could in turn impact the Group through tenant default or forced vacancy. Indeed, our tenants may be financially impacted by physical risks in the following ways:<br><br>• Reduced revenue from decreased production capacity and increased business disruption (e.g. supply chain interruptions, damages to production sites, transport issues etc.)<br>• Reduced revenue from lower sales<br>• Write-offs of stock or assets (e.g. due to damage to buildings or equipment)<br>• Increased costs required for health and safety or to repair damage<br>• Increased insurance premiums on assets that are considered 'high' physical risk<br><br>This will in turn have direct impacts on the Company. For example, assets that become difficult to rent or lay vacant due to tenant default may require rent-free periods or concessions. What's more, valuations are likely to be adversely affected for assets exposed to more frequent or extreme weather-related events. The Company mitigates this by maintaining strong relationships with its tenants to ensure both parties are informed of risks. It also continues to carry out appropriate due diligence on all new acquisitions so that potential risks are identified at an early stage; and the potential financial impact is considered in financial projections.<br><br>To date, the Group has not acquired an asset classified as having a 'high' physical risk. However, we recognise the need to re-assess and monitor exposure to physical risks to reflect new climate science and forecasts. |

## Risk Management

| | |
|---|---|
| Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management | Climate risk has been added to the Company's risk register. Responsibility for identifying, assessing and managing climate-related risks are delegated to the Climate Risk Working Group (CRWG) which reports directly to the Board. The CRWG continually evaluates key risks (which includes sustainability/climate change related risks), the effectiveness of existing controls and identifies where further mitigation measures might be required. For example, this approach led to the inclusion of climate considerations within the acquisition and due diligence process described earlier. |

## Metrics and Targets

| | |
|---|---|
| Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process. | To enable our stakeholders to understand our climate impact and subsequent performance we are committed to enhancing our reporting to include an extensive range of metrics relating to energy, carbon, waste and water. These are grouped according to whether they relate to the:<br><br>1) underlying real estate portfolio and assets, or<br>2) operations of the Company and the Investment Advisor<br><br>EPC ratings are the main metric used to assess the climate-related risks associated with the underlying real estate portfolio and assets. The CRWG regularly reviews the exposure to substandard EPC ratings to ensure we are on track to meet our goal of having the entire portfolio rated B or better by 2030.<br><br>To better understand the impact of the business, as well as its underlying assets, we recently embarked on collecting data to enable reporting on scopes 1-3 emissions in line with EPRA's sBPR. This is a significant step towards gaining a better understanding of our emissions and carbon performance, so we can establish a science-based carbon neutral target within the next two years.<br><br>As previously noted, the Company is also developing metrics to better align with other real estate businesses and is targeting a GRESB portfolio score in its September 2022 Interim Report. |

| Metrics and Targets | |
|---|---|
| Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks. | Later in this report, we provide disclosure of our Scope 1, 2 and selected Scope 3 emissions. We arrange our GHG emissions reporting in line with the Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard. Our relevant emissions categories include fuel and energy related activities, business travel, water use and emissions from downstream leased assets (tenant emissions) where data is available. In the coming months we will be actively engaging with tenants to gather their energy use data to increase coverage of our Scope 3 emissions. |
| Describe the targets used by the organisation to manage climate related risks and opportunities and performance against targets. | We evaluate performance against the following long-term goals and targets to:<br>• continue to integrate climate-related matters into the Company's investment process<br>• develop a road map to deliver a science-based carbon neutral target for the business<br>• provide investors and our wider stakeholder group with relevant and comparable disclosure relating to ESG matters<br>• achieve EPC ratings on all assets of A or B by 2030<br>The CRWG's reviews progress against approved short-term actions needed to achieve each longer-term goal and adapts these to ensure continuous improvement. |

## Carbon Emissions and Energy Performance Certification

In the following section we present our energy and carbon performance data. In the year we have seen overall carbon emissions decrease by 24%, despite an increase in consumption by 17%. We believe this is a result of an overall increase in renewable energy used by our tenants. We continue to report very low levels of Scope 1 and Scope 2 consumption and emissions.

| | | | Consumption | $tCO_2e$[1] |
|---|---|---|---|---|
| 2021 | Scope 1 emissions | Scope 1 | – | – |
| | Electricity Landlord (kWh) | Scope 2 | 60,005.68 | 8.20 |
| | Electricity Office (kWh) | Scope 3 | 15,592.03 | 3.31 |
| | Gas Office (kWh) | Scope 3 | 2,825.27 | 0.52 |
| | Water Office ($m^3$) | Scope 3 | 20.00 | 0.00 |
| | Business Travel (miles) | Scope 3 | 19,295.00 | 5.12 |
| | Electricity Tenants (kWh) | Scope 3 | 28,912,702.49 | 1,846.99 |
| | Gas Tenants (kWh) | Scope 3 | 30,175,848.94 | 5,527.01 |
| | Water Tenants ($m^3$) | Scope 3 | 137,549.54 | 8.20 |
| | Tenants' Other fuels (kWh) | Scope 3 | 1,650.00 | 0.39 |
| | Total emissions for 2021 | | | 7,399.74 |

| | | | Consumption | $tCO_2e$[1] |
|---|---|---|---|---|
| 2020 | Scope 1 emissions | Scope 1 | – | – |
| | Electricity Landlord (kWh) | Scope 2 | 45,749.00 | 7.08 |
| | Electricity Office (kWh) | Scope 3 | 13,347.44 | 3.11 |
| | Gas Office (kWh) | Scope 3 | 1,454.95 | 0.27 |
| | Water Office ($m^3$) | Scope 3 | 19.24 | 0.01 |
| | Business Travel (miles) | Scope 3 | 10,570.00 | 2.84 |
| | Electricity Tenants (kWh) | Scope 3 | 21,811,373.96 | 4,424.88 |
| | Gas Tenants (kWh) | Scope 3 | 28,592,526.52 | 5,257.31 |
| | Water Tenants ($m^3$) | Scope 3 | 149,495.16 | 51.43 |
| | Tenants' Other fuels (kWh) | Scope 3 | 1,650.00 | 0.40 |
| | Total emissions for 2020 | | | 9,747.33 |

| | | |
|---|---|---|
| 2021 Greenhouse gas (GHG) emissions from intensity from building energy consumption | 57.99189 | ($kgCO_2e/m^2/yr$) |
| 2020 Greenhouse gas (GHG) emissions from intensity from building energy consumption | 75.99115 | ($kgCO_2e/m^2/yr$) |

This intensity metric has been calculated using the total emissions for electricity consumption (both landlord provided and tenant usage), gas and other fuels used across the relevant reporting year, divided by the portfolio area in meter$^2$.

| | | |
|---|---|---|
| 2021 Building Energy Intensity (Portfolio) | 464.01 | $kWh/m^2/year$ |
| 2021 Building Water Intensity (Portfolio) | 1.08 | $m^3/m^2/year$ |
| 2020 Building Energy Intensity (Portfolio) | 395.36 | $kWh/m^2/year$ |
| 2020 Building Water Intensity (Portfolio) | 1.17 | $m^3/m^2/year$ |

Building Energy Intensity for the portfolio metric has been calculated using the total consumption for electricity (both landlord provided and tenant usage), gas and other fuels used across the relevant reporting year, divided by the portfolio area in meter$^2$.

Building Water Intensity for the portfolio metric has been calculated using the total water consumption by tenants for the relevant reporting year, divided by the portfolio area in meter$^2$.

| | | |
|---|---|---|
| 2021 Building Energy Intensity (office only) | 2,046.37 | kWh/person/year |
| 2021 Building Water Intensity (office only) | 2.22 | $m^3$/person/year |
| 2020 Building Energy Intensity (office only) | 1,644.71 | kWh/person/year |
| 2020 Building Water Intensity (office only) | 2.14 | $m^3$/person/year |

Building Energy Intensity for the office metric has been calculated using the total consumption of electricity and gas in the office space across the relevant reporting year, divided by number of LXI REIT Advisors employees.

Building Water Intensity for the headquarters metric has been calculated using the total consumption of water in the office space across the relevant reporting year, divided by number of LXI REIT Advisors employees.

## 1 Data notes

| | |
|---|---|
| Reporting period | The energy and carbon emissions data presented here is for the reporting period 01 January 2021 to 31 December 2021 and for the comparative period spanning 01 January 2020 to 31 December 2020. |
| Boundary (consolidation approach) | In calculating the Group's emissions, we have considered the emissions relevant to LXi REIT plc as well as LXi REIT Advisors, being the investment advisor. The Group's specialist Real Estate ESG consultant has recommended the adoption of an "operational control" reporting boundary. This means reporting on Scope 1 and Scope 2 emissions as standard and the voluntary reporting of certain Scope 3 emissions. Owing to the nature of the company ownership, LXi REIT plc does not have any Scope 1 emissions. We rely on our tenant partners to provide the necessary data to report on our Scope 3 emissions. There has been a limited response from our tenants in relation to our data requests during the year and therefore the emissions reported are not representative of our tenant-controlled portfolio and only represent 27% of the portfolio by area. This is the first year the Group have obtained emissions data and we expect going forward tenant engagement will improve, and Scope 3 reporting will become more representative of our portfolio. |
| Reporting method | We arrange our GHG emissions reporting in line with the Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard. A number of assumptions and estimates have been made when collecting and reporting on the data. These include:<br>• Data received by managing agents is considered landlord-controlled data<br>• Business travel calculations assume a medium sized car for use before electric vehicles were obtained<br>• Out of the data collected there was no district heating and cooling consumption data |
| Emissions factor source | Conversion factors used from HMRC: https://www.gov.uk/government/collections/government-conversion-factors-for-company-reporting |

Scope 2 emissions:
Emissions from sources that are owned or controlled by the Group and emissions that are a consequence of the Group's activities but occur from sources owned or controlled by third parties. This includes emissions from energy supplied to the common areas of assets controlled by the Group where available. These common areas exist where sites are let to multiple tenants, at which we retain control over the common parts of the asset.

Scope 2 emissions are indirect emissions from purchased or acquired electricity, steam, heat and cooling. The UK Government's standard formulae is applied to the volume of energy consumed within this scope. These have been calculated using both a grid emission factor as well as a market-based emission factor to reflect the reduced emissions from the generation of renewable electricity.

Over the two year reporting period there has been a 31% increase in Scope 2 consumption, however only a 16% increase in emissions relating to electricity at landlord controlled areas. The overall increase in consumption is likely attributable to the fewer lockdowns experienced in the 2021 year and the re-opening of the economy. The proportionally lower increase in emissions compared with consumption is due to the increase in renewable energy tariffs for the landlord controlled sites. The emissions have been calculated using both a grid emission factor as well as a market based emission factor to reflect the reduced emissions from the generation and use of renewable electricity.

We recognise that our direct Scope 2 carbon emissions are minimal compared to our indirect Scope 3 emissions.

Scope 3 emissions:
Emissions that are a consequence of all other activities which release emissions into the atmosphere as a consequence of the Group's actions and which are not classed as Scope 2 emissions. The majority of Scope 3 emissions occur at sources which the Group does not control. This includes energy produced and used by our tenants at assets under the Group's ownership. Scope 3 emissions also include the Investment Advisor employees business travel emissions and consumption of electricity and natural gas for the office space used by the employees of the Investment Advisor. Going forward we aim to improve the quality of our Scope 3 data collected by improving tenant engagement. We also aim to include additional sources of Scope 3 emissions relating to emissions in the development of new buildings under ownership and emissions from the activities of contractors and other suppliers, for which data is currently not available.

From the data collected and reported on there has been a slight increase in Scope 3 emissions relating to the office emissions over the two reporting years. This is driven by the reopening of offices in 2021 following the lifting of Covid-19 restrictions which saw an increase in employees working from home.

From the data collected and reported on there has been an overall 17% increase in consumption, likely resulting from the re-opening of the economy and increased business activity. Despite the increase in consumption, overall Scope 3 emissions have reduced by 24%, largely driven by the increasing use of renewable energy by tenants.

From November 2021, business travel by employees of the investment advisor was undertaken in company owned 100% electric vehicles, reducing the consumption of fuels. We expect the full benefit of the electric vehicles to be felt in the 2022 reporting year. The increase in business travel emissions from 2020 to 2021 is attributable to the addition of an Assistant Fund Manager in June 2021 who travels to the Group's assets by car.

Tenant emissions make up the vast majority of Scope 3 and the Group relies on the responsiveness and engagement of our tenant partners to gather the necessary data to report on these emissions. There has been a limited response from our tenants in relation to our data requests during the year and therefore the emissions reported are not representative of our tenant-controlled portfolio. The emissions reported on correspond to 27% of the portfolio by area. This is the first year the Group have obtained emissions data and we expect going forward tenant engagement will improve, and Scope 3 reporting will become more representative of our portfolio as a whole.

### Assumptions and estimates made

A number of assumptions and estimates have been made when collecting and reporting on the data. These include:

- Data received by managing agents is considered landlord-controlled data
- Landlord controlled areas are considered to be external areas, the landlord does not provide any utilities inside the site
- Business travel calculations assume a medium sized car for use before electric vehicles were obtained
- Based on the data collected from tenants at this time, it is assumed that there is no district heating or cooling applicable to emission sources
- In only one occasion we received "other fuels data" – Red Diesel and this data was estimated by the tenant
- In cases we did estimations we considered the total actual and divided by the period it covered and multiplied by the number of months without data. Actual and estimated data are kept separately on the consumption tracker
- Office emissions have been apportioned as 6% of the total office emissions (based on number of employees employed by the Investment Advisor).

## EPC analysis

In this section we present the Group's current EPC ratings as of 31 March 2022, weighted by passing rent using the public EPC register. The exposures below exclude assets for which EPC ratings are not legally required.

Of the Group's current portfolio 85% of assets rated C or better, and 15% are rated lower worse than a C. This is an improvement on the March 2021 reported ratings of 83% of assets rated C or better and 17% of assets rated lower than a D. A detailed breakdown of the portfolio ratings and our individual sector performance is included below.

| EPC rating | A | B | C | UC[1] | A to C | D | E | F | G | D and below | NC[2] | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total portfolio | 17% | 31% | 28% | 9% | 85% | 13% | 2% | 0% | 0% | 15% | 0% | 100% |

| EPC rating | A | B | C | UC[1] | A to C | D | E | F | G | D and below | NC[2] | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Foodstores & essentials | 29% | 35% | 18% | 10% | 93% | 7% | 0% | 0% | 0% | 7% | 0% | 100% |
| Industrial | 39% | 28% | 15% | 0% | 82% | 14% | 4% | 0% | 0% | 18% | 0% | 100% |
| Hotels | 12% | 58% | 20% | 7% | 97% | 3% | 0% | 0% | 0% | 3% | 0% | 100% |
| Healthcare | 3% | 41% | 44% | 0% | 88% | 10% | 0% | 0% | 0% | 10% | 2% | 100% |
| Car Park[3] | – | – | – | – | – | – | – | – | – | – | – | – |
| Garden centres | 0% | 57% | 43% | 0% | 100% | 0% | 0% | 0% | 0% | 0% | 0% | 100% |
| Life Sciences | 0% | 0% | 63% | 0% | 63% | 29% | 8% | 0% | 0% | 37% | 0% | 100% |
| Drive-thru coffee | 15% | 48% | 7% | 27% | 97% | 0% | 0% | 0% | 0% | 0% | 3% | 100% |
| Pubs | 0% | 7% | 58% | 0% | 65% | 35% | 0% | 0% | 0% | 35% | 0% | 100% |
| Education | 0% | 9% | 34% | 0% | 43% | 57% | 0% | 0% | 0% | 57% | 0% | 100% |
| Other | 5% | 6% | 40% | 23% | 74% | 21% | 4% | 0% | 0% | 26% | 1% | 100% |

1 UC means under construction. The Group works on the assumption that although assets under construction have not had EPC ratings, they will be included in A to C. This assumption is based on the following EPC rating data for the Group's forward funded and forward committed assets that have completed to date:

| A | B | C | Total |
|---|---|---|---|
| 70% | 29% | 1% | 100% |

2 NC represents assets with no certificate and overall accounts for 0.4% of the portfolio in term of rental value.

3 The nature of our Car Park assets, being small areas and open sided, make them exempt from holding EPCs.

We have identified from the review of our portfolio EPCs, the Group has a significantly higher proportion of A, B and C rated buildings compared with the national average UK commercial property register[4], as well as a lower proportion of D rated buildings and a significantly lower proportion of E, F and G rated buildings. From 1 April 2023, it will be unlawful to carry on letting buildings with sub-standard rating, EPC F or G. The Group has no exposure to F or G rated assets and complies with current UK regulation. Although all the Group's assets comply with current regulation, it is acutely aware of the changing tide and the likelihood of oncoming regulation. For example, the UK Government is consulting on whether to raise the minimum standard further in the future and has indicated a minimum standard of a B-rating may be required by April 2030. For this reason, we have set a target to bring all EPC ratings to a minimum B rating by 2030. The Investment Advisor is on course to meet this minimum standard through asset management initiatives. Our analysis of EPC ratings has shown that we outperform all UK commercial property in all sectors and are therefore well positioned to safeguard against this regulatory risk. This also implies that any potential future risk to value across the portfolio is likely to be insignificant compared with other property owners.

We also note a strong correlation with our tenants, on initial soundings, between our own ambitions and theirs, and indeed many of our tenants are already on a journey toward, with some already having reached, carbon neutrality.

As such, we do not see the potential requirement for material capex to support decarbonisation as having a negative impact on our short, or longer-term returns. We are already hearing positive feedback from tenants on their willingness to fund improvements and for other opportunities to rentalise or to otherwise generate value, through any landlord funded works.

As values for assets begin to polarise (although a delay is expected for long let properties) between those with the best and worst environmental credentials, any improvements made by the Company will generate greater returns for investors and further enhance the quality and security of its income stream from tenant operators.

## Social

### Charity involvement

In the year, the Investment Advisor became a member of The Academy of Real Assets, a philanthropic members group whose aim is to have a significant, positive social impact on underprivileged students from schools across the UK.

The Academy partners with some of the biggest, best and most-established social mobility charities and other entities to get access to as many students at UK State schools as possible, generally via teachers. The mission is to contribute to the alleviation of educational inequality in particular by providing students from a less privileged educational background with exposure to professionals within the industry, to show the opportunities that exist within the world of property.

The Academy has the following goals:

- To have significant, positive social impact on students from schools across the UK
- To offer students that do not have connections an off the shelf contact list to help, guide and advise
- To introduce to all students the huge variety of career opportunities in the Real Estate, Real Assets and investment worlds
- To encourage and bring about greater diversity and to increase access
- To connect students with our members via The Academy events and initiatives
- To work together, and create partnerships, with others committed to the same social goals as us
- Hold regular member events to allow members to get together and make new connections
- To give members "an intellectual breather" by meeting and enjoying guest speakers who will be experts in fields other than Real Estate, Real Assets or investing.

The Academy of Real Assets supports members to pool resources to deliver the maximum social impact, rather than relying on individual entities to deliver their own strategy and more information can be found at www.acadrealassets.com.

4 The data behind the national average UK commercial property register can be found via the following link: https://www.gov.uk/government/statistical-data-sets/live-tables-on-energy-performance-of-buildings-certificates#epcs-for-non-domestic-properties

### Forward funding

The Company does not undertake direct development but forward funds development projects. The Company's developments always have support from local authorities to have received planning consent prior to executing the funding agreement and as such are expected to provide positive public benefits and that support local communities through provision of accessible amenities and employment opportunities. We prioritise the use of local developers.

The Company uses its influence to encourage those developers to identify and consult with a wide range of stakeholders in the local community and to minimise any negative impacts or disruption to the local community during construction.

The Company expects new buildings to meet high standards of environmental performance and to promote the health and well-being of both the building occupiers and the wider community. We expect new buildings to have a BREEAM rating of at least "Very Good" where a rating is obtained. All forward funded projects that achieved practical completion in the current year that obtained a rating have achieved this.

### People and culture

The Company is committed to diversity and inclusion and our aspiration is to have Board and key service providers that are representative of society and our wider stakeholder groups. During the year three new Board members were appointed and two Board members stepped down. Currently, the Board comprises of three male and three female Directors, and the Investment Advisor comprises 62% male and 38% female employees.

### Governance

The Company's investment activities are overseen by the Company's non-executive Board of Directors. The Investment Advisor and the Board work together to ensure proper execution of the Company's investment strategies, consistent application of policies, compliance with procedures and compliance with local and regional regulatory requirements.

The Board are conscious of their obligations with regard to ESG. In order to ensure the Board has suitable skills required to ensure compliance with ESG requirements, Patricia Dimond is working towards the Certificate in ESG investing qualification. Additionally, Cyrus Ardalan, Patricia Dimond and Ismat Levin hold senior positions at various charities and not for profit organisations with a focus on social issues.

As part of the recruitment process the Nomination Committee, as instructed by the Board, were tasked with identifying suitable candidates from an ethnic minority background and additionally those that were female in order to meet the requirements of the Parker Review. Following a thorough and extensive search, the Board identified Ismat Levin as an additional Board member. Ismat's biographical details can be found on page 49.

The Group has mature and robust structure of governance, compliant the AIC Code of Corporate Governance, which is detailed in the Corporate Governance section of this annual report. The Group's governance complies with its enhanced ESG policy that has been adopted during the year.

To further enhance our commitment to identifying, monitoring and mitigating climate-related risks, a new goal has been established in the year for the Group to hire for the role of Head of Sustainability to bring experience and expertise to the Group.

### Key decisions and relationships with stakeholders

Each year, the Group is required under section 172(1) of the Companies Act 2006 to report on how it considered the wider stakeholder needs in its key decisions. The key stakeholders are considered to be shareholders, tenant operators, service providers, employees, lenders and society and the environment. Further information on stakeholder assessment is given in the on pages 33 and 34.

## EPRA sBPR Appendix

| Code | Performance Measure | GRI Standard and CRESD indicator code | Section in report/comment |
|---|---|---|---|
| Environmental Sustainability Performance Measures | | | |
| Elec-Abs | Total electricity consumption | 302-1 | ESG report – Emissions section |
| Elec-LfL | Like-for-like total electricity consumption | 302-1 | ESG report – Emissions section |
| DH&C-Abs, | Total district heating & cooling consumption | 302-1 | Not applicable to the portfolio at this time |
| DH&C-LfL | Like-for-like total district heating & cooling consumption | 302-1 | Not applicable to the portfolio at this time |
| Fuel-Abs, | Total fuel consumption | 302-1 | ESG report – Emissions section. Based on calculations of usage by tenants only |
| Fuel-LfL | Like-for-like total fuel consumption | 302-1 | ESG report – Emissions section. Based on calculations of usage by tenants only |
| Energy-Int | Building energy intensity | CRE1 | ESG report – Emissions section. Calculated for both the portfolio and for LXI REIT HQ only |
| GHG-Dir-Abs | Total direct greenhouse gas (GHG) emissions | 305-1 | ESG report – Emissions section |
| GHG-Indir-Abs | Total indirect greenhouse gas (GHG) emissions | 305-2 | ESG report – Emissions section. Calculated based on data disclosed from tenants and landlords only |
| GHG-Int | Greenhouse gas (GHG) emissions from intensity from building energy consumption | CRE3 | Calculated based on provided data and floor area for the reporting years – in calcs |
| Water-Abs, | Total water consumption | 303-1 | ESG report – Emissions section |
| Water-LfL | Like-for-like total water consumption | 303-1 | ESG report – Emissions section |
| Water-Int | Building water intensity | CRE2 | ESG report – Emissions section. Calculated for both the portfolio and for LXI REIT HQ only |
| Waste-Abs | Total weight of waste by disposal route | 306-2 | N/A – no data provided |
| Waste-LfL | Like-for-like total weight of waste by disposal route | 306-2 | N/A – no data provided however going forward we aim to improve our data collection to include this category of data |
| Cert-Tot | Type and number of sustainability certified assets | CRE8 | ESG report – EPC section |
| Social Performance Measures | | | |
| Diversity-Emp | Employee gender diversity | 405-1 | Corporate governance statement – Board diversity section |
| Diversity-Pay | Gender pay ratio | 405-2 | LXi REIT plc has no employees other than Non-Executive Directors. Director remuneration details can be found in the Directors' renumeration report |
| Emp-Training | Employee training and development | 404-1 | The Company has no employees |
| Emp-Dev | Employee performance appraisals | 404-3 | The Company has no employees |
| Emp-Turnover | New hires and turnover | 401-1 | The Company has no employees |
| H&S-Emp | Employee health and safety | 403-2 | The Company has no employees |
| H&S-Asset | Asset health and safety assessments | 416-1 | Not applicable due to the nature of the Group |
| H&S-Comp | Asset health and safety compliance | 416-2 | Not applicable due to the nature of the Group |
| Comty-Eng | Community engagement, impact assessments and development programs | 413-1 | ESG Report – tenant engagement/asset management initiatives (one of 13 of our landlord controlled sites (8%)) |
| Governance Performance Measures | | | |
| Gov-Board | Composition of the highest governance body | 101-22 | Corporate governance statement – Leadership. The Board of Directors is the highest governance body. Three females and three males sit on the Board. |
| Gov-Selec | Process for nominating and selecting the highest governance body | 102-24 | Corporate governance statement |
| Gov-Col | Process for managing conflicts of interest | 102-25 | Corporate governance statement – Conflicts of interest |

# Portfolio summary

## PORTFOLIO SUMMARY

**99%**
A or B EPC rating on forward funded assets

**£1,544.4m**
portfolio valuation including forward funded commitments

**5.5%**
average acquisition yield across all acquisitions to date

**4.5%**
average valuation yield across the portfolio

**67%**
of rents contain a capped rental uplift averaging 3.6% pa across the portfolio (excludes fixed uplifts)

**54%**
of rents contain a collared rental uplift averaging 1.5% pa across the portfolio

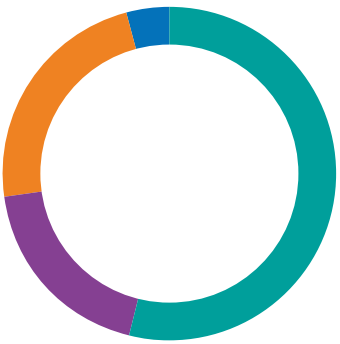
**37%**
of rents reviewed annually and 63% of rents reviewed on a five yearly basis

**21 years**
to first break weighted average unexpired lease term

| Sector | Contracted rent[1] | Rental exposure[1] | Estimated rental value (ERV)[2] | Contracted rent vs ERV |
|---|---|---|---|---|
| Foodstores & essentials | £19.7m | 25% | £18.9m | 4% |
| Industrial | £14.0m | 18% | £14.6m | (4)% |
| Hotel | £10.4m | 13% | £10.1m | 3% |
| Healthcare | £6.3m | 8% | £4.7m | 34% |
| Car park | £4.3m | 6% | £4.0m | 8% |
| Garden Centre | £3.1m | 4% | £3.1m | –% |
| Life Sciences | £2.9m | 4% | £5.2m | (44)% |
| Drive-thru coffee | £2.8m | 3% | £2.8m | –% |
| Pubs | £2.6m | 3% | £2.0m | 30% |
| Education | £1.9m | 2% | £1.9m | –% |
| Other | £11.4m | 14% | £11.3m | 1% |
| **Total** | **£79.4m** | **100%** | **£78.6m** | **1%** |

## RENTAL UPLIFTS

| | % of rental exposure |
|---|---|
| RPI linked | 54% |
| CPI linked | 19% |
| Fixed uplifts | 23% |
| Open market | 4% |



| Tenant group | Contracted rent[1] | Rental exposure[1] |
|---|---|---|
| Travelodge | £4.7m | 6% |
| Q-Park | £4.3m | 5% |
| Sainsburys | £3.5m | 4% |
| Bombardier | £3.5m | 4% |
| Compass | £3.3m | 4% |
| Dobbies | £3.1m | 4% |
| Asda | £3.1m | 4% |
| Premier Inn | £3.0m | 4% |
| Capita | £2.9m | 4% |
| Tesco | £2.8m | 3% |
| Greene King | £2.6m | 3% |
| Co-op | £2.5m | 3% |
| Bupa | £2.1m | 3% |
| Lidl | £2.0m | 3% |
| Kids Foundation | £1.9m | 2% |
| Cazoo | £1.8m | 2% |
| Esken | £1.8m | 2% |
| Aldi | £1.8m | 2% |
| Priory | £1.8m | 2% |
| Jurys Inn | £1.8m | 2% |
| BT | £1.7m | 2% |
| 50 other tenants | <£1.5m | <2% |
| **Total** | **£79.4m** | **100%** |

| Unexpired lease term to first break | Contracted rent[1] | Rental exposure[1] |
|---|---|---|
| More than 19-years (i.e. 20+) | £47.3m | 60% |
| More than 14-years, fewer than 19-years | £20.8m | 26% |
| More than 9-years, fewer than 14-years | £10.8m | 14% |
| More than 5-years, fewer than 9-years | £0.3m | 0% |
| Fewer than 5-years | £0.2m | 0% |
| **Total** | **£79.4m** | **100%** |

| Location | Contracted rent[1] | Rental exposure[1] |
|---|---|---|
| South East | £16.3m | 20% |
| Yorkshire and the Humber | £10.5m | 13% |
| Scotland | £9.2m | 12% |
| North East | £9.1m | 11% |
| North West | £9.0m | 11% |
| West Midlands | £8.7m | 11% |
| South West | £5.4m | 7% |
| East of England | £4.5m | 6% |
| East Midlands | £3.6m | 5% |
| Wales | £2.0m | 3% |
| Northern Ireland | £1.1m | 1% |
| **Total** | **£79.4m** | **100%** |

1 Includes assets that had exchanged but not completed at the reporting date

2 ERVs of assets that had exchanged but not completed at the reported date are assumed to be to be let at a market rents

# The Investment Advisor

The Board has delegated the day-to-day running of the Group 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 £2.5 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.

**Freddie Brooks**
Chief Financial Officer

Freddie 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. Freddie is also a qualified chartered surveyor (property finance and investment pathway) and a member of the RICS.

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

**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 over 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 13 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.

**Simon Haarer**
Head of Asset Management

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.

**Charlotte Price**
Financial Controller

Charlotte is a qualified Chartered Accountant (ACA). Prior to joining the team, Charlotte trained and qualified in the real estate team at BDO spending five years working with large property funds, developers and contractors. Charlotte's role at LXi involves overseeing the group accounting, reporting and financial planning. Charlotte also has responsibility for REIT regime and debt compliance and reporting and heads the Group's ESG initiatives.

**Michael Maddox**
Assistant Fund Manager

Mike trained and qualified as a chartered surveyor, initially as a RICS accredited Valuation professional before moving into fund and asset management with Knight Frank Investment management. There he was assistant fund manager on KFIM LIPUT, an unlisted pooled pension fund which was launched in 2016, which he helped grow to £750m NAV from inception. He latterly was Origination Manager at Aviva Investors.

Mike has extensive origination and transaction management experience having been involved in over £1bn of transactions – predominately in the long lease real estate market. His role covers a wide range of areas such as asset origination, selection and transaction management and negotiating with developers, institutional vendors and occupiers. He also provides oversight of the portfolio level asset management strategy and risk management.

# 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 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;
- 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 targets a wide range of defensive and robust sectors, including, but not limited to, office, leisure, industrial, distribution and alternatives – including hotels, serviced apartments, affordable housing and student accommodation. It also focuses on growth sub-sector areas such as discount foodstores, budget hotel operators and "last mile" distribution units fuelled by online retail.

The Company seeks 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 only invests in assets with leases containing regular upward-only rental reviews. These reviews 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 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 diversifying 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 Group 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 Group. The Directors intend that the Group will maintain a conservative level of aggregate borrowings with a medium-term target of 30% of the Group's gross assets and a maximum level of aggregate borrowings of 35% of the Group'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.


dobbies
garden centres

# 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 2022 | 2021 | Result |
|---|---|---|---|---|
| **1. Total NAV return**<br>Total NAV return measures the change in the EPRA NTA and dividends during the period as a percentage of EPRA NTA 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. | 18.2% | 5.6% | The current year result is significantly above the Group's medium-term minimum target of 8% per annum. |
| **2. Dividend per share**<br>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. | 6.00p | 5.55p | During the year the Group targeted dividends on a quarterly basis and all dividend targets announced were met. |
| **3. EPRA Net Tangible Assets ("NTA")**<br>Assumes that entities buy and sell assets, thereby crystallising certain levels of unavoidable deferred tax. | The NAV reflects our ability to grow the portfolio and to add value to it throughout the life cycle of our assets. | 142.6p | 125.7p | Increased EPRA NTA per share by 13.4%. |
| **4. Loan to value**<br>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. | 22% | 23% | Below our medium term maximum target of 35% and LTV covenant of 50%. |
| **5. Adjusted earnings per share**<br>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 24 to the consolidated financial statements. | 7.0p | 7.5p | Reflecting 1.16 times dividend cover. |
| **6. Total expense ratio**<br>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. | 1.0% | 0.9% | In line with our target. |
| **7. Weighted average unexpired lease term**<br>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. | 21 years | 21 years | In line with our investment objective. |
| **8. Percentage of contracted rents index-linked or fixed**<br>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. |

# 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 measures are included in Notes 24 and 25 to the consolidated financial statements respectively. Reconciliations of other EPRA performance measures in the Notes to the EPRA and alternative performance measures further below.

| Measure and Definition | Purpose | Performance |
|---|---|---|
| 1. EPRA Earnings Per Share | 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. | 6.1p (31 March 2021: 6.4p) |
| 2. EPRA Net Tangible Assets ("NTA") | Assumes that entities buy and sell assets, thereby crystallising certain levels of unavoidable deferred tax. | 142.6p (31 March 2021: 125.7p) |
| 3. EPRA Net Reinstatement Value ("NRV") | Assumes that entities never sell assets and aims to represent the value required to rebuild the entity. | 153.7p (31 March 2021: 136.1p) |
| 4. EPRA Net Disposal Value ("NDV") | Represents the shareholders' value under a disposal scenario, where deferred tax, financial instruments and certain other adjustments are calculated to the full extent of their liability, net of any resulting tax. | 143.7p (31 March 2021: 124.8p) |
| 5. EPRA Net Initial Yield ("NIY") | EPRA NIY is annualised net rents on investment properties as a percentage of the investment property valuation, less purchaser's costs. | 4.5% (31 March 2021: 4.9%) |
| 6. EPRA 'Topped-Up' NIY | The 'topped-up' 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). | 6.6% (31 March 2021: 6.5%) |
| 7. EPRA Vacancy | A 'pure' (%) measure of investment property space that is vacant, based on ERV. | 0% (31 March 2021: 0%) |
| 8. EPRA Cost Ratio | A key measure to enable meaningful measurement of the changes in a company's operating costs. | 15.9% (31 March 2021: 13.8%) |

# 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.

**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 and three female directors. Diversity is at the centre of the Company's recruitment policy and future director recruitment processes will reflect this.

## 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 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.

## Stakeholder engagement during the year

| Stakeholder | Why should we engage with them? | How we engage with them | Key themes and points of interests | Key Decision and actions taken |
|---|---|---|---|---|
| Investors | In order to better align the Company with that of its shareholders, paying particular attention to their aspirations and long-term goals | Through a number of shareholder meetings held throughout the year. Also, indirectly through the Company's website, Annual Report and Interim Report and at the AGM. | • High and rising dividend;<br>• Growth of the Company;<br>• Diversity of the Company's portfolio;<br>• Environmental, social responsible ('ESG') investing | Following the many shareholder meetings the Board have taken the following actions:<br>• Approved a dividend target that increased the dividend by 5% from the previous year;<br>• Undertaken two fundraising exercises, raising a total of £354 million which increased the Company's size by a third<br>• The increased size of the Company has allowed the Company to diversify its portfolio of investments<br>• ESG has become a key consideration when considering each acquisition.<br>• The Board approved a new enhanced ESG policy during the year which was created following consultation with the Company's shareholders. |
| Tenants | To help the Board develop a clear understanding of the challenges facing tenants and so that the Board can respond rapidly to the changing needs and demands of its tenants. | Extensive due diligence undertaken as part of tenant selection process;<br>Regular communications with tenants are maintained throughout tenancy agreement especially during times of uncertainty (i.e. lockdown).<br>Tenant and industry changing needs are monitored;<br>The Board are focused on asset management initiatives to assist tenants in achieving the maximum value from each site and thereby, increasing each sites strategic importance to the tenant and in doing so increasing the security of the Company's revenue stream. | ESG has become of increasing importance to each client.<br>The evolving business plans of the Company's tenants has identified the changing needs of the clients of each tenant, particularly the increase in online shopping. | In response to the changing needs of the Company's tenants, the Board has agreed, and the Investment Advisor has implemented, a number of initiatives to improve the environmental impact of certain of its sites where deemed appropriate, including:<br>• Installing EV charging points;<br>• Installing solar panels;<br>• Improved EPC rating;<br>• Taking measures to protect sites at risk from severe weather events e.g. flooding. |
| Key Service Providers | As an externally managed investment trust, the Company conducts all its business through its key service providers.<br>In order to better align the Company's values with that of its key service providers.<br>To ensure the challenges faced by the Company's key service providers are identified and considered by the Board. | 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. | Lockdown continued to impact on each of the Company's service providers at the beginning of the year and each were able to demonstrate resilience. The restrictions have since been lifted;<br>The conclusion of the annual evaluation of the Company's service providers did not raise any concerns. | No issues were identified during the year and the Board confirmed that they remained appropriate and that their appointment continue. |
| Society and the environment | To ensure that the Company's activities have a positive impact on communities and the environment. | The Board, via their Investment Advisor, seek to engage with its tenants and local communities to gain a greater understanding of their concerns and views. | The Board has become aware that there is strong focus on ESG matters at certain sites.<br>Social concerns at certain sites are considered. | The Company has adopted an ESG policy and climate risk strategy that ensure that society and the environment are considered whilst implementing its investment strategy. The ESG policy is available on request from the Company Secretary and the Environmental, Social and Governance report is included on pages 15 to 24 of this Annual Report.<br>Other matters are detailed above under 'Tenants'.<br>The Company invests in a number of care homes to meet the growing need for care services in the UK. |
| Lenders | To ensure the Company's lending needs continue to be met.<br>To ensure the values of the Company's lenders are aligned with that of the Company's. | The Group works closely with lenders to maintain a constructive relationship through ongoing engagement. The Investment Advisor regularly discusses ongoing initiatives and portfolio matters with its lenders. | The Investment Advisor takes into account the terms of its loan agreements when implementing the investment strategy. | The Group uses conservative leverage to gear shareholder returns in line with the Company's borrowing policy. |

# Principal risks and uncertainties

| Risk | Mitigant | Probability | Impact |
|---|---|---|---|
| **Macro economic challenges**<br>The UK is experiencing historic price rises with the highest inflation rate in 40 years, and a slowing economy. The Bank of England has responded by successive interest rate increases which could lead to a sharp decline in economic activity, stock markets and possibly stagflation. A recessionary environment could impact real estate valuations.<br>Continued high inflation may cause rents to exceed market levels and result in the softening of valuation yields. Where leases have capped rental uplifts, high inflation may cause rent reviews to cap out at maximum values, causing rental uplifts to fall behind inflation.<br>Increasing interest rates may cause the company to find it difficult or costly to finance through debt in the future. | Inflation is monitored closely by the Board. The Group's portfolio rent reviews include a mix of fixed, upward only capped and collared uplifts as well as some uncapped rent reviews, to hedge against a variety of inflationary outcomes.<br>The Group has borrowed on a fixed or capped rate basis or entered into hedging arrangements to mitigate the risk of movements in interest rates. | High | Moderate |
| **Covid-19 global pandemic**<br>Covid-19 created considerable uncertainty for the economy, the real estate market and the investment sector. For the business, there was an increased risk of tenant default.<br>However, in the first quarter of 2022 with evidence of reduced threat, lockdown and movement restrictions were lifted and there was a gradual reopening of business. The risk to the company from Covid-19 has been reduced considerably. Although still being monitored; as new strains may develop, and the longer term impact (including more permanent structural changes such as the trend toward working from home) is still uncertain, probability it has been downgraded from high to low. | The ongoing impact of Covid-19 is monitored.<br>A general covenant review has been undertaken of all major tenants. Covenant reviews of all tenants over 2% of the portfolio are provided to the Board for quarterly review.<br>The Board continues to review the impact of longer term structural changes on the Group's properties. | Low (from high) | Moderate (from high) |
| **Geopolitical risk**<br>War in the Ukraine: Russia's invasion of the Ukraine in February 2022 has led to a surge in global energy and food prices. The extent and impact of military action, resulting sanctions and further market disruptions is difficult to predict which increases the uncertainty, and challenges of tenant operators as well as consumer confidence and financial markets. This could lead to a recession should the conflict move towards a broader regional or global one.<br>Brexit: Following the UK's exit from the European Union, there continues to be political and economic uncertainty with some sectors experiencing significant shortages of labour and materials. The impact on the company is relatively uncertain as a change of regulatory compliance could still occur however, the probability has changed from moderate to low in the current year as there is less uncertainty with the passage of time. | The Board recognises that the level of uncertainty makes the risk difficult to mitigate fully.<br>The strength of our tenant and guarantor group reduces the impact of economic uncertainty impacting our income and the portfolio is well positioned to withstand any downturn.<br>The Group invests solely in UK properties. | High | Moderate |
| **Property and real estate risks** | | | |
| **Competition for properties**<br>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.<br>The Board reviews the performance of the Group against its investment objectives at quarterly Board meetings.<br>The Investment Advisor monitors the Group's financial position and returns on an ongoing basis.<br>The Investment Advisor has long standing relationships and an extensive track-record. The Group also has a wide range of available assets given (i) a multi sector approach and (ii) an ability to forward fund as well as invest in built assets. To date the Group has transacted the vast majority of deals on an 'off market' basis, avoiding competition. | Moderate | Moderate |
| **Property valuation**<br>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 at a discount to the prevailing valuation of the relevant property.<br>The Group's independent third-party valuer relies on the information provided by the Investment Advisor to produce its valuations. The valuer does not use source documents. An error in the information provided to the valuer could result in material error in the property valuation. | The Group only acquires properties with strong fundamentals that are of strategic importance to their tenants. The Group aims to hold assets for long-term income and embeds income growth into leases which contributes toward positive valuation movements.<br>An experienced independent third party valuer has been appointed to carry out bi-annual property valuations.<br>The performance of third party service providers is regularly reviewed by the Board.<br>The valuer inspects each property at least once annually.<br>The Investment Advisor agrees all information included in the valuation report back to source data each time the portfolio is valued.<br>The data provided to the valuer is reviewed internally by the Directors of the Investment Advisor. | Low | Moderate to high |

## Principal risks and uncertainties (continued)

| Risk | Mitigant | Probability | Impact |
|---|---|---|---|
| **Tenant default risk**<br>Dividends payable by the Group 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 pay dividends. | The Investment Advisor undertakes thorough due diligence before proposing investments to the Board for approval and only proposes assets let to strong tenants with proven operating track records who should be able to pay the rents as and when they are due.<br>The Investment Advisor continues to monitor the credit worthiness of its tenant counterparties by quarterly reviews of operating performance and liquidity, as well as reviews of other online data including credit ratings and press. The Investment Advisor has regular communication with tenants to discuss the operating performance of its assets as well as at a corporate level.<br>The Investment Advisor focusses on sectors that have a competitive tenant market and properties that demonstrate strong fundamentals such as low rents, low level of specification and strong trading performance at an asset level. These factors protect against the potential downside impact of tenant default as the property is attractive to alternative users. | Low | Moderate |
| **Compliance risks** | | | |
| **REIT status**<br>Failure to adhere to accounting, legal and regulatory requirements could result in material adverse consequences for the Group. If the Group fails to remain qualified as a REIT, the Group will be subject to UK corporation tax on some or all of its property rental income and chargeable gains, which would reduce the earnings and amounts available for distribution to shareholders. | The Investment Advisor monitors compliance with the REIT regime. The Group has appointed experienced third-party tax advisors with appropriate relevant experience to assist with tax compliance matters. Calculation of dividend is carried out by the Group's Administrator before review by the AIFM and Investment Advisor. The performance of third party service providers is regularly reviewed by the Management Engagement Committee and the Board.<br>The Investment Advisor reports quarterly to the Board on the two financial metrics relevant to REIT compliance, being balance of business and distribution of profits. | Low | High |
| **Operating within banking covenants**<br>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 acquires property with a low loan to value ratio and there is significant headroom for valuation movements.<br>The Investment Advisor and/or AIFM monitor compliance with the banking loan covenants.<br>The Investment Advisor reports quarterly to the Board on the two financial covenant compliance. | Low | High |
| **Other risks** | | | |
| **Dependence on the Investment Advisor**<br>The Group relies on the Investment Advisor's services, market intelligence, relationships and expertise. To a large extent the Group's performance is reliant on the continued service of the Investment Advisor.<br>A termination of the Investment Advisory Agreement would have an adverse impact on the Group's performance.<br>An unexpectedly rapid growth in the Investment Advisor's assets under management might cause an adverse impact on the Group's performance. | The Board has executed a long-term Investment Advisory Agreement securing the services of the Investment Advisor until 31 March 2025. A key man provision exists in the IA agreement relating to the co-Fund Managers.<br>The Board meets regularly with the Investment Advisor to promote a positive working relationship and the performance of the Investment Advisory is monitored by the Management Engagement Committee.<br>The Investment Advisory fee is a sliding scale % based on market capitalisation to align the Investment Advisor's interest with those of the shareholders.<br>The Investment Advisor is committed to growing its own resource to adequately reflect any growth in AUM and this has been demonstrated by the recruitment of additional personnel where appropriate to support the continued effective management of assets.<br>The Investment Advisor is also part of a wider group with over $15bn under management and adequate resources and expertise that may be relied upon from time to time. Some operational matters are subcontracted to this group as required and appropriate. | Low | High |

| Risk | Mitigant | Probability | Impact |
|---|---|---|---|
| **Climate-related risks** | | | |
| **Physical risk**<br>There is a risk of physical damage to real estate as a result of immediate environment-related factors such as flood risks, natural fires, etc.<br>This risk is likely to change and evolve over time. In the long-term, volatile changes in the weather systems may deem the Group's properties no longer viable to tenants. | The Company obtains environmental surveys on all acquisitions, which address the short-term risk of climate related damage to group properties.<br>The Investment Advisor's asset management team will continue to monitor the changing physical risk as it develops through regular site visits to the Group's assets. | Low | High |
| **Property valuation**<br>As institutional property investors and owners increase their focus on climate risk, there is likely to become a larger pool of capital looking to invest in energy efficient assets.<br>Although this represents an opportunity for those best-in-class assets to achieve a 'green premium', there is likely to be a dwindling pool of capital willing, and a wider yield demanded, to invest in assets that are less energy efficiency. The combined effect may result in greater polarisation of property values.<br>The assets within the Group's portfolio that are less energy efficient may be exposed to downward pressure on valuation or increased pressure to invest in the improvement of individual assets. Given the unexpired lease terms across the portfolio, this trend may impact the residual values implicit in valuations and reduce tenant demand for these properties. | A Climate Risk working group (CRWG) has been created to develop a road map to an energy efficient property portfolio including an appropriate policy for minimum energy performance across the Group's assets.<br>The working group covers both the Company and the Investment Advisor, who is the key service provider to the group.<br>A short-term initiative has been sent to ascertain the carbon footprint that the Company has as a whole, and to establish its reporting boundaries and recommend a realistic goal for becoming carbon neutral.<br>The Group is employing external experts to assess the work required and the cost of implementation.<br>Allowance has been made in the Group's financial planning as it is likely to have to share some of the capex costs of meeting this target with tenants. | Moderate | High |
| **Access to capital**<br>There is a risk that investor sentiment restricts the Company's ability to grow through continued investment from existing and new shareholders if investors do not see the Company as fitting within their own investment criteria or effectively managing climate-risk within the portfolio. This could potentially impact share price and access to capital.<br>As we see an increase in 'green debt' issues (bonds and RCFs), we are seeing an increased preference for lenders toward products with 'green' parameters and a cheaper cost of debt for those instruments. Providers of finance for the Company may set specific climate risk related parameters for counterparties (by policy or by law) that will reduce the Company's access to capital if it does not meet the relevant criteria, or they may increase the Company's cost of debt. | The Company will manage the risk associated with access to capital through the implementation of relevant, transparent and comparable reporting to shareholders, investors and the wider stakeholder group.<br>The investment advisor also regularly communicates with the Company's shareholders to discuss changing parameters and requirements for investment.<br>The working group understands that shareholders will increase their focus on supply chain management and will want to invest in Companies that reflect a consistent ethos, particularly when it comes to sustainability and climate-related matters. | Moderate | High |
| **Regulatory Risk**<br>Changes in legislation over the longer-term as well as other factors such as the energy efficiency of real estate being incompatible with legislation and targets that impact the occupier, may result in our assets becoming unlettable or other costs, such as taxes or fines being levied against assets that perform poorly in terms of climate impact. | The working group remains abreast of changes in legislation through the Company Secretary and corporate lawyers and other third parties.<br>The Group's overall climate risk strategy is designed to ensure that the Company meets the appropriate 'green' credentials that will continue to allow it debt and to partner with low cost lenders. | Low | High |

# 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 2022.

Assessment of the Group's ability to continue as a going concern has been subject to increased scrutiny since the onset of the Covid-19 global pandemic which had a significant impact on the operations as well as the financial performance of many of our tenants. However, the success of the UK vaccine roll-out during the year has led to the lifting of all Government lockdown restrictions and as of the date of this report all our tenant sites are open and operational.

Non-essential retail, hospitality and leisure facilities re-opened from 12 April 2021. From 17 May 2021 indoor hospitality and the remainder of businesses in all but the highest risk sectors have also re-opened and remained open. From 19 July 2021, all restrictions on businesses were lifted and the remaining closed sectors of the economy reopened.

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

Our strength and resilience as a business was demonstrated during the financial year. In particular the Board is comforted by the following characteristics of the platform:

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

- The Group's loan to value ("LTV") as at 31 March 2022 was 22%, this provides significant headroom to the covenant of 50%
- The Group's portfolio is currently valued at £1,544.4m reflecting a valuation yield of 4.5% with debt on balance sheet of £246.0m gross of unamortised costs
- The Group's forward looking interest cover ratio ("ICR") is c.767% versus the interest cover test of 300% in its banking facilities
- The Group has no immediate refinancing risk given the 12-year average maturity of its long term debt facilities with Scottish Widows which expires in December 2033, which are fully fixed at an all-in average rate of 2.85% pa and over two years remaining on the Group's RCF

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

- The Group's portfolio is 100% let or pre-let to over 70 strong tenants, across 11 sub-sectors. Furthermore the tenants are the main trading or parent companies within the tenant groups
- The Group's leases average 21 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

### Strong liquidity

- At 31 March 2022 the Group had net assets of £1,300.7m (31 March 2021: £781.4m) and a cash balance of £72.5m (31 March 2021: £87.1m) with £89.0m of undrawn revolving credit facility (£31 March 2021: £76.7m)

### 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 must assess the prospects of the Group over a longer period than the 12 months required by the 'Going Concern' provision.

The longer term financial projections used in this report 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.

These financial projections used in this report also cover a period that is longer than the Group's revolving credit facility, which expires in August 2024 (assuming the one year extension option is taken). It is assumed within the projections that the Revolving credit facility is renewed or taken out by an equivalent financing arrangement with consistent terms when it expires.

Five years was considered appropriate as it is covered by the Group's longer term financial projections. The Investment Advisor has considered 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.

The Board have also considered reverse stress testing and the circumstances that would lead to a covenant breach of the loan to value covenant and the interest cover ratio covenant. A reduction in the value of our property portfolio by 66% would be required in order for the valuation to reach the LTV covenant. Our contracted rental income would have to fall by 70% before the interest cover ratio covenant is breached.

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

Cyrus Ardalan
Chairman

6 June 2022

# Governance

**Governance**



# Directors' report

The Directors present their report for the year ended 31 March 2022.

## Dividends

The Company issued its annual dividend guidance on 11 February 2021 of 6.00 pence per Ordinary share payable quarterly in respect of the year commencing 1 April 2021 as follows:

The first quarterly dividend in respect of the year ended 31 March 2022 of 1.5 pence per share which was paid on 29 October 2021.

The second quarterly dividend in respect of the year ended 31 March 2022 of 1.5 pence per share which was paid on 30 December 2021.

The third quarterly dividend in respect of the year ended 31 March 2022 of 1.5 pence per share which was paid on 25 March 2022.

On 18 May 2022 the Board approved a fourth quarterly dividend in respect of the year ended 31 March 2022 of 1.5 pence per share, payable on 24 June 2022 to shareholders on the register at 27 May 2022. The ex-dividend date will be 26 May 2022. This will take the total dividends paid in respect of the year to 6.0p per share, in line with the Company's dividend target. The dividend will be paid as a Property Income Distribution ("PID").

On 10 January 2022, the Board announced that the Company is targeting a fully covered annual dividend of 6.3 pence per share for the 12-month period commencing 1 April 2022, which represents a 5% increase over the 6.0 pence per share target for the year ending 31 March 2022.

## 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.

Following an extensive search using the services of Fidelio, a search consultant that was independent of the Company and Board members, the Board approved the appointment of Cyrus Ardalan, as replacement Chairman, Hugh Seaborn, as replacement Senior Independent Director and Ismat Levin with effect from 13 January 2022. On 11 March 2022, following a period of handover, Stephen Hubbard and Colin Smith resigned from the Board.

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

## Principal professional advisors

### AIFM and Investment Advisor

Alvarium Fund Managers (UK) Limited is the Company's AIFM.

The Company and the AIFM have appointed LXi REIT Advisors Limited as Investment Advisor 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

Sanne 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 2022, the Company's issued share capital comprised 911,569,741 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** | **621,827,616** |
| New ordinary shares issued under the Placing on 5 July 2022 | 75,187,970 |
| New ordinary shares issued under the PrimaryBid Offer on 5 July 2022 | 2,781,955 |
| New ordinary shares issued to Laxmi Nivaria S.L.U. as consideration for the acquisition of a long-let property let to Sainsbury's Supermarkets Ltd. Shares admitted for trading on 7 January 2022 | 35,715,862 |
| New Ordinary Shares under the Open Offer for Subscription on 14 February 2022 | 66,280,766 |
| New Ordinary Shares under the Subsequent Placing on 14 February 2022 | 95,506,745 |
| New Ordinary Shares under the Offer for Subscription on 14 February 2022 | 5,796,332 |
| New Ordinary Shares under the Intermediary Offer for Subscription on 14 February 2022 | 8,472,495 |
| **Balance at the end of the year** | **911,569,741** |

### Premium management and share issuance

Shareholders granted authority to allot 400 million new ordinary shares on 11 March 2021 which lapsed on 18 February 2022. At the AGM held on 14 July 2021 shareholders granted authority to issue a further 62,182,761 new ordinary shares, with pre-emption rights disapplied. This authority expires at the conclusion of the forthcoming Annual General Meeting.

A supplementary prospectus was issued by the Company on 23 June 2021 in relation to the share issuance programme (the "first programme"). On 24 June 2021 the Board announced their intention to raise approximately £75 million by way of a placing pursuant to the first programme with a target of 56.4 million shares at a price of 133 pence per new ordinary share. Additionally, on 24 June 2021 the Board announced a retail offer of new ordinary shares via PrimaryBid at an issue price of 133 pence per new ordinary share up to a maximum of 500 per investor open to existing shareholders and other investors subscribing via PrimaryBid. On 30 June 2021, due to the high level of demand that was thought likely to exceed the target, the Board agreed to increase the target of the Placing to 100 million new ordinary shares under the first programme.

On 1 July 2021 the Board announced that had raised £100 million pursuant to the Placing, equating to 75,187,970 new ordinary shares, and approximately a further £4 million of gross proceeds pursuant to the PrimaryBid Offer, equating to 2,781,955 new ordinary shares.

On 16 December 2021 the Board announced the issue 35,715,862 new ordinary shares to Laxmi Niveria S.L.U. at a price of 145 pence per new ordinary share. The new ordinary shares were issued as part payment for the acquisition of a property fully let to Sainsbury's Supermarkets Limited with 19 years unexpired to first break in addition to £7 million in cash.

On 18 January 2022, the Board announced a proposed issue of 88,261,608 new ordinary shares in the Company at an issue price of 142 pence per new ordinary share by way of a subsequent placing, open offer, offer for subscription and intermediary offer (the "second programme"). On 20 January 2022 the Company issued a further prospectus pursuant to the second programme announced on 18 January 2022. On 9 February 2022, due to the high level of demand that was thought likely to exceed the target, the Board agreed to increase the target size of the second programme to £250 million, from its initial target size of £125 million.

On 10 February 2022, the Board announced the issue of 176,056,338 new ordinary shares at a price of 142 pence per new ordinary share, raising gross proceeds of £250 million, split according to the table shown above.

In the previous financial year, the Company under a separate programme issued 100,401,606 new ordinary shares, raising total gross proceeds of £125 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 (ex income) to 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 since the Company's launch.

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 93,211,959 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 of 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 repurchased 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 following table outlines shareholdings comprising 3% or more of the issued share capital of the Company as at 31 March 2022.

| Name | Holding as at 31 March 2022 | Percentage as at 31 March 2022 |
|---|---|---|
| HSBC Global Custody Nominee (UK) Limited | 48,873,276 | 5.36% |
| Nortrust Nominees Limited | 36,682,923 | 4.02% |
| State Street Nominees Limited | 35,253,271 | 3.87% |
| Cheviot Capital (Nominees) Limited | 32,858,208 | 3.60% |

### 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

Refer to the ESG Report.

## 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 on 14 September 2022 at 2.00 pm. The Notice convening the AGM is contained in the separate circular posted together with this Annual Report. The Directors consider that all of the resolutions to be proposed are in the best interests of the Company and it is their recommendation that shareholders support these proposals as they intend to do so in respect of their own shareholdings.

## 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

Jenny Thompson
Sanne Fund Services (UK) Limited
Company Secretary

6 June 2022

# 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. |
| 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 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 Code, 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. Hugh Seaborn superseded Colin Smith as the Senior Independent Director on 11 March 2022.

### Composition of the Board

At the date of this report, the Board consists of six non-executive Directors, including the Chairman, of whom three are male and three female and one Board member is of an ethnic minority.

Cyrus Ardalan, Hugh Seaborn and Ismat Levin were appointed to the Board on 13 January 2022 following an extensive search by Fidelio, a search consultant that was independent of the Company. On 11 March 2022 Stephen Hubbard and Colin Smith resigned from the Board.

The Board believes that during the year ended 31 March 2022 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 are conscious of their obligations with regard to ESG. In order to ensure the Board has suitable skills required to ensure compliance with ESG requirements, Patricia Dimond is working toward the CFA Institute Certificate in ESG Investing qualification. Additionally, Cyrus Ardalan, Patricia Dimond and Ismat Levin hold positions on a number charities and not for profit entities.

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 two of the six 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 the Directors will retire and offer themselves for election or re-election at the AGM of the Company to be held on 13 July 2022. The Board recommends all the Directors for either election or re-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 Patricia Dimond 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. During the initial lockdown in the UK, the Audit Committee established a separate Real Estate Risk-Sub Committee whose objective was to closely monitor tenants that had been severely impacted by the pandemic and to report back on any appropriate action deemed necessary. This sub-committee was chaired by John Cartwright.

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.

The Company has established a Nomination Committee which is chaired by Cyrus Ardalan 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 nominating candidates for the office of director of the Company. 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.

Each Committee has adopted formal terms of reference, which are reviewed on a regular basis, 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.

| | Regular Board | Audit Committee | Management Engagement Committee | Nomination Committee |
|---|---|---|---|---|
| **Number of formal meetings held[1]** | **5** | **4** | **1** | **4** |
| Cyrus Ardalan[1] | 1 | 1 | 1 | 0 |
| Hugh Seaborn[1] | 1 | 1 | 1 | 0 |
| Stephen Hubbard[2] | 5 | 4 | 1 | 4 |
| Ismat Levin[1] | 1 | 1 | 1 | 0 |
| John Cartwright | 5 | 4 | 1 | 4 |
| Patricia Dimond | 5 | 4 | 1 | 4 |
| Jan Etherden | 5 | 4 | 1 | 4 |
| Colin Smith OBE[2] | 5 | 4 | 1 | 4 |

In addition to those listed above, the Company held a number of Board and Committee meetings to deal with administrative matters and the formal approval of documents and transactions.

## Conflicts of Interest

The Directors have declared any conflicts or potential conflict of interest to the Board which has the authority to approve such situations. The Company Secretary maintains the Register of Directors' Conflicts of Interests which is reviewed at each quarterly board meeting and when changes are notified. The Directors advise the Company Secretary and Board as soon as they become aware of any conflicts of interest. Directors who have conflicts of interest do not take part in discussions which relate to any of their conflicts.

It is the responsibility of each individual Director to avoid an unauthorised conflict arising. Directors must request authorisation from the Board as soon as they become aware of the possibility that a conflict may arise. The Board is responsible for considering Directors' requests for authorisation of conflicts and for deciding whether or not the relevant conflict should be authorised. When the Board is deciding whether to authorise a conflict or potential conflict, only Directors who have no interest in the matter being considered are able to participate in the relevant decision, and in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The Board are able to impose limits or conditions when giving authorisation if they think this is appropriate in the circumstances. The Directors must also comply with the statutory rules requiring company directors to declare any interest in an actual or proposed transaction or arrangement with the Company.

1 Appointed to the Board on 13 January 2022

2 Resigned from the Board on 11 March 2022

## 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.

### Cyrus Ardalan
Non-Executive Chairman

**Appointed:** 13 January 2022 appointed to the Board; 11 March 2022 appointed Chairman

**Length of service:** Four months

Cyrus is a highly experienced international investment banker with well-established corporate governance expertise and successful credentials as chairman. His career in capital markets spans over 40 years during which he has held senior executive and non-executive roles at leading global banks. He is currently the Chairman of the Board at OakNorth Bank and was previously non-executive director and Chairman of a number of institutions, including Citigroup Global Markets, the International Finance Facility for Immunisation and the International Capital Markets Association. Cyrus spent 15 years at Barclays Bank as Vice Chairman overseeing a number of areas including the bank's Public Policy and Government Relations units. Prior to this, he held a range of senior positions at Paribas and The World Bank.

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

### Hugh Seaborn CVO
Non-Executive Director and Senior Independent Director

**Appointed:** 13 January 2022 appointed to the Board; 11 March 2022 appointed Senior Independent Director

**Length of service:** Four months

Hugh brings over 35 years of real estate experience. He spent 13 years as a non-executive at TR Property Investment Trust plc, including four years as Chair, and is currently the CEO of Cadogan. He founded and chairs two business improvement districts, The Knightsbridge Partnership and The King's Road Partnership, and is Chair of the Knightsbridge Business Group. Previously, he was CEO of The Portman Estate and prior to that Director and Head of Investment Management at CBRE. Formerly, Hugh has been a member of the Council of the Duchy of Lancaster, Chair of the Westminster Property Association, Chair of the Estates Business Group, and a member of the Property Advisory Committee for the Natural History Museum. He is a Chartered Surveyor.

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

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

## Patricia Dimond
Non-Executive Director

**Appointed:** 1 January 2020

**Length of service:** Two years

Patricia has had an international career, at senior executive level working for large private and publicly listed companies in consumer and retail markets. She is a CFA charter holder and qualified as a Chartered Accountant working with Deloitte in Canada and the UK. Patricia is an alumnae of McKinsey & Company and holds an MBA from IMD Switzerland. She has an expertise in corporate governance, risk and performance management and is co-author of Driven to the Brink: Why Corporate Governance, Board Leadership and Culture Matter.

Patricia currently serves as a Non-Executive Director with Foresight VCT plc, Aberforth Smaller Companies Trust plc and Hilton Food Group plc. She is a Trustee and chair of Audit & Risk for the English National Opera (ENO) and the National Academy for Social Prescribing (NASP).

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

## Jan Etherden
Non-Executive Director

**Appointed:** 27 January 2017

**Length of service:** Five years

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 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:** Five years

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
- Management Engagement Committee
- Nomination Committee

## Ismat Levin
Non-Executive Director

**Appointed:** 13 January 2022

**Length of service:** Four months

Ismat Levin has 28 years' experience in commercial, international growth and legal technology-led software industries across NASDAQ-listed and private equity contexts, including as a Board observer. She is currently Vice President and Group General Counsel at Synamedia Limited. Before this, Ismat spent almost 20 years at NDS Group as Vice President and Group General Counsel as it grew from a start-up investment owned by News Corporation, to being a NASDAQ listed company for 10 years, to being sold to Cisco Systems, Inc. for $5 billion. Ismat began her career at Dentons LLP.

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

## 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 on an annual basis.

The Board annual board appraisal was undertaken internally by the Company Secretary. A number of open and closed ended questions were used as the basis of 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.

A review of the Company's key service providers was undertaken by the Company Secretary. The review comprised open and closed ended questions and included a review of each service providers fees to ensure they remained competitive. Following the review process the Board agreed that the performance and fees of each service provider was satisfactory and that it was in the Company's best interest that the engagement of each service providers continue for the foreseeable future.

### Board diversity

As part of the recruitment process the Nomination Committee, as instructed by the Board, were tasked with identifying suitable candidates from an ethnic minority background and additionally those that were female in order to meet the requirements of the Parker Review. Following a thorough and extensive search, the Board identified Ismat Levin as an additional Board member. Ismat's biographical details can be found on page 49.

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 three female and three male Directors and one of ethnic minority.

## 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 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.

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 resolutions are explained in the circular containing the notice of AGM.

Separate resolutions are proposed for each substantive issue. The Company's AGM will be held on 13 July 2022.

Relations with other stakeholders are described in the s.172 statement on page 33.

# 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 role of the Audit Committee is to ensure that the Company maintains the highest standards of integrity in financial reporting, risk management and internal controls. The role and responsibility of the Audit Committee is set out in formal, written terms of reference covering certain matters in line with the AIC Code. Copies of the terms of reference are available from the Company Secretary.

The Audit Committee meets formally at least three times 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, half-yearly financial report and the audit plan for the financial year.

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 periodically reviews the need for an internal audit function and considers that this is not required 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 remains independent.

## Composition

All of the Directors of the Company are members of the Audit Committee. The Chairman of the Committee is Patricia Dimond.

## 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

During the year four Audit Committee meetings were held. The entire Committee were in attendance at those meetings. The Audit Committee established a separate Real Estate Risk-Sub Committee whose objective was to closely monitor tenants that had been severely impacted by the pandemic and to report back on any appropriate action deemed necessary. This sub-committee was chaired by John Cartwright. During the year under review there were no Real Estate Risk Sub Committee meetings were held.

## Activities of the Audit Committee

During the year, the Audit Committee 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 set out 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.

## 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;
- 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 2022:

### 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.

## Statutory Audit Services compliance

The Company confirms compliance with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014, which relates to the frequency and governance of tenders for the appointment of the external auditor for the year to 31 March 2022. The Committee are conscious that this year is the fifth anniversary of BDO's appointment, having acted as the Company's auditor since the Company's inception. The Committee believe that it is not in the Company's best interest in the current year to undertake a competitive tender process, given the proposed changes to the Company's structure as was announced to the market on 11 May 2022. However, the lead partner is rotating off in accordance with guidelines. The Committee will undertake a competitive tender for the external auditor during the year to 31 March 2026 to cover the financial years ending 31 March 2027 onwards at the latest and as required by regulation.

## 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 reviews the Independent Auditor following the presentation of the results of the audit. The review includes a discussion of the audit process and the ability of the Independent Auditor to fulfil its role. 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. | £67,000 |
| 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. | £29,600 |

The independence of the Independent Auditor was considered prior to the provision of these services. The Audit Committee periodically monitors the ratio of non-audit to audit services to ensure that any fees for permissible non-audit services does not exceed 70% of the average audit fees paid in the last three years.

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 2022, 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.

Patricia Dimond
Chairman of the Audit Committee

6 June 2022

# 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 was one Management Engagement Committee meeting held during the year. The entire Management Engagement Committee were present for that meeting.

### AIFM and Investment Advisor

The Company has appointed Alvarium Fund Managers (UK) Limited (formerly 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.

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 at least an annual basis to ensure that their continuing appointments are in the best interest of the Company's shareholders.

A review of the Company's key service providers was undertaken by the Company Secretary. The review comprised open and closed ended questions and included a review of the quality of their services and fees to ensure they remained competitive and a review of each service providers policies and procedures to ensure each service provider had adequate controls and procedures in place. As part of this process the Board considered each service providers' ability to continue to operate remotely during the pandemic. Following the review process the Board agreed that the performance and fees of each service provider was satisfactory and that it was in the Company's best interest that the engagement of each service provider continue.

**Jan Etherden**
Chairman of the Management Engagement Committee

6 June 2022

# 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, we safekeep assets of $102 billion and deploy our services to over 120 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 2022 our work included the review of two equity share issues, 58 investment property acquisitions, one investment property disposal, and four dividends. 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

6 June 2022

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 existing Directors' Remuneration Policy was approved at the Company's Annual General Meeting ('AGM') held on 14 July 2021. 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 2024. 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.

## Voting on Remuneration Matters

At the AGM on 14 July 2021 the resolution to receive and approve the directors' remuneration report for the year ended 31 March 2021 received the following votes: for 96.85% (350,517,844 votes); against 3.15% (11,403,551 votes).

The remuneration policy received the following votes: for 99.75% (361,007,784 of votes); 0.25% votes against (913,612 votes).

## 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 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 |
| Additional | Senior Independent Director | 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 |

No director is involved in setting their own remuneration and the Company's conflict of interest policy and procedures (see page 47) apply to the Board when undertaking their duties.

## 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

The Directors' remuneration will be reviewed on an annual basis by the Board and any changes are subject to approval by the Board. The Board agreed not to increase their fees during the year.

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

The Remuneration Policy put to shareholders at the Annual General Meeting held on 14 July 2021 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.

## 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 13 July 2022.

### Annual statement on policy implementation

As the Board consists only of six 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 Nomination Committee.

### Remuneration

The Company currently has six non-executive Directors.

The rates of Directors' remuneration can be found below:

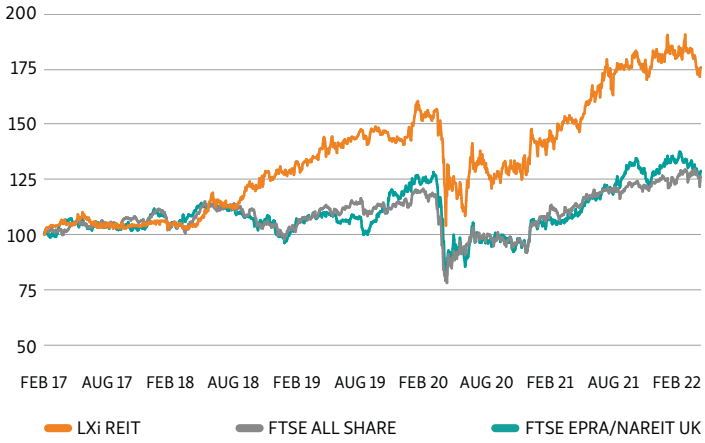
| Role | Remuneration £ |
|---|---|
| Chairman's fee | 100,000 |
| Director's fee | 40,000 |
| Senior Independent Director additional fee | 8,000 |
| Audit Committee Chair additional fee | 5,000 |
| Management Engagement Committee Chair additional fee | 3,000 |

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.

### 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.

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 2022 will be put forward for approval at the Company's AGM to be held on 13 July 2022.

### SINGLE TOTAL FIGURE OF REMUNERATION PROJECTED AND CURRENT (AUDITED)

| | Date of appointment to the Board | Fees for the year to 31 March 2022 £ | Fees for the year to 31 March 2021 £ | % annualised change in Directors fees[1] | |
|---|---|---|---|---|---|
| | | | | 2022 | 2021 |
| Cyrus Ardalan | 13 January 2022 | 21,370 | – | – | – |
| Stephen Hubbard[2] (Chairman) | 27 January 2017 | 70,890 | 75,000 | -5.5% | 50.0% |
| Hugh Seaborn | 13 January 2022 | 8,986 | – | – | – |
| John Cartwright[3] | 27 January 2017 | 40,000 | 42,000 | -4.8% | 13.5% |
| Patricia Dimond[3] (AC Chairman) | 1 January 2020 | 45,000 | 43,000 | 4.7% | 330.0% |
| Jan Etherden (MEC Chairman) | 27 January 2017 | 43,000 | 43,000 | – | 22.9% |
| Ismat Levin | 13 January 2022 | 8,548 | – | – | – |
| Colin Smith OBE[2] | 27 January 2017 | 37,808 | 40,000 | – | 25.0% |

1 In accordance with The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019, these column have been included to show the annual percentage change over the preceding financial year by comparison to the current financial year in respect of each Director that has served in their relevant role for a minimum of two financial years. The Board will publish this annual percentage change cumulatively each year going forward until there is an annual percentage change over the five financial years preceding the relevant financial year in accordance with the new regulation. These fees exclude taxable benefits which could vary substantially as they reflect expenses incurred whilst carrying out the board's duties.

2 Resigned on 11 March 2022.

3 The decrease in annual fees in respect of the year to 31 March 2022 reflects the fact that John Cartwright stepped down as Audit Committee Chairman on 16 September 2020 but remained on the Board. The large increase in Patricia Dimond's annual fees for the year to 31 March 2021 was because she had been appointed to the Board during that year on 1 January 2020. On 16 September 2020, Patricia Dimond assumed the role of Audit Chair which resulted in an increase in her fees for the year to 31 March 2022 by 4.7%.

Following independent advice from Carmichael Fisher, the Board agreed to a pay increase with effect from 1 January 2020. The above table shows the revised Board fees which were approved to reflect the increased size of the Company since IPO, the level of time commitment by the Board and to bring the Board fees in line with the Board fees of other similar sized Real Estate Investment Trusts. During the year under review the Board agreed that their fees remain unchanged.

### 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 2022 | Year ended 31 March 2021 |
|---|---|---|
| Directors' fees | £275,602 | £245,000 |
| Investment Advisor's fee | £7,083,078 | £4,406,627 |
| Dividends paid and proposed | £45,700,173 | £30,405,007 |

### Directors' shareholdings (audited)

The directors had the following shareholdings in the Company.

| Director | Ordinary shares at 31 March 2022 | Ordinary shares at 31 March 2021 |
|---|---|---|
| Cyrus Ardalan | 206,000 | – |
| Stephen Hubbard | 185,389 | 185,389 |
| Hugh Seaborn | – | – |
| John Cartwright[1] | 66,687 | 66,687 |
| Patricia Dimond[2] | 39,520 | 25,436 |
| Jan Etherden | 77,274 | 77,274 |
| Ismat Levin | 14,084 | – |
| Colin Smith OBE | 247,909 | 247,909 |

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 2022:

a) the major decisions on Directors' remuneration;

b) any substantial changes relating to Directors' remuneration made during the financial year to 31 March 2022; and

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

**Cyrus Ardalan**
Chairman of the Board of Directors

6 June 2022

1 Includes 42,814 shares held beneficially by a connected person.

2 Includes 8,005 shares held non-beneficially by a connected person.

# Statement of Directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with UK adopted international accounting standards and applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with UK adopted international accounting standards and have elected to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 Company and of the profit or loss for the Group for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with UK adopted international accounting standards, subject to any material departures disclosed and explained in the financial statement;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business;
- prepare a directors' report, a strategic report and directors' remuneration report which comply with the requirements of the Companies Act 2006.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for ensuring that the annual report and accounts, taken as a whole, are fair, balanced, and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

## 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' responsibilities pursuant to DTR4

The directors confirm to the best of their knowledge:

- The financial statements have been prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group.
- The annual report includes a fair review of the development and performance of the business and the financial position of the Group and Company, together with a description of the principal risks and uncertainties that they face.

## Approval

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

Cyrus Ardalan
Chairman of the Board of Directors

6 June 2022

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

## Opinion on the financial statements

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 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of LXi REIT plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 March 2022 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 Consolidated and Company financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

## 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

### Independence

Following the recommendation of the audit committee, we were appointed by the Directors on 25 August 2017 to audit the financial statements for the year ending 31 March 2018 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is 5 years, covering the years ending 31 March 2018 to 31 March 2022. We remain 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. The non-audit services prohibited by that standard were not provided to the Group or the Parent Company.

## Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included: the following considerations:

- Using our knowledge of the Group and its market sector together with the current economic environment to assess the Directors' identification of the inherent risks to the Group's business and how these might impact the Group's ability to remain a going concern for the going concern period, being the period to 30 June 2023, which is at least 12 months from when the financial statements are authorised for issue;
- Obtaining an understanding of the Directors' process for assessing going concern including an understanding of the key assumptions used;
- Obtaining management's going concern assessment and long-term viability statement and:
  - Assessing the Group's forecast cash flows with reference to budgeted and historic performance and challenging management's forecast assumptions in comparison to the current performance of the Group;
  - Agreeing the inputs into the forecasts to supporting documentation for reasonableness based on historic activity and contractual agreements;
  - Agreeing the Group's available borrowing facilities and the related terms and covenants to loan agreements;
- Analysing the sensitivities applied by the Directors' stress testing calculations and challenging the assumptions made using our knowledge of the business and of the current economic climate, to assess the reasonableness of the downside scenarios selected;
- Obtaining covenant calculations and forecast calculations to test for any potential future covenant breaches;
- Considering the covenant compliance headroom for sensitivity to both future changes in property valuations and the Group's future financial performance;
- Considering board minutes, and evidence obtained through the audit and challenged management on the identification of any contradictory information in the forecasts and the resultant impact to the going concern assessment;
- Reviewing the disclosures in the financial statements relating to going concern to check that the disclosure is consistent with the circumstances.

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

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

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

## Overview

| | | | |
|---|---|---|---|
| Coverage[1] | 100% (2021: 100%) of Group profit before tax<br>100% (2021: 100%) of Group revenue<br>100% (2021: 100%) of Group total assets<br>100% (2021: 100%) of Group investment property | | |
| Key audit matters | | 2022 | 2021 |
| | KAM 1 | Investment property valuations | Investment property valuations |
| Materiality | **Group financial statements as a whole**<br>£15.9m (2021: £9.9m) based on 1% (2021: 1%) of total assets | | |

### An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

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 work necessary to issue the Group and Parent company audit opinions. We identified four significant components, in addition to the Parent Company:

LXi Property Holdings 1 Limited

LXi Property Holdings 2 Limited

LXi Property Holdings 3 Limited

LXi Property Holdings 4 Limited

All significant components, and the Parent Company, were subject to full scope audits by the Group audit team. The remainder of the Group's components were audited as a whole, by financial statement area. The Group audit team performed all the work necessary to issue the Group and Parent Company audit opinion.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, 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**<br>*Refer to notes 2 and 3 in relation to significant estimates and accounting policies.*<br>*Refer to note 8 in relation investment property.*<br>The valuation of Investment property requires significant judgement and estimates by the Directors and the independent valuer appointed by management and is therefore considered a key audit matter due to the subjective nature of certain assumptions inherent in each valuation.<br>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.<br>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.<br>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**<br>• We obtained the valuation report prepared by the independent valuer and discussed the basis of the valuations with them. We determined whether the basis of the valuations was in accordance with the requirements of accounting standards.<br>• We assessed the external valuer's qualifications, independence and basis of valuation.<br>• 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.<br>**Data provided to the valuer**<br>• We validated the underlying data provided to the valuer by the Manager. This data included inputs such as current rent and lease term, for which we agreed all to the executed lease agreements as part of our audit work.<br>**Assumptions and estimates used by the valuer**<br>• We developed yield expectations on each property using available independent industry data, reports and comparable transactions in the market around the period end.<br>• 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 impact of wider macroeconomic events on the valuation of these assets. Further, we challenged the appropriateness of the discount rates applied to the valuations with the valuer and where possible obtained evidence of comparable market transactions through independent sources.<br>• For properties under construction we assessed the project costs and progress of development, by agreeing funding drawdowns during the year to third part documentation, and verified the forecast costs to complete included in the valuations to third party documentation.<br>• We consulted with internal RICS-qualified experts as part of setting our expectations. They also attended the audit meetings with the Group's valuers to assist us in assessing that explanations provided were appropriate and in line with market knowledge.<br>**Accounting for assets under construction**<br>• We examined all forward funding agreements entered into during the year for assets under construction and determined whether the accounting treatment of the asset recognition and the license fee income was appropriate under accounting standards.<br>**Key observations**<br>• Based on our work we have not noted any material instance which may indicate that the assumptions adopted by the Directors in the valuation of investment property were not reasonable or that the methodology applied was inappropriate. |

## Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

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

| | Group financial statements | | Parent company financial statements | |
|---|---|---|---|---|
| | 2022 £m | 2021 £m | 2022 £m | 2021 £m |
| Materiality | 15.9 | 9.9 | 10.1 | 7.3 |
| Basis for determining materiality | Materiality for the Group and Parent Company's financial statements was set at 1% (2021: 1%) of total assets. | | | |
| Rationale for the benchmark applied | We determined that total assets would be the most appropriate basis for determining overall materiality as we consider it to be the principal considerations for the users of the financial statements in assessing the financial performance of the Group. | | | |
| Performance materiality | 10.3 | 6.4 | 6.6 | 4.8 |
| Basis for determining performance 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 65% (2021: 65%) of materiality. We determined that the same measure as the Group was appropriate for the Parent Company. | | | |

### Specific materiality

We also determined that for the measurement of other account balances and classes of transactions not related to investment properties, a misstatement of less than materiality for the financial statements as a whole, specific materiality, could influence the economic decisions of users. As a result, we determined that specific materiality for these areas should be £2.1m (2021: £1.6m). This is based on 5% (2021: 5%) of European Public Real Estate Association ("EPRA") earnings. EPRA earnings excludes the impact of the net surplus on revaluation of investment properties and profit on disposal of investment properties. We further applied a performance materiality level of 65% (2021: 65%) of specific materiality to ensure that the risk of errors exceeding specific materiality was appropriately mitigated.

### Component materiality

We set materiality for each component of the Group on the same basis as Group materiality, being 1% (2021: 1%) of the total assets of each component. Component materiality ranged from £2m to £7.3m (2021: £1.5m to £4m). In the audit of each component, we further applied performance materiality levels of 65% (2021: 65%) of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

### Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £317,000 (2021: £198,000) for items audited to financial statement materiality, and £41,000 (2021: £77,500) for items audited to specific materiality. We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

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

We have nothing to report in this regard.

## Corporate governance statement

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

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

### Going concern and longer-term viability

- The Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 38; and
- The Directors' explanation as to their assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 39.

### Other Code provisions

- Directors' statement on fair, balanced and understandable set out on page 54;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 60;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 50; and
- The section describing the work of the audit committee set out on page 52.

## Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

### Strategic report and Directors' report

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

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

In the light of the knowledge and understanding of the Group and 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.

### Directors' remuneration

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

### Matters on which we are required to report by exception

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.

## Responsibilities of Directors

As explained more fully in the Statement of Directors' responsibilities, 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.

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

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

- Our procedures focused on matters at both a group and component levels.
- We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, including The UK Real Estate Investment Trust ("REIT") regime, the Companies Act 2006 and the UK Listing Rules, and considered the risk of acts by the Group that were contrary to the applicable laws and regulations, including fraud, of which none were noted.
- In order to address the risk of non-compliance with the REIT regime, we considered a report from the Group's external adviser, detailing the actions that the Group has undertaken to ensure compliance. This paper was reviewed, and the assumptions challenged, by our own internal expert.
- We assessed the susceptibility of the financial statements to material misstatement, including fraud and considered the fraud risk areas to be revenue recognition, investment property valuations, and management override of controls. To address the fraud risk in relation to revenue recognition, we assessed the Directors' judgements of lease terms for any evidence of bias, recalculated and traced to source documentation the details of any lease incentives, and traced a sample of rental income to cash receipts to address the completeness of lease incentives and rent concessions. Procedures to address the fraud risk in respect of investment property valuations and management override of controls are detailed further in the key audit matters subheading and the procedures below respectively.
- Our tests included agreeing the financial statement disclosures to underlying supporting documentation where relevant, review of Board and Committee meeting minutes, enquiries with management and the Directors as to the risks of non-compliance and any instances thereof, and we obtained an understanding of the client's controls around procurement fraud.
- We made enquiries of the Directors as to whether there were any known or suspected instances of fraud in the year, or since the year end.
- We also addressed the risk of management override of internal controls by the testing of unusual journals and evaluating whether there was evidence of bias by management and the Directors that represented a risk of material misstatement due to fraud. This included evaluating any management bias within the valuation of investment property, as mentioned under the key audit matters subheading.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed 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 are to become aware of it.

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

## 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, UK

6 June 2022

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 2022 £m | Year ended 31 March 2021 £m |
|---|---|---|---|
| Rental income | 4 | **58.5** | **42.8** |
| Administrative and other expenses | 5 | (9.3) | (5.9) |
| Operating profit before change in fair value and gain on disposal of investment property | | **49.2** | **36.9** |
| Change in fair value of investment property | 8 | 117.7 | 0.1 |
| Gain on disposal of investment property | 8 | – | 6.3 |
| Change in fair value of financial instruments | | 1.2 | – |
| Operating profit | | **168.1** | **43.3** |
| Gain on refinancing | | – | 1.9 |
| Finance costs | 6 | (6.8) | (5.3) |
| Profit before tax | | **161.3** | **39.9** |
| Taxation | 7 | 0.7 | – |
| Profit and total comprehensive income attributable to shareholders | | **162.0** | **39.9** |
| Earnings per share – basic and diluted | 24 | **22.8p** | **7.6p** |

The notes on pages 72 to 94 form part of the consolidated financial statements.

# Consolidated statement of financial position

Company number: 10535081

| | Note | 31 March 2022 £m | 31 March 2021 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment property | 8 | 1,480.1 | 887.5 |
| Trade and other receivables | 11 | – | 0.4 |
| **Total non-current assets** | | **1,480.1** | **887.9** |
| **Current assets** | | | |
| Trade and other receivables | 11 | 19.4 | 13.7 |
| Assets held for sale | 9 | 19.0 | – |
| Deferred acquisition costs | | 0.7 | 1.4 |
| Financial instruments | | 1.2 | – |
| Cash and cash equivalents | 12 | 72.5 | 87.1 |
| **Total current assets** | | **112.8** | **102.2** |
| **Total assets** | | **1,592.9** | **990.1** |
| **Current liabilities** | | | |
| Trade and other payables | 13 | 38.6 | 18.3 |
| **Total current liabilities** | | **38.6** | **18.3** |
| **Non-current liabilities** | | | |
| Bank borrowings | 14 | 240.0 | 186.6 |
| Trade and other payables | 13 | 13.6 | 3.8 |
| **Total non-current liabilities** | | **253.6** | **190.4** |
| **Total liabilities** | | **292.2** | **208.7** |
| **Net assets** | | **1,300.7** | **781.4** |
| **Equity** | | | |
| Share capital | 15 | 9.1 | 6.2 |
| Share premium reserve | 16 | 940.0 | 544.5 |
| Capital reduction reserve | | 21.0 | 62.1 |
| Retained earnings | | 330.6 | 168.6 |
| **Total equity** | | **1,300.7** | **781.4** |
| **Net asset value per share – basic and diluted** | 25 | **142.7p** | **125.7p** |
| **EPRA NTA per share** | 25 | **142.6p** | **125.7p** |

The consolidated financial statements were approved and authorised for issue by the Board on 6 June 2022 and signed on its behalf by:

Cyrus Ardalan
Chairman

The notes on pages 72 to 94 form part of the consolidated financial statements.

# Consolidated statement of changes in equity

| Year ended 31 March 2022 | Note | Share capital £m | Share premium reserve £m | Capital reduction reserve £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|---|---|
| **Balance at 1 April 2021** | | **6.2** | **544.5** | **62.1** | **168.6** | **781.4** |
| Profit and total comprehensive income attributable to shareholders | | – | – | – | 162.0 | 162.0 |
| Transactions with owners | | | | | | |
| Issue of ordinary shares in the year | 15,16 | 2.9 | 402.6 | – | – | 405.5 |
| Share issue costs | 16 | – | (7.1) | – | – | (7.1) |
| Dividends paid in the year | 17 | – | – | (41.1) | – | (41.1) |
| **Balance at 31 March 2022** | | **9.1** | **940.0** | **21.0** | **330.6** | **1,300.7** |

| Year ended 31 March 2021 | Note | Share capital £m | Share premium reserve £m | Capital reduction reserve £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|---|---|
| Balance at 1 April 2020 | | 5.2 | 423.2 | 90.9 | 128.7 | 648.0 |
| Profit and total comprehensive income attributable to shareholders | | – | – | – | 39.9 | 39.9 |
| Transactions with owners | | | | | | |
| Issue of ordinary shares in the year | 15,16 | 1.0 | 124.0 | – | – | 125.0 |
| Share issue costs | 16 | – | (2.7) | – | – | (2.7) |
| Dividends paid in the year | 17 | – | – | (28.8) | – | (28.8) |
| **Balance at 31 March 2021** | | **6.2** | **544.5** | **62.1** | **168.6** | **781.4** |

The notes on pages 72 to 94 form part of the consolidated financial statements.

# Consolidated cash flow statement

| | Note | Year ended 31 March 2022 £m | Year ended 31 March 2021 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | | 161.3 | 39.9 |
| Adjustments for: | | | |
| Finance costs | 6 | 6.8 | 5.3 |
| Gain on refinancing | | – | (1.9) |
| Change in fair value of investment property | 8 | (117.7) | (0.1) |
| Gain on disposal of investment property | 8 | – | (6.3) |
| Change in fair value of derivative | | (1.2) | – |
| Accretion of tenant lease incentives | 4 | (9.9) | (8.4) |
| **Operating results before working capital changes** | | **39.3** | **28.5** |
| Increase in trade and other receivables | | (3.2) | (2.6) |
| Increase in trade and other payables | | 15.3 | 3.0 |
| **Net cash flow generated from operating activities** | | **51.4** | **28.9** |
| **Cash flows from investing activities** | | | |
| Purchase of derivative | | (0.1) | – |
| Purchase of investment properties | | (425.4) | (160.5) |
| Proceeds from sale of investment property | | 8.3 | 96.0 |
| **Net cash flow used in investing activities** | | **(417.2)** | **(64.5)** |
| **Cash flows from financing activities** | | | |
| Proceeds from shares issued in the year | | 353.8 | 125.0 |
| Share issue costs paid | | (7.2) | (2.7) |
| Dividend paid | | (41.1) | (28.8) |
| Interest paid | | (6.6) | (5.9) |
| Drawdown of borrowings | | 239.7 | 62.3 |
| Repayment of borrowings | | (186.0) | (40.0) |
| Loan arrangement fees paid | | (1.4) | (0.6) |
| **Net cash flow generated from financing activities** | | **351.2** | **109.3** |
| **Net (decrease)/increase in cash and cash equivalents** | | (14.6) | 73.7 |
| Cash and cash equivalents at the beginning of the year | | 87.1 | 13.4 |
| **Cash and cash equivalents at the end of the year** | 12 | **72.5** | **87.1** |

The notes on pages 72 to 94 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 accounting standards in conformity with the requirements of the Companies Act 2006 and in accordance with International Financial Reporting Standards and International Accounting Standards as issued by the International Accounting Standards Board (IASB) and Interpretations (collectively IFRSs) and in accordance with the Companies Act 2006 and Article 4 of the IAS Regulations.

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted international accounting standards, with future changes being subject to endorsement by the UK Endorsement Board. The Group transitioned to UK-adopted international accounting standards in its consolidated financial statements on 1 January 2021. There was no impact or changes in accounting policies from the transition.

The financial statements have been prepared for the year ended 31 March 2022. The comparative information included in the financial statements relates to the year ended 31 March 2021.

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 Company's functional currency, and values are rounded to the nearest hundred thousand except where indicated otherwise.

### Standards effective from 1 April 2021

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

- Interest Rate Benchmark Reform – IBOR 'phase 2' (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16). The amendments provide relief to the Group in respect of certain loans whose contractual terms are affected by interest benchmark reform (effective from 1 January 2021). Applying the practical expedient introduced by the amendments, when the benchmarks are replaced the adjustments to the contractual cash flows will be reflected as an adjustment to the effective interest rate. Therefore, the replacement of the loans' benchmark interest rate will not result in an immediate gain or loss recorded in profit or loss.
- Amendments to IFRS 16 Leases: Covid-19-Related Rent Concessions beyond 30 June 2021. The amendment extends the practical expedient to reductions in lease payments that were originally due on or before 30 June 2022. The amendment is to be applied mandatorily by those entities that have elected to apply the previous amendment COVID-19-Related Rent Concessions. Accordingly, the Group has applied the amendment Covid-19-Related Rent Concessions beyond 30 June 2021 in the current annual financial statements.

These standards have been assessed to have no significant impact to the Group as they are either not relevant to the Group's activities or require accounting which is consistent with the Group's current accounting policies.

### 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:

- Amendments to IAS 1 which clarifies the criteria used to determine whether liabilities are classified as current or non-current (effective 1 January 2023). These amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. The amendment is not expected to have an impact on the presentation or classification of the liabilities in the Group based on rights that are in existence at the end of the reporting period.
- Amendments to IFRS 3 Business Combinations and IAS 8 Accounting policies (effective for periods beginning on or after 1 January 2022)

There are other new standards and amendments to standards and interpretations which have been issued that are effective in future accounting periods, and which the Group has decided not to adopt early. None of these are expected to have a material impact on the condensed consolidated financial statements of the Group.

### 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 has been subject to increased scrutiny since the onset of the Covid-19 global pandemic which had a significant impact on the operations as well as the financial performance of many of our tenants. However, the success of the UK vaccine roll-out during the year has led to the lifting of all Government lockdown restrictions and as of the date of this report all our tenant sites are open and operational.

Non-essential retail, hospitality and leisure facilities re-opened from 12 April 2021. From 17 May 2021 indoor hospitality and the remainder of businesses in all but the highest risk sectors have also re-opened and remained open. From 19 July 2021, all restrictions on businesses were lifted and the remaining closed sectors of the economy reopened.

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

Our strength and resilience as a business was demonstrated during the financial year. In particular the Board is comforted by the following characteristics of the platform:

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

- The Group's loan to value ("LTV") as at 31 March 2022 was 22%, this provides significant headroom to the covenant of 50%
- The Group's portfolio is currently valued at £1,544.4m reflecting a valuation yield of 4.5% with debt on balance sheet of £246.0m gross of unamortised costs
- The Group's forward looking interest cover ratio ("ICR") is c.767% versus the interest cover test of 300% in its banking facilities
- The Group has no immediate refinancing risk given the 12-year average maturity of its long term debt facilities with Scottish Widows which expires in December 2033, which are fully fixed at an all-in average rate of 2.85% pa and over two years remaining on the Group's RCF

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

- The Group's portfolio is 100% let or pre-let to over 70 strong tenants, across 11 sub-sectors. Furthermore the tenants are the main trading or parent companies within the tenant groups
- The Group's leases average 21 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

*Strong liquidity*

- At 31 March 2022 the Group had net assets of £1,300.7m (31 March 2021: £781.4m) and a cash balance of £72.5m (31 March 2021: £87.1m) with £89.0m of undrawn revolving credit facility (£31 March 2021: £76.7m)

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.

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.

The Board have also considered reverse stress testing and the circumstances that would lead to a covenant breach of the loan to value covenant and the interest cover ratio covenant. A reduction in the value of our property portfolio by 66% would be required in order for the valuation to reach the LTV covenant. Our contracted rental income would have to fall by 70% before the interest cover ratio covenant is breached.

## 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 8)**

The market value of Investment property is determined by an independent property valuation expert to be the estimated amount for which a property should exchange on the date of the valuation in an arm's-length transaction. The Group uses the valuations 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').

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 8.

### 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.

**Lease term (Note 4)**

Rental income is recognised on a straight-line basis over the expected lease term. A judgement has to be made by the Directors as to the expected term of each lease. The judgement involves determining whether break clauses on certain leases will be exercised. This judgement impacts the length of time over which lease incentives are recognised. The key element of this judgement is whether the Directors can be "reasonably certain" that any breaks in place to extend the lease term will be exercised at the expiry of the current lease. The Directors concluded that it was impossible to say with reasonable certainty that an option will be exercised. The Directors concluded that lease terms should be restricted to the initial length of the lease, or to the break date, except where reversionary leases have already been executed or where options to extend have already been exercised.

## 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 2.

### Assets held for sale

An asset will be classified as held for sale in line with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, where there is Board approval at the year-end date, the asset is available for immediate sale in its current condition and the asset is expected to be disposed of within 12 months after the date of the Consolidated Statement of Financial Position.

## 3. Summary of significant accounting policies (continued)

### 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 material 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 as well as amounts withheld when a securitised asset is disposed prior to the bank replacing the asset with adequate security and in consequence, restricted cash 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.

In the event of a modification to the terms of a loan agreement, the Group considers both the quantitative and qualitative impact of the changes. Where a modification is considered substantial, the existing facility is treated as settled and the new facility is recognised. Where the modification is not considered substantial, the carrying value of the liability is restated to the present value of the cash flows of the modified arrangement, discounted using the effective interest rate of the original arrangement. The difference is recognised as a gain or loss on refinancing through the statement of comprehensive income.

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.

For leases which contain fixed or minimum uplifts, the rental income arising from such uplifts is recognised on a straight line basis over the lease term.

Tenant lease incentives are recognised as a reduction of rental income on a straight line basis over the term of the lease. The Group recognises the impact of the temporary rent reductions agreed to support tenants as a result of the Covid-19 pandemic as a reduction of rental income on a straight line basis over the expected lease term.

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.

### Leases – the Group as lessee

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.

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 and are subsequently measured at fair value.

### 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 2022 £m | Year ended 31 March 2021 £m |
|---|---|---|
| Rental income from investment property | 48.6 | 34.4 |
| Accretion of tenant lease incentives (Note 8) | 9.9 | 8.4 |
| | **58.5** | **42.8** |

## 5. Administrative and other expenses

| | Year ended 31 March 2022 £m | Year ended 31 March 2021 £m |
|---|---|---|
| Investment advisory fees (Note 20) | 7.1 | 4.4 |
| Legal and professional fees | 0.5 | 0.5 |
| Other administrative costs | 0.6 | 0.3 |
| Corporate administration fees | 0.3 | 0.3 |
| Fees paid to the Company's Independent Auditor | 0.2 | 0.2 |
| Directors' fees (Note 20) | 0.3 | 0.3 |
| Recruitment fees | 0.2 | – |
| Advertising & Marketing | 0.1 | 0.1 |
| Expected credit loss movement | – | (0.2) |
| | **9.3** | **5.9** |

Fees paid to the Company's Independent Auditor comprise the review of the Interim Report (31 March 2022: fees less than £0.1m 31 March 2021: less than £0.1m), the audit of the Annual Report and the audit of the financial statements of the Company's subsidiaries.

The Company paid £0.1m 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 2021: £0.1m). Refer to the Report of the Audit Committee section.

## 6. Finance costs

| | Year ended 31 March 2022 £m | Year ended 31 March 2021 £m |
|---|---|---|
| Interest payable on bank borrowings | 5.4 | 4.6 |
| Amortisation of loan arrangement fees | 1.2 | 0.7 |
| Leasehold interest | 0.2 | – |
| | **6.8** | **5.3** |

Capitalised finance costs are included within property acquisitions in Note 8. The total interest payable on financial liabilities carried at amortised cost comprised:

(i) the interest payable on bank borrowings totalling £6.5m of which £1.1m was capitalised (31 March 2021: £5.9m of which £1.3m was capitalised); and

(ii) the amortisation of loan arrangement fees totalling £1.2m of which £nil was capitalised (31 March 2021: £0.7m of which £nil was capitalised).

The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation during the year was 2.85% pa.

## 7. 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 2022 £m | Year ended 31 March 2021 £m |
|---|---|---|
| Current tax | 0.7 | – |
| **Total current tax** | 0.7 | – |
| Origination and reversal of temporary differences | – | – |
| **Total deferred tax** | – | – |
| **Tax credit** | 0.7 | – |

The tax credit in the year relates to the release of a previously over-accrued tax charge.

### 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% (31 March 2021: 19%) to the total tax charge in the consolidated statement of comprehensive income is as follows:

| | Year ended 31 March 2022 £m | Year ended 31 March 2021 £m |
|---|---|---|
| **Profit before tax** | 161.3 | 39.9 |
| Tax at the standard rate of UK corporation tax of 19% | 30.6 | 7.6 |
| Effects of: | | |
| REIT exempt income | (8.5) | (7.6) |
| Revaluation of investment properties | (22.4) | – |
| Gain on disposal of investment properties | 0.4 | – |
| Residual losses brought forward as at 31 March 2021 | (0.4) | – |
| Residual losses not recognised as deferred tax asset | 0.3 | – |
| Reversal of overstated tax creditor | 0.7 | – |
| **Tax charge** | **0.7** | **–** |

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

## 8. Investment property

| Year ended 31 March 2022 | Investment property long leasehold £m | Investment property freehold £m | Investment property in course of construction £m | Total £m |
|---|---|---|---|---|
| Balance at 1 April 2021 | 147.4 | 636.0 | 104.1 | 887.5 |
| Property acquisitions | 49.3 | 375.3 | 70.4 | 495.0 |
| Licence fee receivable (Note 24) | – | – | (3.6) | (3.6) |
| Tenant lease incentives (Note 4) | 2.1 | 7.3 | 0.5 | 9.9 |
| Tenant lease contributions | – | 0.9 | – | 0.9 |
| Property disposals | – | (8.3) | – | (8.3) |
| Change in fair value | 16.4 | 77.1 | 24.2 | 117.7 |
| Assets transferred to held for sale | – | (19.0) | – | (19.0) |
| Transfers of completed property | 115.8 | 24.1 | (139.9) | – |
| **Balance at 31 March 2022** | **331.0** | **1,093.4** | **55.7** | **1,480.1** |

| Year ended 31 March 2021 | Investment property long leasehold £m | Investment property freehold £m | Investment property in course of construction £m | Total £m |
|---|---|---|---|---|
| Balance at 1 April 2020 | 107.3 | 592.3 | 110.1 | 809.7 |
| Property acquisitions | 12.8 | 62.0 | 87.3 | 162.1 |
| Licence fee receivable (Note 24) | – | – | (3.5) | (3.5) |
| Tenant lease incentives (Note 4) | 1.0 | 5.6 | 1.8 | 8.4 |
| Property disposals | (0.6) | (88.7) | – | (89.3) |
| Change in fair value | (1.2) | (8.1) | 9.4 | 0.1 |
| Transfers of completed property | 28.1 | 72.9 | (101.0) | – |
| **Balance at 31 March 2021** | **147.4** | **636.0** | **104.1** | **887.5** |

The investment property has been independently valued at fair value by Knight Frank LLP, the Independent Valuer who are accredited external valuers 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 £1,544.4m at 31 March 2022 (31 March 2021: £938.4m) including capital commitments on forward funded assets.

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.

The Group identifies the potential impact of climate-related risks on property valuations as a principal risk. The current valuation of the property portfolio is not materially impacted by any climate-related risks. We will continue to work closely with the Independent Valuer to monitor how climate-related factors impact values in long-lease property sector and of our individual asset valuations.

### Reconciliation of fair value to total portfolio valuation

| | 31 March 2022 £m | 31 March 2021 £m |
|---|---|---|
| Investment property at fair value | 1,480.1 | 887.5 |
| Assets held for sale at fair value | 19.0 | – |
| Capital commitments on forward funded assets (Note 23) | 53.6 | 48.0 |
| Vendor discount in respect of rent-free periods and top-ups | 3.0 | 4.0 |
| Licence fee receivable | 1.5 | 2.7 |
| Leasehold liability (Note 13) | (12.8) | (3.8) |
| **Total completed portfolio valuation** | **1,544.4** | **938.4** |

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.

The valuation of investment property that is long leasehold where headlease rents are material is grossed up to include the carrying value of the leasehold liability.

### 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 2022 | – | – | 1,499.1 | 1,499.1 |
| 31 March 2021 | – | – | 887.5 | 887.5 |

Investment property at fair value includes investment property held for sale. 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.

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.

## 8. Investment property (continued)

### 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 2022[1] £m | Passing rent pa range[1] £m | Valuation 31 March 2022[1] £m | Valuation yield range[1] % |
|---|---|---|---|---|
| Foodstores and essentials | 16.3 | 0.1 – 2.7 | 386.3 | 3.3 – 7.5 |
| Industrial | 13.8 | 0.2 – 3.5 | 352.4 | 3.0 – 6.8 |
| Hotel | 10.4 | 0.1 – 1.8 | 212.6 | 4.1 – 6.5 |
| Healthcare | 6.3 | 0.0 – 1.0 | 110.4 | 5.0 – 6.4 |
| Car parks | 4.3 | 0.0 – 1.1 | 82.4 | 4.0 – 5.3 |
| Garden Centre | 2.1 | 0.3 – 0.9 | 43.3 | 4.6 – 4.6 |
| Life sciences | 2.9 | 2.9 – 2.9 | 59.8 | 4.5 – 4.5 |
| Drive-thru coffee | 2.5 | 0.0 – 0.1 | 38.6 | 4.0 – 5.8 |
| Pubs | 2.6 | 0.1 – 0.4 | 41.3 | 5.5 – 6.2 |
| Education | 1.9 | 0.0 – 0.1 | 34.8 | 5.0 – 5.0 |
| Other | 11.4 | 0.0 – 1.8 | 182.5 | 4.0 – 9.5 |
| **Portfolio** | **74.5** | **0.0 – 3.5** | **1,544.4** | **3.0 – 9.5** |

| Sector | Passing rent pa 31 March 2021 £m | Passing rent pa range £m | Valuation 31 March 2021 £m | Valuation yield range % |
|---|---|---|---|---|
| Foodstores and essentials | 10.6 | 0.0 – 0.9 | 209.4 | 3.3 – 7.3 |
| Industrial | 10.4 | 0.2 – 3.5 | 240.6 | 3.5 – 5.2 |
| Hotel | 10.0 | 0.1 – 1.8 | 178.4 | 4.5 – 6.5 |
| Healthcare | 6.1 | 0.0 – 1.0 | 106.0 | 5.2 – 6.2 |
| Car parks | 3.8 | 0.1 – 1.1 | 70.9 | 4.0 – 5.5 |
| Pubs | 2.7 | 0.1 – 0.3 | 37.4 | 6.5 – 6.9 |
| Drive-thru coffee | 1.9 | 0.0 – 0.1 | 35.7 | 4.2 – 6.0 |
| Other | 3.8 | 0.0 – 1.4 | 60.0 | 5.0 – 10.0 |
| **Portfolio** | **49.3** | **0.0 – 3.5** | **938.4** | **3.3 – 10.0** |

1 Excludes assets that had exchanged but not completed at the reporting date

### 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 2022 | (60.8) | 60.8 | (64.9) | 72.7 |
| 31 March 2021 | (46.9) | 46.9 | (45.3) | 50.2 |

### 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 2022 £m | 31 March 2021 £m |
|---|---|---|
| Consideration received | 8.3 | 96.4 |
| Less: | | |
| Carrying value | (8.3) | (89.3) |
| Selling costs | – | (0.8) |
| **Gain on disposal of investment property** | **–** | **6.3** |
| Add: | | |
| Change in fair value recognised in previous periods | 2.1 | 2.0 |
| **Realised gain on disposal of investment property** | **2.1** | **8.3** |

## 9. Assets held for sale

| | 31 March 2022 £m | 31 March 2021 £m |
|---|---|---|
| Assets held for sale | 19.0 | – |
| | **19.0** | **–** |

Assets held for sale relate to investment property for which there was board approval to dispose of at the year end date and the intention is to dispose of these assets within 12-months. One property is classified as held for sale at the year end for which contracts have been exchanged to sell.

## 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 bank borrowings is based on Level 2 inputs under IFRS 13 hierarchy. There have been no transfers between levels during the year. 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 2022 | 240.0 | 237.1 |
| 31 March 2021 | 186.6 | 197.6 |

## 11. Trade and other receivables

| | 31 March 2022 £m | 31 March 2021 £m |
|---|---|---|
| Recoverable VAT | 5.7 | 3.7 |
| Licence fee receivable | 5.3 | 3.1 |
| Rent receivable | 8.0 | 6.7 |
| Prepayments and other receivables | 0.4 | 0.2 |
| **Amounts due within one year** | **19.4** | **13.7** |
| Rent receivable | **–** | **0.4** |
| **Amounts due in more than one year** | **–** | **0.4** |

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 2022. 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 as at 31 March 2022 is £0.1m (31 March 2021: £0.1m).

Trade and other receivables that are financial assets amount to £13.3m (31 March 2021: £10.2m) which comprises licence fee receivable and rent receivable.

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

| | 31 March 2022 £000 | 31 March 2021 £000 |
|---|---|---|
| 30 days or fewer | 13.0 | 9.3 |
| 31 to 60 days | 0.1 | – |
| 61 to 90 days | 0.1 | – |
| 91 days or more | 0.1 | 0.5 |
| Over one year | – | 0.4 |
| | **13.3** | **10.2** |

## 12. Cash reserves

| | 31 March 2022 £m | 31 March 2021 £m |
|---|---|---|
| Cash at bank | 26.0 | 83.8 |
| Cash held by lawyers | 46.5 | 3.3 |
| Total cash at bank | **72.5** | **87.1** |

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.

There are times throughout the year when the Group has restricted cash. Restricted cash is money held in accounts to which the Group does not have immediate access and as such do not form part of the Group's short-term cash management. These amounts arise both when initially drawing on term-loans prior to the bank taking adequate security and where a securitised asset is disposed prior to the bank replacing the asset with adequate security. The Group does not have a restricted cash balance at the year end (2021: nil).

## 13. Trade and other payables

| | 31 March 2022 £m | 31 March 2021 £m |
|---|---|---|
| Accrued investment property costs | 4.0 | 2.2 |
| Deferred rental income | 14.5 | 7.2 |
| Accruals | 0.4 | 0.2 |
| Trade and other payables | 17.9 | 7.8 |
| Leasehold liability | 0.3 | – |
| Retentions payable | 1.5 | – |
| Corporation tax payable | – | 0.9 |
| Amounts due within one year | **38.6** | **18.3** |
| | | |
| Leasehold liability | 12.5 | 3.8 |
| Retentions payable | 1.1 | – |
| Amounts due in more than one year | **13.6** | **3.8** |

Trade and other payables that are financial liabilities amount to £37.7m (31 March 2021: £14.0m) which comprises accrued investment property costs, accruals, retentions, trade and other payables and the leasehold liability.

## 14. Bank borrowings

| | Drawn £m | Undrawn £m | Total £m |
|---|---|---|---|
| **Year ended 31 March 2022** | | | |
| At beginning of the year | 192.3 | 77.7 | 270.0 |
| New facilities | – | 65.0 | 65.0 |
| Drawdowns | 239.7 | (239.7) | – |
| Repayments | (186.0) | 186.0 | – |
| **At end of the year** | 246.0 | 89.0 | 335.0 |
| Less: unamortised loan arrangement fees | (6.0) | – | (6.0) |
| | **240.0** | **89.0** | **329.0** |

| | Drawn £m | Undrawn £m | Total £m |
|---|---|---|---|
| **Year ended 31 March 2021** | | | |
| At beginning of the year | 170.0 | 100.0 | 270.0 |
| New facilities | – | – | – |
| Drawdowns | 62.3 | (62.3) | – |
| Repayments | (40.0) | 40.0 | – |
| **At end of the year** | 192.3 | 77.7 | 270.0 |
| Less: unamortised loan arrangement fees | (5.7) | – | (5.7) |
| | **186.6** | **77.7** | **264.3** |

### Maturity of bank borrowings

| | 31 March 2022 £000 | 31 March 2021 £000 |
|---|---|---|
| Repayable between 1 and 2 years | 74.6 | – |
| Repayable between 2 and 5 years | – | 21.2 |
| Repayable after 5 years | 165.4 | 165.4 |
| | **240.0** | **186.6** |

At 31 March 2022, 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 2.74% pa, for the duration of the loan term and is due for repayment in December 2033
- A fixed rate, interest only loan facility of £40.0m. The facility has an all-in rate of 2.74% pa, for the duration of the loan term and is due for repayment in December 2033
- 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

On 2 November 2020, the Group restructured its three term loans, reducing the blended interest rate by 9 bps to a fixed 2.85% pa all-in rate, and extended the maturity of all loans to December 2033. The restructuring resulted in a gain on refinancing of £1.9m in the prior year.

## 14. Bank borrowings (continued)

### RCF

- A revolving credit facility of £165.0m (of which £76.0m was drawn down as at 31 March 2022) with Lloyds and RBSI at a 1.55% margin over SONIA maturing in August 2023. The RCF was extended by £65.0m in the year with £65.0m committed by RBSI who entered the facility agreement as an additional lender. The Group has traded an interest rate derivative to cap the interest on the full facility at a total of 2.95%. The derivative is held on the balance sheet at fair value.

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

### Reconciliation of liabilities to cash flows from financing activities

| | Year ended 31 March 2022 £m | Year ended 31 March 2021 £m |
|---|---|---|
| Bank borrowings and leasehold liability at start of the year | 190.4 | 169.6 |
| **Cash flows from financing activities** | | |
| Bank borrowings drawn | 239.7 | 62.3* |
| Bank borrowings repaid | (186.0) | (40.0) |
| Loan arrangement fees paid | (1.4) | (0.6) |
| **Non-cash movements** | | |
| Amortisation of loan arrangement fees | 1.1 | 0.7 |
| Gain on refinancing | – | (1.9) |
| Increase in leasehold liability resulting from property acquisitions | 9.0 | 0.3 |
| **Bank borrowings and leasehold liability at the end of the year** | **252.8** | **190.4** |

## 15. Share capital

| Shares of £0.01 each | 31 March 2022 Number (million) | 31 March 2022 £m | 31 March 2021 Number (million) | 31 March 2021 £m |
|---|---|---|---|---|
| At the beginning of the year | 621.8 | 6.2 | 521.4 | 5.2 |
| Issued during the year | 289.8 | 2.9 | 100.4 | 1.0 |
| **At the end of the year** | **911.6** | **9.1** | **621.8** | **6.2** |
| **Issued and fully paid** | **911.6** | **9.1** | **621.8** | **6.2** |

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

On 15 March 2021 the Company issued 100.4 million ordinary shares at 124.5p per share (1p nominal value and a premium of 123.5p) for total consideration of £125 million.

On 5 July 2021 the Company issued 78.0 million ordinary shares at 133.0p per share (1p nominal value and a premium of 132.0p) for total consideration of £104 million.

On 7 January 2022 the Company issued 35.7 million ordinary shares at 145.0p per share (1p nominal value and a premium of 144.0p) as part consideration for the acquisition of a long-let property let to Sainsbury's Supermarkets Ltd. The transaction had no profit or loss impact in the year and there is no liability in respect of the transaction as at the year end date. The remaining consideration was settled in cash. The transaction was measured directly at the fair value of the acquired asset.

On 14 February 2022 the Company issued 176.1 million ordinary shares at 142.0p per share (1p nominal value and a premium of 141.0p) for total consideration of £250 million.

* 2021 figure includes amounts paid out of restricted cash which are not classified as cash and cash equivalents. These drawdowns are not included in the drawdowns disclosed in the first table included in this note.

## 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 2022 £m | 31 March 2021 £m |
|---|---|---|
| At the beginning of the year | 544.5 | 423.2 |
| Premium on issue of ordinary shares | 402.6 | 124.0 |
| Share issue costs | (7.1) | (2.7) |
| At the end of the year | **940.0** | **544.5** |

## 17. Dividends

| Dividends paid and declared | £m |
|---|---|
| Dividends in respect of the year ended 31 March 2021 | |
| Fourth quarterly dividend at 1.46p per share | 9.1 |
| **Dividends in respect of the year ended 31 March 2022** | |
| First quarterly dividend at 1.50p per share | 10.5 |
| Second quarterly dividend at 1.50p per share | 10.5 |
| Third quarterly dividend at 1.50p per share | 11.0 |
| Total dividends paid | **41.1** |

| | |
|---|---|
| Total dividend per share paid in the year | **5.96p** |
| Total dividend per share proposed in respect of the year | **6.0p** |

### Dividends in respect of the year ending 31 March 2022

On 17 September 2021, the Company announced a first quarterly dividend in respect of the year ended 31 March 2022 of 1.50p per share which was paid on 29 October 2021 to shareholders on the register on 1 October 2021.

On 24 November 2021, the Company announced a second quarterly dividend in respect of the year ended 31 March 2022 of 1.50p per share which was paid on 30 December 2021 to shareholders on the register on 3 December 2021.

On 28 January 2022, the Company announced a third quarterly dividend in respect of the year ended 31 March 2022 of 1.50p per share which was paid on 25 March 2022 to shareholders on the register on 11 February 2022.

On 19 May 2022, the Company announced a final dividend in respect of the year ended 31 March 2022 of 1.50p per ordinary share, payable to shareholders on the register at the close of business on 24 June 2022.

| Dividends paid and declared | £m |
|---|---|
| Dividends in respect of the year ended 31 March 2020 | |
| Fourth quarterly dividend at 1.4375p per share | 7.5 |
| Dividends in respect of the year ended 31 March 2021 | |
| First quarterly dividend at 1.30p per share | 6.8 |
| Second quarterly at 1.35p per share | 7.0 |
| Third quarterly dividend at 1.44p per share | 7.5 |
| Total dividends paid | **28.8** |

| | |
|---|---|
| Total dividend per share paid in the year | **5.5275p** |
| Total dividend per share proposed in respect of the year | **5.55p** |

## 17. Dividends (continued)

### Dividends in respect of the year ending 31 March 2021

On 17 September 2020, the Company announced a first quarterly dividend in respect of the year ended 31 March 2021 of 1.30p per share which was paid on 16 October 2020 to shareholders on the register on 25 September 2020.

On 23 November 2020, the Company announced a second quarterly dividend in respect of the year ended 31 March 2021 of 1.35p per share which was paid on 30 December 2020 to shareholders on the register on 5 December 2020.

On 11 February 2021, the Company announced a third quarterly dividend in respect of the year ended 31 March 2021 of 1.44p per share which was paid on 26 March 2021 to shareholders on the register on 26 February 2021.

On 19 May 2021, the Company announced a final dividend in respect of the year ended 31 March 2021 of 1.46p per share which was paid on 16 July 2021 to shareholders on the register on 24 June 2021.

## 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 2022 | 68.2 | 281.8 | 1,288.5 | 1,638.5 |
| 31 March 2021 | 39.1 | 167.4 | 692.0 | 898.5 |

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 2022 | 0.3 | 1.3 | 36.6 | 38.2 |
| 31 March 2021 | 0.1 | 0.4 | 13.6 | 14.1 |

The above is in respect of leasehold properties held by the Group. There are 37 properties (2021: 30) held under leasehold with lease ranges from 99 years to 999 years. The increase in lease payables in the period is mainly attributable to the acquisition of an investment property in the year with a headlease charge of 19.43% of the rent received from the tenant. The remaining term of the headlease is 130 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 8).

## 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 24 and 25 and the Additional Information.

The Group's property portfolio comprises investment property, diversified across 11 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 2021: Nil) that is considered a major customer, contributing more than 10% of the Group's contractual annual passing rent. Based on rental income recognised in the year, the Group had no tenant (31 March 2021: one) that contributed more than 10% of the Group's turnover. The Group's turnover is allocated to major customers as follows:

| | 31 March 2022 | | 31 March 2021 | |
|---|---|---|---|---|
| | | £m | | £m |
| Major customers | – | – | 11% | 3.8 |
| Other tenants (each less than 10%) | 100% | 48.1 | 89% | 30.6 |
| **Rental income from investment property (Note 4)** | **100%** | **48.1** | **100%** | **34.4** |

## 20. Related party transactions

### Transactions with the Board of Directors

In respect of the year ended 31 March 2022 there were £0.3m fees payable to the Directors (31 March 2021: £0.3m) in the form of short-term employee benefits. Employers NI contributions were nil in the year (31 March 2021: nil).

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. Since 1 January 2020 the Directors' fees have been settled in cash.

## 20. Related party transactions (continued)

The following table summarises the number of ordinary shares purchased during the year by Directors, including the two purchases above, and the number of ordinary shares held at 31 March 2022:

| | | 31 March 2022 Number | 31 March 2021 Number |
|---|---|---|---|
| Stephen Hubbard (resigned 11 March 2022) | Purchased | – | 16,000 |
| | **Held** | **185,389** | **185,389** |
| Cyrus Ardalan (appointed 13 January 2022 ) | Purchased | 206,000 | – |
| | **Held** | **206,000** | **–** |
| Colin Smith OBE (resigned 11 March 2022) | Purchased | – | 25,000 |
| | **Held** | **247,909** | **247,909** |
| John Cartwright* | Purchased | – | 0 |
| | **Held** | **66,687** | **66,687** |
| Jan Etherden | Purchased | – | 20,000 |
| | **Held** | **77,274** | **77,274** |
| Patricia Dimond** | Purchased | 14,084 | 25,436 |
| | **Held** | **39,520** | **25,436** |
| Hugh Seaborn (appointed 13 January 2022) | Purchased | – | – |
| | **Held** | **–** | **–** |
| Ismat Levin (appointed 13 January 2022) | Purchased | 14,084 | – |
| | **Held** | **14,084** | **–** |

* Includes a company wholly owned by John Cartwright and persons closely associated (as defined by the EU Market Abuse Regulation) with him.
** Includes persons closely associated (as defined by the EU Market Abuse Regulation) with Patricia Dimond.

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

### Transactions with the Investment Advisor

A fee of £7.1m was payable to the Investment Advisor in respect of the year (31 March 2021: £4.4m). At 31 March 2022, £0.9m was due to the Investment Advisor (31 March 2021: £0.5m) for provision of key management services.

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.

## 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% |
| LXi Property Holdings 5 Limited | Property Investment | UK | 100% |
| LXi Property Holdings 5a Limited* | Property Investment | UK | 100% |
| Alco 1 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% |
| Firethorn Glasgow Holdings Limited* | 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% |
| Welling Property Limited* | Property Investment | BVI | 100% |

* Subsidiaries indirectly owned.

The registered office for UK subsidiaries is 6th Floor 125 London Wall, London, England, EC2Y 5AS.

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.

#### 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.

## 22. Financial risk management (continued)

### 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 void period where no rents are received and incur 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 Group defines default as a tenant being unable to make the required payments on their rental obligations.

### 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 2022 | < 3 months £m | 3-12 months £m | 1-5 years £m | > 5 years £m | Total £m |
|---|---|---|---|---|---|
| **Financial liabilities** | | | | | |
| Bank borrowings (Note 14) | – | – | 76.0 | 170.0 | 246.0 |
| Interest payable on bank borrowings | 1.5 | 4.4 | 19.7 | 32.5 | 58.1 |
| Trade and other payables | 17.9 | – | – | – | 17.9 |
| Lease payables | 0.1 | 0.2 | 1.3 | 36.6 | 38.2 |
| Retentions payable | | 1.5 | 1.1 | | 2.6 |
| | **19.5** | **6.1** | **98.1** | **239.1** | **362.8** |

| 31 March 2021 | < 3 months £m | 3-12 months £m | 1-5 years £m | > 5 years £m | Total £m |
|---|---|---|---|---|---|
| **Financial liabilities** | | | | | |
| Bank borrowings (Note 14) | – | – | 22.3 | 170.0 | 192.3 |
| Interest payable on bank borrowings | 1.4 | 4.1 | 20.2 | 37.3 | 63.0 |
| Trade and other payables | 10.2 | – | – | – | 10.2 |
| Lease payables | – | 0.1 | 0.4 | 13.6 | 14.1 |
| | **11.6** | **4.2** | **42.9** | **220.9** | **279.6** |

### 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 two financial covenants, LTV at 50% and Interest Cover Ratio ("ICR") at 300%. The Group has remained compliant with all of its banking covenants during the year and up to the date of this report.

## 23. Capital commitments

At 31 March 2022 the Group had capital commitments of £53.6m (31 March 2021: £48.0m) in relation to the cost to complete its forward funded pre-let development assets and £90.1m in respect of acquisitions for which contracts had exchanged but conditions to completion remain outstanding (31 March 2021: £53.8m).

## 24. 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 2022 £m | Year ended 31 March 2021 £m |
|---|---|---|
| Earnings | **162.0** | **39.9** |
| Weighted average number of ordinary shares (million) | 710.2 | 526.1 |
| Earnings per share ("EPS") | **22.8p** | **7.6p** |
| Adjustments to remove: | | |
| Change in fair value of investment property | (117.7) | (0.1) |
| Gain on disposal of investment property | – | (6.3) |
| Change in fair value of interest rate derivative | (1.2) | – |
| EPRA earnings | **43.1** | **33.5** |
| Weighted average number of ordinary shares (million) | 710.2 | 526.1 |
| EPRA EPS | **6.1p** | **6.4p** |
| Adjustments to include: | | |
| Licence fees receivable | 3.6 | 3.5 |
| Amortisation of cash backed rental top ups and rent-free periods | 3.2 | 2.2 |
| Adjusted earnings | **49.9** | **39.2** |
| Weighted average number of ordinary shares (million) | 710.2 | 526.1 |
| Adjusted EPS | **7.0p** | **7.5p** |
| Adjustments to exclude: | | |
| Gain on refinancing | – | (1.9) |
| Accretion of tenant lease incentives (Note 8) | (9.9) | (8.4) |
| One off corporate expenses | 0.6 | – |
| Adjusted cash earnings | **40.6** | **28.9** |
| Weighted average number of ordinary shares (million) | 710.2 | 526.1 |
| Adjusted cash EPS | **5.7p** | **5.5p** |

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.

## 25. 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 2022 £m | 31 March 2021 £m |
|---|---|---|
| Net asset value ("NAV") | **1,300.7** | **781.4** |
| Number of ordinary shares (million) | 911.6 | 621.8 |
| NAV per share | **142.7** | **125.7p** |
| | | |
| Adjustments to calculate EPRA NTA | (1.2) | – |
| EPRA NTA | **1,299.5** | **781.4** |
| Number of ordinary shares | 911.6 | 621.8 |
| EPRA NTA per share | **142.6p** | **125.7p** |

A reconciliation of IFRS NAV per share to the three EPRA NAV measures under the new BPR (NTA, NRV and NDV) and the two measures under old BPR (NAV and NNNAV) is included in the section Notes to EPRA NAV calculations.

## 26. Post balance sheet events

### Dividends

- On 18 May 2022, the Board approved the quarterly dividend for the quarter ending 31 March 2022 of 1.50p per share, in line with the group's previously announced target.

### Acquisitions and disposals

The Group completed or exchanged contracts to acquire the following assets after the year end:

- an Asda foodstore in Halesowen, Birmingham with a 22-year unexpired lease term and five yearly fixed uplifts of 3% per annum compounded (exchanged prior to the year end and completed in May 2022).
- a pre-let forward funding of an M&S grocery store in Scotland with a 15-year unexpired lease term from build completion and five yearly 2.5% fixed uplifts (contracts exchanged post year end with completion expected in Q1 2023 and not included in the March 2022 valuation).

### Debt

- The Group exercised the one year extension option on the revolving credit facility which now expires in August 2024.

### Recommended share & cash offer for Secure Income REIT plc

- On 11 May 2022, the Company announced the terms of a proposed merger with Secure Income REIT plc. The merger remains conditional on, inter alia, shareholders voting to approve the transaction as outlined in the Company's circular to shareholders posted on 1 June 2022 with the vote expected to be held at a general meeting of shareholders on 22 June 2022.

## 27. Controlling parties

There is no ultimate controlling party of the Group.

# Company statement of financial position

Company number: 10535081

| | Note | 31 March 2022 £m | 31 March 2021 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment in subsidiaries | 4 | 597.7 | 597.7 |
| Investment property | 5 | 65.0 | 4.5 |
| **Total non-current assets** | | **662.7** | **602.2** |
| **Current assets** | | | |
| Trade and other receivables | 6 | 397.6 | 41.0 |
| Cash and cash equivalents | 7 | 13.5 | 70.2 |
| **Total current assets** | | **411.1** | **111.2** |
| **Total assets** | | **1,073.8** | **713.4** |
| **Current liabilities** | | | |
| Trade and other payables | 8 | 111.1 | 98.5 |
| **Total current liabilities** | | **111.1** | **98.5** |
| **Total liabilities** | | **111.1** | **98.5** |
| **Net assets** | | **962.7** | **614.9** |
| **Equity** | | | |
| Share capital | 10 | 9.1 | 6.2 |
| Share premium reserve | 11 | 940.0 | 544.5 |
| Capital reduction reserve | | 21.0 | 62.1 |
| Retained earnings | | (7.4) | 2.1 |
| **Total equity** | | **962.7** | **614.9** |
| **Net asset value per share – basic and diluted** | 12 | **106.0p** | **98.9p** |

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 £9.5m (31 March 2021: £5.8m loss).

The Company financial statements were approved and authorised for issue by the Board on 6 June 2022 and signed on its behalf by:

Cyrus Ardalan
Chairman

The notes on pages 97 to 100 form part of the Company financial statements.

# Company statement of changes in equity

| Year ended 31 March 2022 | Note | Share capital £m | Share premium reserve £m | Capital reduction reserve £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|---|---|
| Balance at 1 April 2021 | | 6.2 | 544.5 | 62.1 | 2.1 | 614.9 |
| Loss and total comprehensive income attributable to shareholders | | – | – | – | (9.5) | (9.5) |
| Transactions with owners | | | | | | |
| Issue of ordinary shares in the year | 10,11 | 2.9 | 402.6 | – | – | 405.5 |
| Share issue costs | 11 | – | (7.1) | – | – | (7.1) |
| Dividends paid in the year | 9 | – | – | (41.1) | – | (41.1) |
| **Balance at 31 March 2022** | | **9.1** | **940.0** | **21.0** | **(7.4)** | **962.7** |

| Year ended 31 March 2021 | Note | Share capital £m | Share premium reserve £m | Capital reduction reserve £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|---|---|
| Balance at 1 April 2020 | | 5.2 | 423.2 | 90.9 | 7.4 | 526.7 |
| Loss and total comprehensive income attributable to shareholders | | – | – | – | (5.3) | (5.3) |
| Transactions with owners | | | | | | |
| Issue of ordinary shares in the year | 10,11 | 1.0 | 124.0 | – | – | 125.0 |
| Share issue costs | 11 | – | (2.7) | – | – | (2.7) |
| Dividends paid in the year | 9 | – | – | (28.8) | – | (28.8) |
| **Balance at 31 March 2021** | | **6.2** | **544.5** | **62.1** | **2.1** | **614.9** |

The notes on pages 97 to 100 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 2021

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

- Interest Rate Benchmark Reform – IBOR 'phase 2' (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16). The amendments provide relief to the Group in respect of certain loans whose contractual terms are affected by interest benchmark reform (effective from 1 January 2021). Applying the practical expedient introduced by the amendments, when the benchmarks are replaced the adjustments to the contractual cash flows will be reflected as an adjustment to the effective interest rate. Therefore, the replacement of the loans' benchmark interest rate will not result in an immediate gain or loss recorded in profit or loss.
- Amendments to IFRS 16 Leases: Covid-19-Related Rent Concessions beyond 30 June 2021. The amendment extends the practical expedient to reductions in lease payments that were originally due on or before 30 June 2022. The amendment is to be applied mandatorily by those entities that have elected to apply the previous amendment COVID-19-Related Rent Concessions. Accordingly, the Group has applied the amendment Covid-19-Related Rent Concessions beyond 30 June 2021 in the current annual financial statements.

These standards have been assessed to have no significant impact to the Group as they are either not relevant to the Group's activities or require accounting which is consistent with the Group's current accounting policies.

## 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 2 to the consolidated financial statements.

## 2. Significant accounting judgments, estimate and assumptions (continued)

### Judgments:

Classification of lease arrangements – the Company as lessor

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

### Lease term

Rental income is recognised on a straight-line basis over the expected lease term. A judgement has to be made by the Directors as to the expected term of each lease. The judgement involves determining whether break clauses on certain leases will be exercised. This judgement impacts the length of time over which lease incentives are recognised. The key element of this judgement is whether the Directors can be "reasonably certain" that any breaks in place to extend the lease term will be exercised at the expiry of the current lease. The Directors concluded that it was impossible to say with reasonable certainty that an option will be exercised. The Directors concluded that lease terms should be restricted to the initial length of the lease, or to the break date, except where reversionary lease have already been executed or where options to extend have already been exercised

## 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 are 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 2022 £m | 31 March 2021 £m |
|---|---|---|
| At beginning of the year | 597.7 | 597.7 |
| Additions in the year | – | – |
| **At end of the year** | **597.7** | **597.7** |

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 2022 | Freehold £m |
|---|---|
| Balance at 1 April 2021 | 4.5 |
| Investment property additions | 61.9 |
| Change in fair value | (1.4) |
| **Balance at 31 March 2022** | **65.0** |

| Year ended 31 March 2021 | Freehold £m |
|---|---|
| Balance at 1 April 2020 | 4.1 |
| Investment property additions | – |
| Change in fair value | 0.4 |
| **Balance at 31 March 2021** | **4.5** |

Detailed information about the valuation of investment property is included in Note 8 to the consolidated financial statements.

## 6. Trade and other receivables

| | 31 March 2022 £m | 31 March 2021 £m |
|---|---|---|
| Amounts due from subsidiaries | 396.2 | 40.6 |
| Recoverable VAT | 0.5 | 0.4 |
| Rent receivable | 0.8 | – |
| Prepayments and other receivables | 0.1 | – |
| | **397.6** | **41.0** |

All amounts are due on demand and expected to be demanded and received within one year.

## 7. Cash and cash equivalents

| | 31 March 2022 £m | 31 March 2021 £m |
|---|---|---|
| Cash at bank | 3.0 | 67.8 |
| Cash held by lawyers | 10.5 | 2.4 |
| **Total cash at bank** | **13.5** | **70.2** |

## 8. Trade and other payables

| | 31 March 2022 £m | 31 March 2021 £m |
|---|---|---|
| Amounts due to subsidiary undertakings | 109.1 | 97.7 |
| Accruals and deferred income | 1.1 | 0.3 |
| Other creditors | 0.9 | 0.5 |
| | **111.1** | **98.5** |

All amounts are due for payment within one year.

## 9. Dividends

| | 31 March 2022 £m | 31 March 2021 £m |
|---|---|---|
| Dividends paid | **41.1** | **28.8** |

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

## 10. Share capital

| | 31 March 2022 £m | 31 March 2021 £m |
|---|---|---|
| Share capital | **9.1** | **6.2** |

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 2022 £m | 31 March 2021 £m |
|---|---|---|
| Share premium | **940.0** | **544.5** |

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 2022 £m | 31 March 2021 £m |
|---|---|---|
| NAV | **962.7** | **614.9** |
| Number of ordinary shares (million) | 911.6 | 621.8 |
| NAV per share | **105.6p** | **98.9p** |

## 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)

The Group considered EPRA NTA to be the most relevant NAV measure for the Group and we are now reporting this as our primary NAV measure, replacing our previously reported EPRA NAV and EPRA NAV per share metrics. EPRA NTA excludes the cumulative fair value adjustments for debt-related derivatives which are unlikely to be realised.

| | Current measures | | | Previous measures | |
|---|---|---|---|---|---|
| As at 31 March 2022 | EPRA NTA £m | EPRA NRV £m | EPRA NDV £m | EPRA NAV £m | EPRA NNNAV £m |
| Net asset value | 1,300.7 | 1,300.7 | 1,300.7 | 1,300.7 | 1,300.7 |
| Mark-to-market adjustments of derivatives | (1.2) | (1.2) | – | (1.2) | – |
| Fair value of debt | – | – | 8.8 | – | 8.8 |
| Real estate transfer tax | – | 101.5 | – | – | – |
| At 31 March 2022 | **1,299.5** | **1,401.0** | **1,309.5** | **1,299.5** | **1,309.5** |
| Number of ordinary shares (million) | 911.6 | 911.6 | 911.6 | 911.6 | 911.6 |
| Per share | **142.6** | **153.7** | **143.7** | **142.6** | **143.7** |

| | Current measures | | | Previous measures | |
|---|---|---|---|---|---|
| As at 31 March 2021 | EPRA NTA £m | EPRA NRV £m | EPRA NDV £m | EPRA NAV £m | EPRA NNNAV £m |
| Net asset value | 781.4 | 781.4 | 781.4 | 781.4 | 781.4 |
| Mark-to-market adjustments of derivatives | – | – | – | – | – |
| Fair value of debt | – | – | (5.3) | – | (5.3) |
| Real estate transfer tax | – | 64.8 | – | – | – |
| At 31 March 2021 | **781.4** | **846.2** | **776.1** | **781.4** | **776.1** |
| Number of ordinary shares (million) | 621.8 | 621.8 | 621.8 | 621.8 | 621.8 |
| Per share | **125.7** | **136.1** | **124.8** | **125.7** | **124.8** |

## EPRA NIY and EPRA 'Topped Up' NIY

| | 31 March 2022 £m | 31 March 2021 £m |
|---|---|---|
| Investment property – wholly owned | 1,544.4 | 938.4 |
| Less: development properties | (123.6) | (153.2) |
| **Completed property portfolio** | **1,420.8** | **785.2** |
| Allowance for estimated purchasers' costs | 96.5 | 53.4 |
| **Gross up completed property portfolio valuation (B)** | **1,517.3** | **838.6** |
| Annualised passing rental income | 74.5 | 49.3 |
| Less: contracted rental income in respect of development properties | (5.6) | (6.6) |
| Property outgoings | – | – |
| **Annualised net rents (A)** | **68.9** | **42.7** |
| Contractual increases for lease incentives[2] | 31.9 | 12.0 |
| **Topped up annualised net rents (C)** | **100.8** | **54.6** |
| **EPRA NIY (A/B)** | **4.5%** | **5.1%** |
| **EPRA Topped Up NIY (C/B)** | **6.6%** | **6.5%** |

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

## EPRA Vacancy Rate

| | 31 March 2022 £m | 31 March 2021 £m |
|---|---|---|
| Annualised estimated rental value of vacant premises | – | – |
| Portfolio estimated rental value[3] | 68.9 | 42.6 |
| **EPRA Vacancy Rate** | **0%** | **0%** |

## EPRA Cost Ratio

| | Year ended 31 March 2022 £m | Year ended 31 March 2021 £m |
|---|---|---|
| Property operating costs | – | – |
| Vacant property costs | – | – |
| Administration expenses[4] | 9.3 | 5.9 |
| **Total costs (both including and excluding vacant property costs[5])** | **9.3** | **5.9** |
| Total gross rental income | 58.5 | 42.8 |
| **Total EPRA cost ratio (including and excluding vacant property costs)** | **15.9%** | **13.8%** |

## Total NAV return

| | Year ended 31 March 2022 £m | Year ended 31 March 2021 £m |
|---|---|---|
| EPRA NTA per share at beginning of the period | 125.7 | 124.3 |
| EPRA NTA per share at end of the period | 142.6 | 125.7 |
| **Change in EPRA NTA per share in the period** | **16.9** | **1.4** |
| Dividend per share paid in the period | 6.0 | 50.5 |
| **Total of change in EPRA NTA and dividend per share** | **22.9** | **6.9** |
| **Total NAV return** | **18.2%** | **5.6%** |

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

# 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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