Schroders

Schroder Real Estate Investment Trust Limited

Annual Report and Consolidated Financial Statements

For the year ended 31 March 2019

About Us

Schroder Real Estate Investment Trust Limited aims to provide shareholders with an attractive level of income together with the potential for income and capital growth through investing in UK commercial property.

Company Summary

Schroder Real Estate Investment Trust Limited (the 'Company' and together with its subsidiaries the 'Group') is a real estate investment company with a premium listing on the Official List of the UK Listing Authority and whose shares are traded on the Main Market of the London Stock Exchange (ticker: SREI).

The Company is a real estate investment trust ('REIT') and benefits from the various tax advantages offered by the UK REIT regime. The Company continues to be declared as an authorised closed-ended investment scheme by the Guernsey Financial Services Commission under section 8 of the Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended and the Authorised Closed-ended Collective Investment Schemes Rules 2008.

Objective

The Company aims to provide shareholders with an attractive level of income together with the potential for income and capital growth from owning and actively managing a diversified portfolio of real estate.

The Company's dividend policy is to pay a sustainable level of quarterly dividends to shareholders. It is intended that successful execution of the Company's strategy will enable a progressive dividend policy to be adopted.

The portfolio is principally invested in the three main UK commercial real estate sectors of office, industrial and retail, and may also invest in other sectors including, but not limited to, residential, leisure, healthcare and student accommodation. Over the property market cycle the portfolio aims to generate an above average income return with a diverse spread of lease expires.

Relatively low level gearing is used to enhance income and total returns for shareholders with the level dependent on the real estate cycle and the outlook for future returns.

Investment strategy

The current investment strategy is to grow income and enhance shareholder returns through selective acquisitions, proactive asset management and selling lower yielding properties on completion of asset business plans. The issuance of new shares will also be considered if it is consistent with the strategy.

Our objective is to own a portfolio of larger properties in Winning Cities and Regions with high growth, diversified local economies, sustainable occupational demand and favourable supply and demand characteristics. These properties should offer good long-term fundamentals in terms of location and specification and be let at affordable rents, with the potential for income and capital growth due to good stock selection and asset management.

Contents

Highlights over the year to 31 March 2019

Highlights

Dividend increase

5%

Dividend cover[1]

114%

Outperformance since IPO in July 2004[2]

1.4%p.a.

NAV total return for the year to March 2019

4.5%

Portfolio located in Winning Cities[3]

93%

Portfolio weighted to the office and industrial sectors

68%

Loan to Value ('LTV'), net of all cash, reduced to

22.1%

- 5% dividend increase delivered during the financial year, with dividend cover of 114%[1]
- Sustained real estate outperformance of 2.0% versus the MSCI/IPD Benchmark Index over the past 12 months, 2.5% p.a. over the past three years and 1.4% p.a. since IPO in July 2004[2]
- Net asset value ('NAV') total return of 4.5% for the year to March 2019
- 93% of the portfolio located in Winning Cities[3]
- 68% of the portfolio weighted to the office and industrial sectors, with no City of London or Shopping Centres
- Loan to Value ('LTV'), net of all cash, reduced to 22.1%

1 Dividend cover excluding one-off refinancing costs in 2019, and one-off abortive transaction costs in 2019.
2 Source: MSCI property level returns gross of fees on a like-for-like basis including direct and indirect property investments. Past performance is not a guide to future performance and may not be repeated.
3 Winning Cities defined as higher growth locations. Source: Oxford Economics/Schroders.

Highlights over the year to 31 March 2019 continued

Strategic

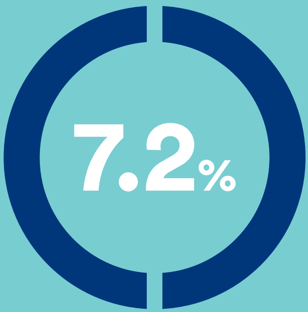
Portfolio by value located in higher growth regions[1]

(2018: 93%)

Net asset value ('NAV') total return

(2018: 10.5%)

Underlying property portfolio total return of



(2018: 11.8%)

Dividend cover[2]

(2018: 109%)

1 Winning Cities defined as higher growth locations; Source: Oxford Economics/Schroders.
2 Dividend cover excluding one-off refinancing costs in 2019, and one-off abortive transaction costs in 2019.

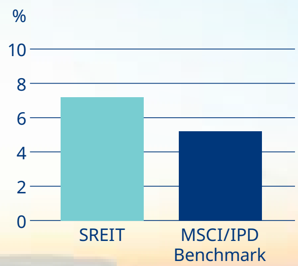
Performance

Portfolio total return[1]

1 year

7.2%

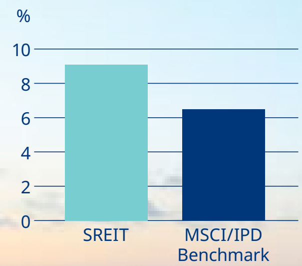
(Benchmark: 5.2%)



3 years

9.1%

(Benchmark: 6.5%)

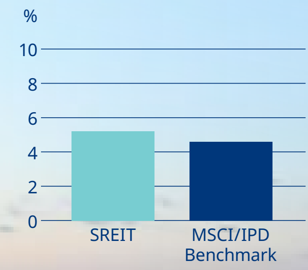


Portfolio income return[1]

1 year

5.2%

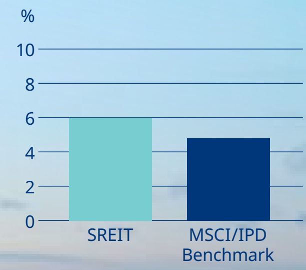
(Benchmark: 4.6%)



3 years

6.0%

(Benchmark: 4.8%)

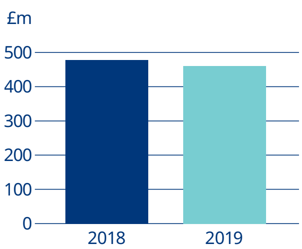


Financial

Value of property assets and joint ventures

£460.6m

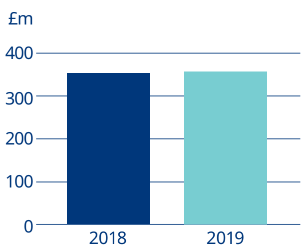
(2018: £477.5m)



Net asset value

£356.4m

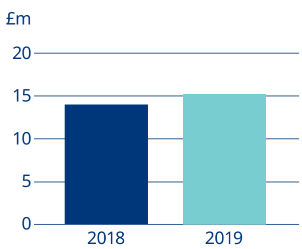
(2018: £353.6m)



Underlying earnings[2]

£15.2m

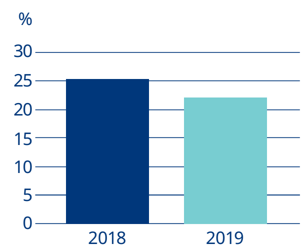
(2018: £14.1m)



Loan to value, net of all cash

22.1%

(2018: 25.3%)



1 Source: MSCI property level returns gross of fees on a like-for-like basis including direct and indirect property investments. Past performance is not a guide to future performance and may not be repeated.
2 Adjusted EPRA earnings.

Portfolio Overview – At a Glance

The investment policy of the Company is to own a diversified portfolio of UK real estate with good fundamental characteristics. The Group invests principally in the office, retail and industrial commercial real estate sectors and will also consider other sectors including mixed use, residential, hotels, healthcare and leisure.

Sectors

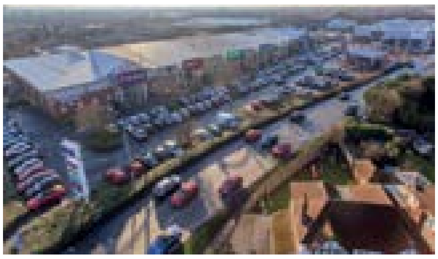
Offices (36.1%) (2018: 36.6%)

The Company is overweight in offices compared with the MSCI/IPD Benchmark. The focus is on buildings with good fundamentals in those Winning Cities and regions that are attractive to a diverse occupier base. The Company has no exposure to the City of London, which is expected to be most affected by a UK departure from the European Union.

Industrial (31.8%) (2018: 26.9%)

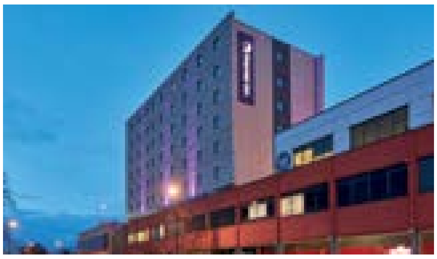
The Company owns a range of industrial assets, the most significant being multi-let estates including Milton Keynes and Leeds, which are positively impacted by structural trends and where there are significant asset management opportunities to capture rental growth.

Retail (25.3%) (2018: 30.1%)



The retail assets in the portfolio are predominantly well-managed retail warehouses and convenience retail, let at sustainable rents and which benefit from trends including 'click and collect'. The Company does not own any shopping centres.

Other (6.8%) (2018: 6.4%)



Other sectors include mixed use, residential, hotels, healthcare and leisure properties. At present, hotels at City Tower, Manchester and Headingley Central, Leeds and a leisure scheme in Luton represent the other weighting in the portfolio.

Top ten properties

Property	Value (£m)
1 Manchester, City Tower (25% share)	42.7 (9.3%)
2 Milton Keynes, Stacey Bushes Industrial Estate	37.5 (8.1%)
3 London, Store Street, Bloomsbury (50% share)	36.5 (7.9%)
4 Leeds, Millshaw Industrial Estate	31.6 (6.9%)
5 Bedford, St John's Retail Park	30.0 (6.5%)
6 Leeds, Headingley Central	29.0 (6.3%)
7 Uxbridge, 106 Oxford Road	18.4 (4.0%)
8 Norwich, Union Park Industrial Estate	17.9 (3.9%)
9 London, Allied Way Industrial Estate	17.2 (3.7%)
10 Salisbury, Churchill Way West	13.0 (2.8%)

Number of properties

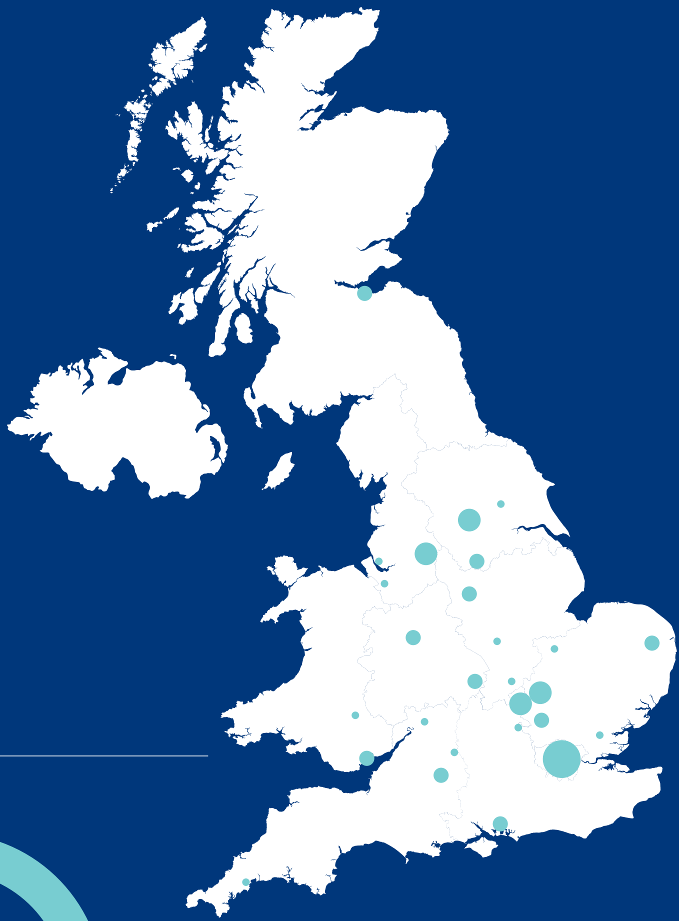
44

Valued at[1]

£460.6m

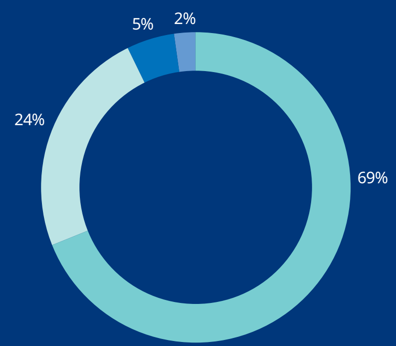
93%

of the portfolio by value located in higher growth locations

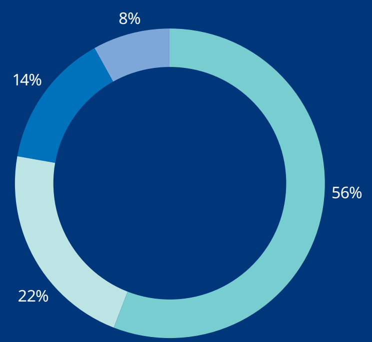


1 This includes the share of joint venture properties at City Tower in Manchester and Store Street in Bloomsbury, London.

SREIT[2]



% of UK GDP



Fastest growing centres
Third quartile
Second quartile
Slowest growing centres

2 Source: Oxford Economics, Schroders March 2019.

Investment Philosophy

A disciplined approach to investment

Schroder Real Estate Investment Trust aims to provide shareholders with an attractive level of income, with the potential for income and capital growth, from owning a diversified portfolio focused on higher growth assets benefiting from structural change.

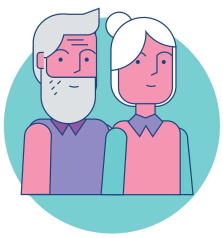
The portfolio is managed in accordance with an investment philosophy centred on consistent principles which are to invest in strong asset fundamentals and to actively manage assets in order to enhance value.

Mega themes

Long-term performance of real estate assets will be driven by structural changes or 'mega themes' arising from demographic, technological, environmental and other factors that are outside of the normal real estate market cycle.

1. Rapid urbanisation

40 global cities by 2025 with 10 million+ populations. The focus on Winning Cities with faster growth in jobs and locations where people wish to live and work.



2. Demographics

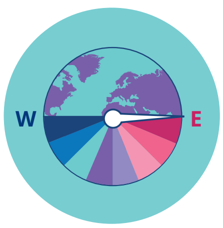
We are living longer and moving closer to cities. The focus is on real estate which attracts multiple types of uses and benefits from structural changes, e.g. hotels, care homes, office and retail.

3. Technology

The locations which attract the TMT sector and demand for e-commerce will capture high growth.

4. Resources and infrastructure

Global demand for power and infrastructure is increasing. Locations with better infrastructure and resources/power will thrive.



5. Shift West to East

The shift of economic growth from West to East is changing demand. The focus is on locations that attract businesses which benefit from increasing demand from the East, such as luxury goods and education.

6. Impact Investment

Positively impacting the environment and society. Will provide higher returns in the long run.

High-quality research

Research is focused on cyclical and structural trends in order to determine market strategy and exploit mis-pricing. In addition, to better understand real estate fundamentals, our research focuses on occupational demand at a town and city level and other factors such as construction starts, infrastructure investment and pricing relative to other assets.

Business plan-led approach

Every asset is managed as a business with a detailed plan that is the key focal point for identifying and implementing active management strategies that will maximise returns.

Responsible and Positive Impact Investment

Sustainability and Environmental Social Governance ('ESG') and Impact Investment considerations are integral to good investment management and should generate better long-term returns, contribute to our tenants' business performance and create tangible benefits to the communities where we are invested. The Company's work in this area was recognised by an EPRA Gold award for Best Practice Reporting in the 2018 year end accounts.

Winning Cities and Regions

Occupier demand is increasingly concentrated in 'Winning Cities and Regions', those that offer a competitive advantage in terms of higher levels of GDP, employment and population growth; differentiated local economies with higher value industries; well developed infrastructure; and places where people want to live and work. Winning Cities and Regions will change over time and investments will be made in other locations where we see higher rates of future growth that could lead to mispricing opportunities.

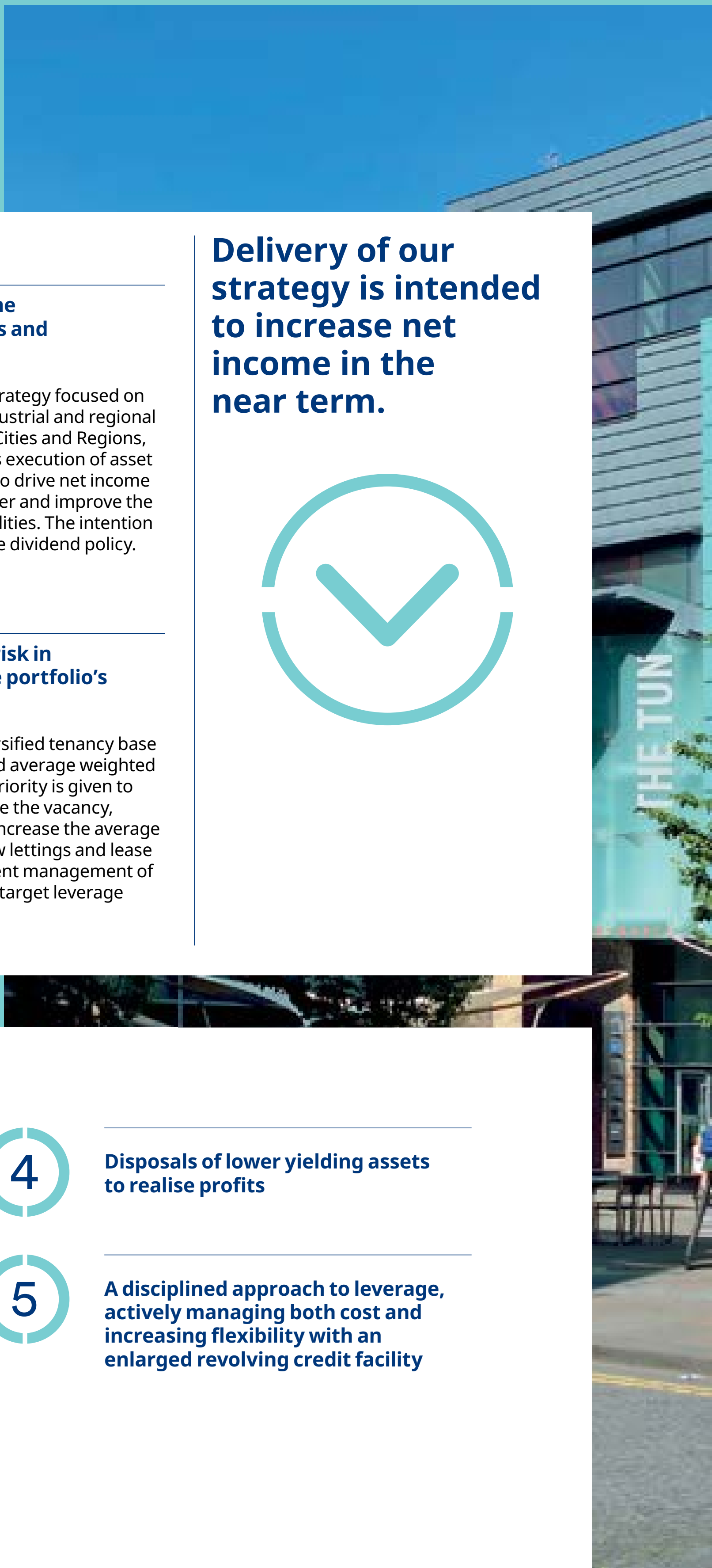
Differentiated economy
Globally facing, financial services and TMT hubs, value-add manufacturing.

Infrastructure improvements
Transport, distribution, energy, technology.

Employment growth
High-value new jobs, wealth effect, population growth.

Environment
Live and work, tourism and amenities, universities, cathedral cities, dominant retail and leisure.

Our Strategic Objectives



Strategic priorities

Exposure to Winning Cities and Regions experiencing higher levels of GDP, employment and population growth

93% of the Company's assets are located in higher growth regions and the strategy will continue to focus on Winning Cities and Regions which offer a competitive advantage in terms of higher levels of GDP, employment and population growth; differentiated local economies with higher value industries; well developed infrastructure; and places where people want to live and work.

Increasing net income through transactions and asset management

Disciplined acquisition strategy focused on investing primarily in industrial and regional office assets in Winning Cities and Regions, combined with relentless execution of asset management initiatives to drive net income growth and dividend cover and improve the portfolio's defensive qualities. The intention is to pursue a progressive dividend policy.

Increasing exposure to assets and sectors with strong fundamentals

Focus on fundamentals is essential at this stage in the cycle. Post completion of asset business plans, the Company will seek to dispose of assets where strong returns have been crystallised and that are expected to underperform to reinvest in assets with stronger fundamentals.

Managing portfolio risk in order to enhance the portfolio's defensive qualities

The Company has a diversified tenancy base of over 300 occupiers and average weighted lease term of 6.1 years. Priority is given to continue efforts to reduce the vacancy, improve covenants and increase the average lease length through new lettings and lease regears, alongside prudent management of our balance sheet with a target leverage ratio of 25% to 35%.

Delivery of our strategy is intended to increase net income in the near term.

The key strategic steps are:

1. **Increasing exposure to higher growth Winning Cities and Regions**
2. **Owning assets with strong fundamentals in terms of location and specification**
3. **Delivering sustainable net income growth through active asset management and selection**
4. **Disposals of lower yielding assets to realise profits**
5. **A disciplined approach to leverage, actively managing both cost and increasing flexibility with an enlarged revolving credit facility**


Hemma
Hemma

Performance Summary

Property performance

	31 March 2019	31 March 2018
Value of Property Assets and Joint Ventures (£000)	460,613[1]	477,495
Annualised rental income (£000)	26,983	27,100
Estimated open market rental value (£000)	32,907	33,623
Underlying portfolio total return	7.2%	11.8%
MSCI/IPD Benchmark total return[2]	5.2%	10.7%
Underlying portfolio income return	5.5%	6.2%
MSCI/IPD Benchmark income return	4.6%	4.8%

1 Includes transactions which unconditionally exchanged, but did not complete prior to year end.
2 Source: MSCI Quarterly Version of Balanced Monthly Index Funds including joint venture investments on a like-for-like basis as at 31 March 2019.

Financial summary

	31 March 2019	31 March 2018
Net Asset Value ('NAV')	£356.4m	£353.6m
NAV per ordinary share (pence)	68.7	68.2
EPRA[1] NAV	£356.4m	£353.6m
Profit for the year	£15.9m	£33.8m
Adjusted EPRA[1] earnings	£15.2m	£14.1m
Dividend cover	114%	109%

1 EPRA calculations are included in the EPRA Performance measures section on page 63.

Capital values

	31 March 2019	31 March 2018
Share price (pence)	55.4	58.8
Share price discount to NAV	(19.4%)	(13.8%)
NAV total return[1]	4.5%	10.5%
FTSE All Share Index	3,978.28	3,894.17
FTSE EPRA/NAREIT UK Real Estate Index	1,710.33	1,770.93

1 Net Asset Value total return calculated by Schroder Real Estate Investment Management Limited.

Earnings and dividends

	31 March 2019	31 March 2018
Earnings (pps)	3.1	6.5
Adjusted EPRA earnings (pps)	2.9	2.7
Dividends paid (pps)	2.53	2.48
Annualised dividend yield on 31 March share price	4.6%	4.2%

Bank borrowings

	31 March 2019	31 March 2018
On-balance sheet borrowings[1]	£158.6m	£150.1m
Loan to value ratio ('LTV'), net of all cash[2]	22.1%	25.3%

1 On balance sheet borrowings reflects the loan facility with Canada Life and RBS, without deduction of finance costs.
2 Cash excludes rent deposits and floats held with managing agents.

Ongoing charges

	31 March 2019	31 March 2018
Ongoing charges (including fund and property expenses[1])	2.2%	2.2%
Ongoing charges (including fund only expenses[1,2])	1.1%	1.2%

1 Ongoing charges calculated in accordance with AIC recommended methodology, as a percentage of average NAV during the year.
2 Fund only expenses excludes all property operating expenses, valuers' and professional fees in relation to properties.

Chairman's Statement

The Company has a clear and disciplined investment strategy

Good progress has been made over the financial year delivering on the key strategic objectives.

Overview
Good progress has been made over the financial year delivering on the key strategic objectives of growing the dividend and mitigating against the risk associated with greater market uncertainty.

This resulted in the net asset value ('NAV') increasing by 0.7% to £356.4 million over the 12 months to 31 March 2019. Allowing for the 5% dividend increase during the year, the NAV total return was 4.5%, with dividends covered by recurring earnings.

Asset management activity and an above average income return continues to drive the performance of the underlying portfolio, which delivered a total return of 7.2% compared with the MSCI Benchmark of 5.2%. The portfolio has now consistently outperformed the Benchmark by an average of 1.4% per annum since the IPO of the Company in 2004.

Weak sentiment towards UK real estate as well as broader political and economic uncertainty has depressed interest in the sector. Average UK real estate values are expected to fall but there will be polarisation between sectors and property types driven by structural changes such as reduced demand for physical retail. We note the prevailing discount of the share price to Net Asset Value. The Company will continue to take strategic steps to strengthen its position.

Strategy

The Company has a clear and disciplined investment strategy focused on growing net income, reducing risk and increasing exposure to Winning Cities and Regions that are expected to generate higher levels of economic growth. The 5% dividend increase during the year was enabled by this strategy being executed, including two debt financings, three acquisitions totalling £22 million and a high volume of income enhancing asset management activity. 93% of the portfolio is located in these higher growth areas.

The Company benefits from having a good quality, diversified portfolio with an above average weighting to regional offices and regional industrial estates, sectors that are expected to deliver higher returns. Conversely, the Company has a below average weighting to retail. At a time of greater economic uncertainty the Company should also benefit from its diverse income profile with over 300 tenants across 44 assets.

The Company has also sold lower yielding assets totalling £50 million in order to realise profits post active management, the results providing further evidence of our ability to deliver on our strategy whilst also reducing the Company's leverage. These disposals will lead to a temporary reduction in net income, but create the potential to redeploy proceeds at a more attractive point in the cycle and therefore enhance returns. Future acquisitions will be consistent with the strategy to invest in assets with strong fundamentals in Winning Cities benefiting from long term structural changes. The Company will also continue to review its cost of debt.

Environmental, Social and Governance ('ESG') issues have become an increasingly important focus. A wide range of initiatives have contributed to the Company securing a Global Real Estate Sustainability Benchmark ('GRESB') Green Star in recognition of the portfolio's suitability performance. The Manager is also increasingly focused on ensuring that the Company's activities deliver a positive social impact.

Debt

The refinancing activity completed during the year included extending a portion of the Canada Life debt and increasing the revolving credit facility ('RCF') with Royal Bank of Scotland ('RBS'). These transactions achieved several objectives during the period. They increased capacity to complete two higher yielding acquisitions, extended the average loan maturity to eight years and reduced the Company's average interest cost to 3.9% when fully drawn, hedged against any movement in interest rates. An extension in the RCF capacity from £20.5 million to £52.5 million, also provides flexibility to fund capital expenditure and act opportunistically. The NAV was negatively impacted by refinancing and acquisition costs totalling £4.5 million.

Adjusting for disposals completed since the year end, the loan to value ratio, net of cash, was 22%. Our long-term target leverage range of 25% to 35% remains unchanged.

Regulation

The Board and Manager have been monitoring the FCA's response to concerns raised regarding PRIIPs legislation and the use of Key Information Documents, or KIDs. The Manager made representations to the FCA observing that the performance scenarios and risk indicators in the KID are potentially misleading and noted the discrepancies in how costs are calculated and presented in KIDs, particularly in relation to transaction costs and finance charges.

Whilst shareholders may ignore unrealistic performance scenarios, wealth managers and multi-managers are required to use the 'all-in' costs calculated in the KID when calculating their own expenses. This potentially puts investment companies at a disadvantage to open-ended funds and internalised REITs which are exempt from PRIIPs legislation until 1 January 2022 and do not set out full costs in a like-for-like format.

More specifically for our Company, whilst the ongoing charges calculation adopting the AIC methodology stood at 2.2% over the financial year, the KID cost which includes finance charges is 4.3%. We understand some real estate investment companies are failing to calculate KID costs correctly and we will continue to lobby the FCA and other industry groups such as the AIC to ensure that disclosure on fees and charges is applied consistently across the market.

Outlook

Following almost a decade of positive growth, UK real estate is now likely to experience a period of lower than average returns. Outside of the retail sector, however, we would expect the extent of any valuation declines to be mitigated by limited new development, lower debt levels than past cycles and supportive monetary policy.

The Company's strategy has addressed late cycle risk by improving the portfolio's defensive qualities through sector, tenant and geographical diversification and selling assets to realise significant profits and reduce leverage. In a lower return environment, the above average yield generated by the underlying portfolio combined with a pipeline of income enhancing asset management initiatives should support performance.

A combination of cash and undrawn revolving credit facilities provides an opportunity to reinvest following a market correction at higher yields. This places the Company in a strong situation and successful execution of this strategy combined with delivering asset management initiatives should provide support for future income, valuation and dividend growth.

Lorraine Baldry
Chairman
Schroder Real Estate Investment Trust Limited

20 May 2019

Investment Manager's Review

Focused on delivering on the Company's long-term objectives

Dividend increased by 5% and initiatives intended to allow the Board to pursue a progressive dividend policy.

Investment Manager's report

The Company's Net Asset Value ('NAV') as at 31 March 2019 was £356.4 million or 68.7 pence per share ('pps') compared with £353.6 million or 68.2 pps as at 31 March 2018. This reflected an increase of 0.5 pps or 0.7%, with the underlying movement in NAV per share set out in the table below:

	Pence per share ('pps')
NAV as at 31 March 2018	68.2
Unrealised change in valuation of direct real estate portfolio and Joint Ventures	1.3
Capital expenditure	(0.5)
Acquisition costs on purchases	(0.3)
Realised gains on disposal	0.4
Net revenue	2.9
Refinancing costs	(0.6)
Dividends paid	(2.5)
Others	(0.2)
NAV as at 31 March 2019	**68.7**

The underlying portfolio, including joint ventures increased in value by 2.3% excluding capital expenditure. Adjusting for capital expenditure and transactions, it increased in value by 1.3% over the 12 months to March 2019. This compared with the MSCI Benchmark of –0.3% on a like-for-like basis.

Net revenue for the year totalled 2.9 pps which reflected dividend cover of 114%, and dividend cover of 100% from recurring revenues. The NAV total return for the year to March 2019 was 4.5%. This was impacted by one-off refinancing costs and acquisition costs related to the offices in Edinburgh and Nottingham and the adjoining industrial ownership in Milton Keynes which were acquired for £21.85 million, equating to a yield based on contracted income of 7%.

Strategy

The strategy over the year has remained focused on the following key objectives:

- Increasing exposure to higher growth Winning Cities and Regions;
- Owning assets with strong fundamentals in terms of location and specification;
- Delivering sustainable net income growth through active asset management and selection;
- Disposals of lower yielding assets to realise profits; and
- A disciplined approach to leverage, actively managing both cost and increasing flexibility with an enlarged revolving credit facility.

Good progress has been made executing the strategy and a high level of activity over the year has delivered the following:

- Outperformance of the underlying portfolio with a total return of 7.2% compared with the MSCI Benchmark of 5.2%. The underlying portfolio has now outperformed over one, three, five, ten years and since the Company's IPO;
- 93% of the portfolio located in higher growth cities and towns[1];
- Overweight exposure to high quality regional offices and multi-let industrial estates with no City of London offices or shopping centre assets;
- Portfolio level income return of 5.5% and reversionary income yield of 7.1%[2] compared with 4.8% and 5.4% for the MSCI/IPD Benchmark respectively. The higher reversion should lead to stronger relative returns against the backdrop of slowing capital growth;
- An increase in the dividend of 5% with a full year cover of 100% on recurring earnings following the increase;
- £50 million of disposals during the year, at a blended income yield of 2.9%, crystallising gains significantly above valuation following asset management;
- Extended the term of the loan facility with Canada Life at a lower rate and increased the capacity of the revolving credit facility; and
- Consolidated net loan to value of 22% with cash and undrawn debt totalling £80 million providing valuable operational flexibility.

Looking forward, the key strategic objectives above remain but they will continue to evolve with an emphasis on the following areas, given growing market uncertainty:

- Further realisations to crystallise gains following completion of asset management initiatives;
- Delivery of asset management activity with a strong pipeline of capital enhancements in the existing portfolio that increase income and the portfolio's defensive qualities;
- Opportunistic reinvestment at higher income yields assuming a market correction in late 2019 and into 2020; and
- A continued focus on lower costs which will include a review of debt cost given an ongoing low interest rate environment.

Market overview

The UK real estate market cycle has remained positive for an unusually long period since 2009. It is now, however, experiencing falling values in some sectors especially in City of London office and retail sectors. There is significant polarisation between the relative performance of different sectors due to factors including political risk and long-term structural shifts such as urbanisation and consumer behaviour impacting occupational demand.

Brexit is a contributor to market uncertainty and this will persist until there is clarity on the terms of any deal between the UK and EU. This uncertainty is restricting investment with the greatest impact in Central London markets most dependent on financial services' demand. Brexit uncertainty has also dampened demand from international investors, despite Sterling weakness and yields comparing favourably with other European cities such as Berlin and Paris.

More positively, weaker banking and finance markets contrast with growth sectors such as technology, fintech and medical research that are attracted to London by its talent pool. The Company's asset in Bloomsbury, located between the infrastructural improvements of the Crossrail station at Tottenham Court Road and the tech-led development at Kings Cross, is well positioned to capitalise on demand from these active growth sectors.

The UK's regional office markets have remained more resilient due to a greater proportion of domestic demand. This is reflected in higher total returns for the year of 6.8%, compared with Central London offices which returned 5%. Within these markets we favour well located multi-let offices in Winning Cities such as Bristol, Cambridge, Leeds, Manchester and Reading. These locations have low levels of new building and have lost space to redevelopment for alternative uses. For example, in 2018 Central Manchester office take-up was 1.7 million sq ft compared with a long term average of 1.1 million sq ft per annum. Occupational demand remains at high levels and is illustrated by recent lettings at City Tower in Manchester to professional services, technology and public sector tenants.

The multi-let industrial market continues to enjoy strong levels of occupational demand from a diverse range of occupiers including internet related services such as 'last mile' delivery, light industrial business and SMEs. The resultant rental growth and falling yields due to strong investor demand contributed to a total return for the year of 15.7% in this sub-sector, exceeding total returns from single let distribution warehouses at 13.5% due to the ability to increase rents through asset management. The Company's estates in Leeds, Norwich and Milton Keynes all benefited from these trends. For example, Milton Keynes delivered a total return of 30.2% for the year, driven by rental value growth.

In contrast, structural changes benefiting the industrial and logistics markets are disrupting retailer business models and leading to significant distress. During the year approximately 2,500 units were affected by retailer administrations or CVAs which has led to falling rents and a negative average total return for the year of –3.2%. Although some retail assets are functionally obsolete and values will fall across the sector, parts will stabilise and recover. We favour convenient retail locations let at affordable rents, with good transport infrastructure and serving robust local economies or Winning Cities in densely populated areas. Examples of this include the Company's investment in Headingley Central in Leeds and St. John's Retail Park in Bedford, where units have illustrated good levels of demand from occupiers despite the headwinds in this sector.

1 Source: Oxford Economics/Schroders.
2 Like-for-like with MSCI i.e. ignoring standard acquisition costs.

Investment Manager's Review continued

We expect some niche sectors to offer attractive risk-adjusted returns where demand is less tied to the economy and more to demographic trends and structural changes. These sectors satisfy increasing demand for real estate types and strategies delivering a positive social impact as well as attractive risk-adjusted total returns. The Company has a relatively low weighting to alternatives and this may increase in the future.

Real estate portfolio

As at 31 March 2019 the portfolio comprised 44 properties valued at £460.6 million. This includes the share of joint venture properties at City Tower in Manchester and Store Street in Bloomsbury, London.

Following the disposal of Victory House in Brighton the portfolio produces a rental income of £26.9 million per annum, reflecting a net initial income yield of 5.5% which compares with the MSCI Benchmark (the 'Benchmark') at 4.8%. The portfolio also benefits from fixed contractual annual rental uplifts of £2.1 million in the next 24 months. The independent valuers' estimate that the current rental value of the portfolio is £32.9 million per annum, reflecting a reversionary income yield of 7.1%, which compares favourably with the Benchmark at 5.4%.

During the year four properties were sold to crystallise gains and also to further reduce retail exposure. These included Victory House in Brighton (office), a Wickes Retail Warehouse in Basingstoke (retail), Commercial Road in Portsmouth (retail) and Middle Street in Yeovil (retail). The disposals generated total gross proceeds of £50 million, which reflected a low average net initial yield of 2.9%. The data tables below summarises the portfolio information as at 31 March 2019.

	Weighting (% of portfolio)	
Sector weightings by value	SREIT	Benchmark
City	0.0	3.2
Mid-town and West End	7.9	6.4
Rest South East	6.8	12.4
Office Rest of UK	21.3	6.8
Office sub-total	**36.0**	**28.8**
South Eastern	12.5	18.5
Industrial Rest of UK	19.2	10.2
Industrial sub-total	**31.7**	**28.7**
South East	1.1	5.8
Rest of UK	11.8	5.3
Shopping centres	0.0	4.6
Retail warehouse	12.5	15.7
Retail sub-total	**25.4**	**31.4**
Other	6.8	11.3
Other sub-total	**6.8**	**11.3**

	Weighting (% of portfolio)	
Regional weightings by value	SREIT	Benchmark
Central London[1]	7.9	12.6
South East excluding Central London	22.2	40.4
Rest of South	7.3	16.3
Midlands and Wales	29.7	13.7
North and Scotland	32.9	17.1

1 Central London is defined by MSCI as City, Mid-Town, West End and Inner London.

The top ten properties comprise 59% of the portfolio value:

	Top ten properties	Value (£m)	(% of portfolio)
1	Manchester, City Tower (25% share)	42.7	9.3
2	Milton Keynes, Stacey Bushes Industrial Estate	37.5	8.1
3	London, Store Street, Bloomsbury (50% share)	36.5	7.9
4	Leeds, Millshaw Industrial Estate	31.6	6.9
5	Bedford, St. John's Retail Park	30.0	6.5
6	Leeds, Arndale Centre	29.0	6.3
7	Uxbridge, 106 Oxford Road	18.4	4.0
8	Norwich, Union Park Industrial Estate	17.9	3.9
9	Acton, Allied Way Industrial Estate	17.2	3.7
10	Salisbury, Churchill Way West	13.0	2.8
	Total as at 31 March 2019	**273.5**	**59.4**

The top ten tenants represent 27% of the portfolio as a percentage of annual rent:

	Top ten tenants	Rent p.a. (£000)	(% of portfolio)
1	University of Law Limited	1,583	5.7
2	Buckinghamshire New University	1,152	4.2
3	Recticel Limited	731	2.6
4	Sportsdirect.com Retail Limited	722	2.6
5	The Secretary of State	715	2.5
6	Booker Limited	700	2.5
7	Matalan Retail Limited	676	2.4
8	TJX UK Limited T/A Homesense	505	1.8
9	Cine UK Limited	501	1.8
10	Jupiter Hotels Limited T/A Mercure	461	1.7
	Total as at 31 March 2019	**7,746**	**27.9**

Portfolio performance

A high level of asset management has led to continued outperformance of the underlying property portfolio compared with the MSCI Benchmark. The table below shows the performance to 31 March 2019 with the portfolio ranked on the 9th percentile of the Benchmark since IPO in 2004:

	SREIT total return p.a. (%)			MSCI/IPD Benchmark total return p.a. (%)			Relative p.a. (%)		
Sector	One year	Three years	Since IPO[1]	One year	Three years	Since IPO[1]	One year	Three years	Since IPO[1]
Retail	(4.3)	2.5	5.2	(3.2)	1.6	4.1	(1.1)	0.9	1.1
Office	8.7	8.9	8.4	6.2	5.3	6.9	2.4	3.4	1.4
Industrial	18.3	18.1	9.6	13.9	14.3	8.6	3.9	3.3	0.9
Other	2.3	3.9	3.4	7.5	9.2	7.5	(4.8)	(4.8)	(3.8)
All sectors	**7.2**	**9.1**	**7.7**	**5.2**	**6.5**	**6.2**	**2.0**	**2.5**	**1.4**

1 The Company listed in July 2004.

Investment Manager's Review continued

Transactions and asset management

Asset management

Milton Keynes, Stacey Bushes Industrial Estate

Asset strategy
The strategy over the year was to consolidate the higher rental tone and grow net income, acquire an adjoining ownership and secure planning consent for a vacant development site.

Asset overview and performance
317,000 sq ft multi-let industrial estate comprising 42 units in a good location west of Milton Keynes. As at 31 March 2019 the asset was valued at £37.5 million, reflecting a net initial income yield of 5.1% and a reversionary yield of 5.4%. During the year to 31 March 2019 the property delivered a 30.2% total return.

Key activity
- Estate now fully let with recent lettings at £9 per sq ft leading to rental growth of 9% over the year.
- Acquisition of a vacant adjoining ownership for £776,000. This was subsequently let at £80,000 per annum to generate a 10% return on cost.
- Planning in place for a new development of 14,800 sq ft across six units. The works have been tendered and are due to start on site shortly at quoting rents of £10 per sq ft.

Asset management

Leeds, Millshaw Industrial Estate

Asset strategy
The strategy over the year was to refurbish units to drive rental income higher and progress planning for higher value alternative uses given the prominent site frontage to the Leeds ring road.

Asset overview and performance
463,400 sq ft multi-let industrial estate comprising 27 units strategically located south of Leeds city centre close to the M62 and M621 motorways. As at 31 March 2019 the asset was valued at £31.6 million, reflecting a net initial income yield of 4.4% and a reversionary yield of 6.6%. During the year to 31 March 2019 the property delivered an 8.4% total return.

Key activity
- Agreement for lease exchanged with JD Sport Gyms, with planning received for change of use. Works on site with an expected completion date in early July.
- Refurbished various units and achieved a new record rent of £7.25 per sq ft.
- Opportunity to grow rents further due to limited supply of units in Leeds, particularly units above 20,000 sq ft.

Disposal

Brighton, Victory House

Asset strategy
The strategy over the year was to extend the occupational leases and capitalise on strong rental growth for prime Brighton offices. Once completed this provided the opportunity to sell the asset at a significant profit which exceeded future returns if it had been held in the portfolio.

Asset overview and performance
Victory House is an 84,523 sq ft office building located in an established location next to Brighton railway station. In June 2018 the lease to the largest tenant, BUPA Insurance, was extended to ten years at a new rent of £1.09 million, reflecting an uplift of 14%. BUPA received a 15 month rental incentive and the new lease included a minimum fixed uplift at year five equating to 2% per annum. The asset management added significant value and the potential to extract the premium price through a disposal.

Key activity

- In March contracts were exchanged to sell the asset for £36.1 million which reflected a net initial yield, on expiry of the rent free period in September 2019, of 4.9%. The disposal completed on 30 April.
- The asset was a prime and low risk asset which generated an ungeared total return of 10.3% per annum since acquisition in 2005, compared with the MSCI Benchmark for the same period of 5.9% per annum.

Asset management

Bedford, St. John's Retail Park

Asset strategy
The strategy over the year was to improve retailer mix and to negotiate new longer leases in order to preserve the rental income and manage void risk.

Asset overview and performance
St. John's Retail Park comprises a 130,000 sq ft retail warehouse park 1.5 miles from the town centre. As at 31 March 2019 the asset was valued at £30.0 million reflecting a net initial income yield of 4.0% and a reversionary yield of 6.3%. During the year to 31 March 2019, the property delivered an –10.9% total return. This was a result of weak sentiment towards the sector and Homebase leaving the park.

Key activity

- Homebase vacated a 36,214 sq ft unit as part of their CVA in December 2018. Homebase were paying £353,000 per annum.
- Homebase's failure was anticipated and in late 2018 a conditional agreement for lease was exchanged with Lidl for a supermarket totalling 21,630 sq ft. Lidl has agreed a 15 year lease at £335,000 per annum. Planning has been secured and works to refurbish and extend the former Homebase will commence shortly at a cost of approximately £3.7 million.
- A conditional agreement for lease has also been exchanged with Home Bargains for a new 14,500 sq ft store on a 15 year lease at £190,000. This is subject to a separate planning application that is ongoing.
- When completed, this will remove the largest void in the portfolio equating to 2.1% of portfolio ERV. Furthermore, Lidl should attract additional tenant demand to the park.

Investment Manager's Review continued

Responsible and positive Impact Investment

A successful sustainable investment programme should deliver enhanced returns to investors, improved business performance to tenants and deliver tangible positive impacts to local communities, the environment and wider society. In 2018, the Company's work has been recognised in the annual Global Real Estate Sustainability Benchmark ('GRESB') survey achieving a Green Star, and in the EPRA Best Practices Reporting achieving a Gold Award for the year end accounts.

Schroder Real Estate is evolving its investment philosophy to incorporate 'positive impact' investing at the heart of its management activities with improvements to its portfolios and reduction of fuel consumption. This is proactively taking action to improve social and environmental outcomes. We are still learning how to best improve the sustainability of many of the Company's assets but have already mapped the key impacts to the UN Sustainable Development Goals and are using these to design and implement a sustainability programme across the Company's activities and asset base. We will report on its progress with this impact programme in next year's Annual Report. This has been a step change and we expect real benefits in the future, positively impacting the type of work and jobs across the portfolio, improvements to the surrounding built environment and a reduction in our carbon footprint. More detail on this matter can be found in our Sustainability section on pages 22 to 25 of this report.

Finance

The balance sheet has been actively managed during the year to capitalise on low interest rates and therefore increase net income. At the same time, loan terms have been renegotiated to extend the overall duration of debt facilities and increase operational flexibility. There may be further emphasis in this area during the next financial year.

The refinancing of the £25.9 million portion of the Canada Life term loan, previously due to expire in April 2023, was extended at current market rates to be coterminous with the balance of the existing loan. This reduced the total interest cost by £435,000 per annum and resulted in a blended interest rate on the facility of 4.43%. The refinancing incurred a negotiated break cost of £2.63 million.

In addition, the total capacity of the Royal Bank of Scotland ('RBS') revolving credit facility ('RCF') increased from £20.5 million to £52.5 million and the loan term to July 2023. The RCF is an efficient and flexible funding source due to a margin of 1.6% and the ability to be repaid and redrawn as often as required.

This activity reduced the overall cost of debt from 4.4% to 3.9%, assuming the RCF is fully drawn, and increased the average weighted debt term. The net loan to value at the year end was 22%. The tables below show the position at the year end.

Lender	Loan (£m)	Maturity	Interest rate (%)	Loan to Value ('LTV') ratio (%)[1]	LTV ratio covenant (%)[1]	Interest cover ratio ('ICR') (%)[2]	ICR ratio covenant (%)[2]	Forward looking ICR ratio (%)[3]	Forward looking ICR ratio covenant (%)[3]
Canada Life	129.6	15/04/2028	4.43[4]	36.7	65	380	185	314	185
RBS	29.0[5]	03/07/2023	2.42[6]	27.4[7]	65	512	185	808	250

1 Loan balance divided by property value as at 31 March 2019.
2 For the quarter preceding the Interest Payment Date ('IPD'), ((rental income received – void rates, void service charge and void insurance)/interest paid).
3 For the four quarters following the IPD, ((rental income to be received – void rates, void service charge and void insurance)/interest paid).
4 Fixed total interest rate for the loan term.
5 Facility drawn at 31 March 2019 from a total facility of £52.5 million.
6 Total interest rate as at 31 March 2019 comprising three months' LIBOR of 0.82% and the margin of 1.6% at an LTV below 60% and a margin of 1.90% above 60% LTV.
7 This covenant drops to 60% after year three of the five-year term.

Outlook

The economy and real estate markets have entered a phase of slowing growth and consolidation. Successful execution of our strategy over the year has supported a dividend increase in contrast to the real estate market slowdown. It has also further enhanced our flexibility and balance sheet strength against the backdrop of a more uncertain market environment.

Recent disposals have realised profits at the same time as the market is experiencing wider price falls. Whilst these sales will lead to a period of reduced rental income, the increased cash levels and undrawn debt facility provides the capacity and operational flexibility to fully fund dividends. This also places the Company in a strong and sustainable position to take advantage to reinvest opportunistically following a market correction.

Reinvestment will target higher income returns than the sales and this will increase net operating income. In the meantime, the Company is positioned to explore alternative refinancing strategies which may further increase net operating income. For this reason we believe the Company is well placed to deliver on its long-term objectives and to pursue a progressive dividend policy.

Duncan Owen
Schroder Real Estate Investment Management Limited

20 May 2019

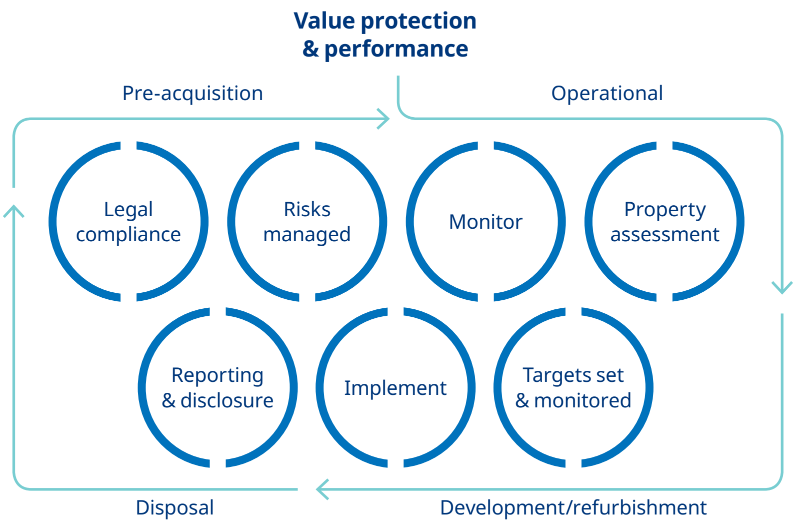
Sustainability Report

The Board and the Investment Manager believe that corporate social responsibility is key to long term future business success and that a successful, sustainable investment programme should deliver enhanced returns to investors, improved business performance to tenants and tangible positive impacts to local communities, the environment and wider society.

The importance of environmental and social changes are investment factors that the Board and Investment Manager must understand to protect Company assets from depreciation and optimise the portfolio's value potential.

Offering occupiers resource-efficient and flexible space is critical to ensure our investments are fit for purpose and sustain their value over the long term. As a landlord, we have the opportunity to help reduce running costs for our occupiers, increase employee productivity and wellbeing, and contribute to the prosperity of a location through building design and public realm. Ignoring these issues when considering asset management and investments would risk the erosion of income and value as well as missing opportunities to enhance investment returns.

Through its construction, use and demolition, the built environment accounts for more than one-third of global energy use and is the single largest source of greenhouse gas emissions in many countries.



The industry's potential to cost-efficiently reduce emissions and the consumption of depleting resources, combined with the political imperative to tackle issues such as climate change, means the property sector will remain a prime target for policy action. This presents new challenges and opportunities for the real estate industry with profound implications for both owners and occupiers.

The Investment Manager is evolving its investment philosophy to incorporate 'positive impact' investing; this aims to proactively take action to improve social and environment outcomes. The Investment Manager has mapped key impacts to the UN Sustainable Development Goals and uses these to focus sustainability programmes for funds and assets. The Investment Manager will report on its progress with this impact programme in next year's Annual Report.

A good investment strategy must incorporate environmental, social and governance factors alongside traditional economic considerations. The Board and the Investment Manager believe a complete approach should be rewarded by improved investment decisions and performance.

Further information on Schroder Real Estate's Sustainable Investment approach and its 2019 Sustainability Policy can be found at https://www.schroders.com/en/uk/realestate/products--services/sustainability/

Environmental Management System
Schroder Real Estate, led by its Head of Sustainability and Impact Investment, and supported by sustainability and energy management consultancy Evora Global, operates an Environmental Management System ('EMS'). The EMS is aligned with the internationally recognised standard ISO 14001. The EMS provides the framework for how sustainability principles (environmental and social) are managed throughout all stages of its investment process including acquisition due diligence, asset management, property management provided by third parties, refurbishments and developments. Schroder Real Estate reviews its Sustainability Policy annually which is approved by the Investment Committee. Key aspects of the Policy, performance against 2018's objectives and targets, as well as objectives and targets for the year ahead, are set out below.

Property Manager Sustainability Requirements

Property managers play an integral role in supporting the sustainability program. Schroder Real Estate has established a set of Sustainability Requirements for Property Managers to adhere to in the course of delivering their property management services. This includes a set of key performance indicators to help improve the property managers sustainability related services to the Company and which are assessed on a six-monthly and annual basis. Schroder Real Estate is pleased to report that MJ Mapp, its principal property manager, performed well against the targets set for both the six-monthly and annual indicators.

Objectives and Targets

Energy and Greenhouse Gas Emissions

Active management of energy consumption and greenhouse gas emissions is a key component of responsible asset and building management. Improving energy efficiency and reducing energy consumption will benefit tenants' occupational costs and may support tenant retention and attraction, in addition to mitigating environmental impacts and helping to futureproof the portfolio against future legislation. Therefore, where the landlord retains operational control responsibilities, Schroder Real Estate monitors the Company's energy usage and efficiency on a quarterly basis.

In the first quarter of 2016, Schroder Real Estate introduced an energy reduction target of 6% across all UK managed assets over a two-year period to March 2018 from a baseline of 2015/16. The programme period concluded in March 2018 achieving an 8.1% reduction, which equates to a 3.8 million kWh saving, 930 tonnes CO_2-equivalent avoided and a cost saving of over £300,000. The target related to the like-for-like portfolio only (i.e. excluding assets purchased, sold or under refurbishment during the two years reported) and energy consumption data was adjusted for the impacts of weather and occupancy using recognised techniques. SREIT assets made up c.7% of Schroder Real Estate's UK portfolio energy consumption for this programme and contributed c.0.5% of the savings achieved.

Schroder Real Estate continues to focus on energy and greenhouse gas emissions performance and the target has been extended to achieve a 18% reduction in landlord-controlled energy consumption by 2020/21 (2015/16 baseline). This is accompanied by a target of 32% reduction in landlord-controlled greenhouse gas emissions by 2020/21 (2015/16 baseline); this target is inclusive of decarbonisation of the UK electricity grid over recent years.

In support of achieving these targets and improving the efficiency of the portfolio, Schroder Real Estate has continued to work with sustainability consultants Evora Global and property manager MJ Mapp to identify and deliver energy and greenhouse gas emissions reductions on a cost-effective basis. The programme has involved reviewing all managed assets within the Company and identifying and implementing improvement initiatives, where viable.

Schroder Real Estate can report for the 2018 calendar year, for the managed assets held within the Company, an energy reduction for landlord procured energy of 1% on a like-for-like basis. Energy improvement initiatives as well as a milder winter contributed to this result. For detailed energy performance data covering the reporting period and the prior year, please see the EPRA Sustainability Reporting Performance Measures.

Energy Performance Certificates ('EPCs') for the portfolio are regularly reviewed for alignment with the 2015 Minimum Energy Efficiency Standards (England and Wales) legislation. Schroder Real Estate is actively managing the potential risk of this legislation to the portfolio. This legislation brought in a minimum EPC standard of 'E' for new leases and renewals for non-domestic buildings from 1 April 2018; this minimum standard applies to all leases from 1 April 2023. The EPC profile for the portfolio is set out within the EPRA Sustainability Reporting Performance Measures.

Sustainability Report continued

Water
Fresh water is a finite resource of increasing importance for the environment and society and reductions in consumption can deliver operational cost efficiencies. Schroder Real Estate monitors water consumption where the landlord has supply responsibilities and encourages active management of asset-level consumption. Where the Company had such responsibilities, a 7% reduction in like for like water consumption is reported for the calendar year 2018 compared to calendar year 2017. This reduction is due to a number of factors across the sectors as explained in the EPRA Sustainability Reporting Performance Measures.

Waste
Effective waste management decreases pollution and resource consumption, as well as improving operational efficiency and associated costs. To this end, waste should be minimised and disposal should be as sustainable as possible. Schroder Real Estate therefore has set an objective to send zero waste direct to landfill and to achieve optimal recycling. During 2018 Schroder Real Estate sent zero waste direct to landfill.

Refurbishments and Green Building Certifications
Schroder Real Estate seeks to deliver developments and refurbishments to sustainable standards and deliver good performance against building certifications, including EPCs and BREEAM (the Building Research Establishment Environmental Assessment Methodology: an environmental assessment method and rating system for buildings). Standards required are set for each project in context for the asset and Schroder Real Estate's guiding principles for projects of minimum D rated EPCs and BREEAM Very Good.

Health Wellbeing and Productivity
The real estate industry is beginning to gain a new perspective on the importance of the built environment on human health, wellbeing and productivity. A number of schemes have emerged which seek to identify the impacts of spaces and places on people and provide new ways of certifying buildings. Case studies demonstrate the benefit of reflecting wellbeing in good design. Schroder Real Estate is working to embed this aspect into its investment process, especially in relation to refurbishments and developments.

Stakeholder Engagement and Community
Schroder Real Estate seeks active engagement with tenants to ensure a good occupational experience to help retain and attract tenants. As the day-to-day relationship is with the property manager, the Property Manager Sustainability Requirements include a key performance indicator on tenant engagement.

Schroder Real Estate believes in the importance of understanding a building's relationship with the community and its contribution to the well-being of society. Positively impacting on local communities helps create successful places that foster community relationships, contribute to local prosperity, attract building users and ultimately, lead to better, more resilient investments. Schroder Real Estate looks to understand and develop the community relationship to ensure investments provide sustainable social solutions for the long term.

Compliance with Legislation

Carbon Reduction Commitment
The Company's portfolio did not require registration for Phase II of the CRC Scheme and the purchase of allowances. It was announced in the March 2016 Budget that the CRC Scheme will not continue beyond Phase II.

Energy Savings Opportunity Scheme
The Company did not qualify for participation in the 2015 Phase 1 of the Energy Savings Opportunity Scheme.

Mandatory Greenhouse Gas Emissions Reporting
The Company is not incorporated in the UK and therefore does not fall within the requirements for mandatory reporting of greenhouse gas emissions for UK quoted companies, which came into effect from 1 October 2013. However, greenhouse gas emissions are reviewed annually, and the Company includes a report on a voluntary

basis (as recommended by DEFRA guidance) within this financial year report. The Company's report on greenhouse gas emissions can be found in the EPRA Sustainability Reporting Performance Measures report.

The Board and its advisers will continue to monitor requirements and guidance in relation to managing and reporting environmental matters and developments in legislation.

Industry Initiatives

EPRA Sustainability Reporting Performance Measures

The Company Report includes environmental performance indicator data for the portfolio. The disclosures are aligned with EPRA Best Practices Recommendations on Sustainability Reporting 2017 and are included in the Company EPRA Performance Measures report.

Global Real Estate Sustainability Benchmark

The Company participated in the annual Global Real Estate Sustainability Benchmark ('GRESB') survey in 2018 achieving a Green Star. GRESB is the dominant global standard for assessing Environmental, Social and Governance performance for real estate funds and companies.

Schroder Real Estate intends to participate in the survey for the Company in 2019 again with the objective of achieving a Green Star rating; this rating is achieved where scores for the two dimensions of Management and Policy and Implementation and Measurement are at least 50 out of 100 points.

Industry Participation

Schroder Real Estate is a member of a number of industry bodies including the European Public Real Estate Association ('EPRA'), INREV (European Association for Investors in Non-Listed Real Estate Vehicles), British Council for Offices and the British Property Federation. It was a founding member of the UK Green Building Council in 2007 and in 2017 became a member of the Better Buildings Partnership and a Fund Manager Member of GRESB.

Employee Policies and Corporate Responsibility

Employees

The Company is an externally managed real estate investment trust and has no direct employees. Schroder Real Estate is part of Schroders PLC which has responsibility for the employees that support the Company. Schroders believes diversity of thought and an inclusive workplace are key to creating a positive environment for their people. Schroder Real Estate's real estate team has a sustainability objective within its annual objectives.

Further information on Schroders' principles in relation to people including diversity, gender pay gap, values, employee satisfaction survey, wellbeing and retention can be found from page 69 of Schroders Annual Report and Accounts 2018.

https://www.schroders.com/en/sysglobalassets/digital/global/annual-report/documents/annual-report-full.pdf

Corporate Responsibility

Schroders' commitment to corporate responsibility is to ensure that its commitment to act responsibly, support clients, deliver value to shareholders and make a wider contribution to society is embedded across its business in all that it does.

Full information on Schroders Corporate Responsibility approach including its economic contribution, environmental impacts and community involvement, can be found at http://www.schroders.com/en/about-us/corporate-responsibility/

Slavery and Human Trafficking Statement

The Company is not required to produce a statement on slavery and human trafficking pursuant to the Modern Slavery Act 2015 as it does not satisfy all the relevant triggers under that Act that required such a statement.

Schroder Real Estate, the Investment Manager to the Company, is part of Schroders PLC and whose statement on Slavery and Human Trafficking has been published in accordance with the Modern Slavery Act 2015 (the 'Act'). It sets out the steps that Schroders PLC and other relevant group companies ('Schroders' or the 'Group') have taken during 2018 and will be taking in 2019 to prevent slavery and human trafficking from taking place in its supply chains or any part of its business. Schroder Real Estate is part of the Schroders Group.

Schroders' statement can be found at http://www.schroders.com/en/about-us/corporate-responsibility/slavery-and-human-trafficking-statement/

Business Model

Company's business
The Company is a real estate investment company with a premium listing on the Official List of the UK Listing Authority and is traded on the London Stock Exchange's main market for listed securities. On 1 May 2015, the Company converted to a Real Estate Investment Trust ('REIT') which means that it is able to benefit from exemptions from UK tax on profits and gains in respect of certain qualifying property rental business activities. The Company continues to be an authorised closed-ended investment scheme registered in Guernsey.

The Board
The Board of Directors is responsible for the overall stewardship of the Company, including investment and dividend policies, corporate strategy, gearing, corporate governance and risk management.

The Company has no Executive Directors or employees.

Investment objective
The investment objective of the Company is to provide shareholders with an attractive level of income together with the potential for income and capital growth from owning and actively managing a diversified portfolio of real estate.

The portfolio is principally invested in the three main UK commercial real estate sectors of office, industrial and retail, and may also invest in other sectors including, but not limited to, residential, leisure, healthcare and student accommodation. Over the real estate market cycle the portfolio aims to generate an above average income return with a diverse spread of lease expires.

Relatively low levels of debt are used to enhance returns for shareholders with the level of debt dependent on the real estate cycle and the outlook for future returns.

Investment strategy
The current investment strategy is to grow income and enhance shareholder returns through selective acquisitions, proactive asset management and selling lower yielding properties on completion of the asset business plan. The issuance of new shares will also be considered if this is consistent with the strategy.

Our objective is to own a portfolio of larger properties in Winning Cities and Regions with high growth diversified local economies, sustainable occupational demand and favourable supply and demand characteristics. These properties should offer good long-term fundamentals in terms of location and specification and be let at affordable rents with the potential for income and capital growth from good stock selection and asset management.

The Board has delegated investment management and accounting services to the Investment Manager with the aim of helping the Company to achieve its investment objective and strategy. Details of the Investment Manager's investment approach, along with other factors that have affected performance during the year, are set out in the Investment Manager's Report.

Diversification and asset allocation
The Board believes that in order to maximise the stability of the Group's income, the optimal strategy for the Group is to invest in a portfolio of assets diversified by location, sector, asset size and tenant exposure with low vacancy rates and creditworthy tenants. The value of any individual asset at the date of its acquisition may not exceed 15% of gross assets and the proportion of rental income deriving from a single tenant may not exceed 10%. From time to time the Board may also impose limits on sector, location and tenant types together with other activity such as development.

The Company's portfolio will be invested and managed in accordance with the Listing Rules of the Financial Conduct Authority ('Listing Rules' and 'FCA' respectively) taking into account the Company's investment objectives, policies and restrictions.

Borrowings
The Board has established a gearing guideline for the Investment Manager, which seeks to limit on-balance-sheet debt, net of cash, to 35% of on-balance-sheet assets while recognising that this may be exceeded in the short term from time to time. It should be noted that the Company's Articles limit borrowings to 65% of the Group's gross assets, calculated as at the time of borrowing. The Board keeps this guideline under review and the Directors may require the Investment Manager to manage the Group's assets with the objective of bringing borrowings within the appropriate limit while taking due account of the interests of shareholders. Accordingly, corrective measures may not have to be taken immediately if this would be detrimental to shareholder interests.

Interest rate exposure
It is the Board's policy to minimise interest rate risk, either by ensuring that borrowings are on a fixed rate basis, or through the use of interest rate swaps/derivatives used solely for hedging purposes.

Investment restrictions
As the Company is a closed-ended investment fund for the purposes of the Listing Rules, the Group will adhere to the Listing Rules applicable to closed-ended investment funds. The Company and, where relevant, its subsidiaries will observe the following restrictions applicable to closed-ended investment funds in compliance with the current Listing Rules:
- Neither the Company nor any subsidiary will conduct a trading activity which is significant in the context of the Group as a whole and the Group will not invest in other listed investment companies; and
- Where amendments are made to the Listing Rules, the restrictions applying to the Company will be amended so as to reflect the new Listing Rules.

In addition, the Company will ensure compliance with the UK REIT regime requirements.

Performance

The Board uses principal financial Key Performance Indicators ('KPIs') to monitor and assess the performance of the Company being the net asset value ('NAV') total return, the performance of the Company's underlying property portfolio relative to its MSCI/IPD Benchmark Index and the share price:

1. **NAV total return**
   For the year to 31 March 2019 the Company delivered a NAV total return of 4.5% (10.5% for the year to 31 March 2018).

2. **Underlying property portfolio performance relative to peer group Benchmark**
   The performance of the Company's property portfolio is measured against a specific Benchmark defined as the MSCI (formerly Investment Property Databank) Quarterly Version of Balanced Monthly Index Funds (the 'Benchmark'). As at 31 March 2019 the Benchmark Index comprised 42 member funds.

3. **Share price performance**
   The Board monitors the level of the share price compared to the NAV. As at 31 March 2019, the share price was at a 19.4% discount to NAV of 68.7 pps. Where appropriate on investment grounds, the Company may from time to time repurchase its own shares, but the Board recognises that movements in the share price premium or discount are driven by numerous factors, including investment performance, gearing and market sentiment. Accordingly we focus our efforts principally on addressing sources of risk and return as the most effective way of producing long-term value for shareholders.

Property portfolio performance

Total return for 12 months to 31 March 2019		Total return for 12 months to 31 March 2018	
SREIT (%)	**MSCI/IPD Benchmark (%)**	SREIT (%)	MSCI/IPD Benchmark (%)
7.2	**5.2**	11.8	10.7

The analysis above is prepared by MSCI and takes account of all direct property related transaction costs.

Risks and Uncertainties

The Board is responsible for the Company's system of risk management and internal control and for reviewing its effectiveness. The Board has carried out a robust assessment of the principal risks facing the Company including those that would threaten its business model, future performance, solvency or liquidity. A framework of internal controls has been designed and established to monitor and manage those risks. This internal control framework provides a system to enable the Directors to mitigate these risks as far as possible, which assists in determining the nature and extent of the significant risks the Board is willing to take in achieving its strategic objectives.

Although the Board believes that it has a robust framework of internal controls in place this can provide only reasonable, and not absolute, assurance against material financial misstatement or loss and is designed to manage, not eliminate, risk.

A summary of the principal risks and uncertainties faced by the Company, which have remained unchanged throughout the year ended 31 March 2019, and actions taken by the Board to manage and mitigate these risks and uncertainties, are set out below.

Key risks	Mitigation of risk
Investment policy and strategy An inappropriate investment strategy, or failure to implement the strategy, could lead to underperformance and the share price being at a larger discount, or smaller premium, to NAV than the property market generally. This underperformance could be caused by incorrect sector and geographic weightings or a loss of income through tenant failure, both of which could lead to a fall in the value of the underlying portfolio. This fall in values would be amplified by the Company's external borrowings.	The Board seeks to mitigate these risks by: – Diversification of its property portfolio through its investment restrictions and guidelines which are monitored and reported on by the Investment Manager. – Determining borrowing policy and the Investment Manager operates within borrowing restrictions and guidelines. – Receiving from the Investment Manager timely and accurate management information including performance data, attribution analysis, property level business plans and financial projections. – Monitoring the implementation and results of the investment process with the Investment Manager with a separate meeting devoted to strategy each year.
Investment management The Investment Manager's investment strategy, if inappropriate, may result in the Company underperforming the market and/or peer group companies, leading to the Company and its objectives becoming unattractive to investors.	Review of the Investment Manager's compliance with the agreed investment restrictions, investment performance and risk against investment objectives and strategy; relative performance; the portfolio's risk profile; and appropriate strategies employed to mitigate any negative impact of substantial changes in markets, including any potential disruption to capital markets.
Economic and property market risk The performance of the Company could be affected by economic and property market risk. In the wider economy this could include inflation or deflation, economic recessions, movements in interest rates, Brexit impact or other external shocks. The performance of the underlying property portfolio could also be affected by structural or cyclical factors impacting particular sectors or regions of the property market.	The Board considers economic conditions and the uncertainty around political events when making investment decisions. The Board mitigates property market risk through the review of the Group's strategy on a regular basis and discussions are held to ensure the strategy is still appropriate or if needs updating.
Gearing and leverage The Company utilises credit facilities. These arrangements increase the funds available for investment through borrowing. While this has the potential to enhance investment returns in rising markets, in falling markets the impact could be detrimental to performance.	Gearing is monitored and strict restrictions on borrowings imposed.

Key risks	Mitigation of risk
Accounting, legal and regulatory The risk that the NAV and financial statements could be inaccurate.	The Investment Manager has robust processes in place to ensure that accurate accounting records are maintained and that evidence to support the financial statements is available to the Board and the auditors. The Investment Manager operates established property accounting systems and has procedures in place to ensure that the quarterly NAV and Gross Asset Value are calculated accurately. The Board has appointed the Investment Manager as Alternative Investment Fund Manager ('AIFM') in accordance with the Alternative Investment Fund Managers Directive ('AIFMD'). The quarterly and annual NAV has numerous levels of reviews including by the Board. Additional support is produced by the fund accountants to ensure financial data is complete and accurate. An internal controls review is performed by EY in accordance with ISAE 3402 annually to provide assurance on Schroders' service organisations' control procedures and an external audit is completed to provide an opinion on the financial statements which have been reviewed by the Board of Directors. The Administrator monitors legal requirements to ensure that adequate procedures and reminders are in place to meet the Company's legal requirements and obligations. The Investment Manager undertakes full legal due diligence with advisers when transacting and managing the Company's assets. All contracts entered into by the Company are reviewed by the Company's legal and other advisers. Processes are in place to ensure that the Company complies with the conditions applicable to property investment companies set out in the Listing Rules. The Administrator attends all Board meetings to be aware of all announcements that need to be made and the Company's advisers are aware of their obligations to advise the Administrator and, where relevant, the Board of any notifiable events. Finally, the Board is satisfied that the Investment Manager and Administrator have adequate procedures in place to ensure continued compliance with the regulatory requirements of the FCA and the Guernsey Financial Services Commission.
Valuation risk Property valuations are inherently subjective and uncertain.	External valuers provide independent valuation of all assets. Members of the Audit Committee meet with the external valuers to discuss the basis of their valuations and their quality control processes.
Tax risk The Group is exposed to changes in the tax regime affecting the cost of corporate tax, VAT, Stamp Duty and Stamp Duty Land Tax. The UK's future exit from the EU creates uncertainty over the future UK tax and regulatory environment. The Group is exposed to potential tax penalties or loss of its REIT status by failing to comply with the REIT legislation.	We regularly monitor proposed and actual changes in tax legislation with the help of Deloitte and through direct liaison with HMRC, to understand and, if possible, mitigate or benefit from their impact. This includes considering the impact of new UK legislation in relation to the taxation of non-resident companies investing in UK real estate that is effective from 5 April 2019. HMRC has designated the Group as having a low-risk tax status, and we hold regular meetings with them. We carry out detailed planning ahead of any future regulatory and tax changes using Deloitte as our tax advisers. The Group has internal monitoring procedures in place to ensure that the appropriate REIT rules and legislation are complied with. To date, all REIT regulations have been complied with, including projected tests.
Service provider The Company has no employees and has delegated certain functions to a number of service providers. Failure of controls and poor performance of any service provider could lead to disruption, reputational damage or loss.	Service providers appointed subject to regular reviews and with clearly documented contractual arrangements detailing service expectations. Regular reporting by key service providers and monitoring of the quality of services provided. Review of internal controls reports from key service providers, including confirmation of business continuity and cyber security arrangements.

Board of Independent Non-Executive Directors

Lorraine Baldry
Chairman

Date of appointment: 13 January 2014

Aged 69, is Chair of Sellafield Ltd and Inventa Partners Ltd. Until recently Lorraine was Chair of London & Continental Railways, a Governor at The University of the Arts London and a Director of Thames Water Utilities Limited. She was Chief Executive of Chesterton International plc and prior to that held various senior positions at Prudential Corporation, Morgan Stanley and Regus. She is also an Honorary Member of the Royal Institution of Chartered Surveyors and a Past President of the British Property Federation.

Current remuneration: £50,000 per annum

Material interests in any contract which is significant to the Company's business: None

Graham Basham
Independent Non-Executive Director

Date of appointment: 11 September 2015

Aged 61, is a director of a number of Investment and Fiduciary regulated companies in Guernsey. He also sits on the boards of the SREIT subsidiaries, a position he has held for the last nine years. He has 40 years' experience in fiduciary and fund work, most of these spent in several offshore locations. He is Group partner and Head of Guernsey for the Active Group Ltd, holds a Trustee Diploma as an Associate of Chartered Institute of Banks and is a member of the Society of Trust & Estate Practitioners and Institute of Directors.

Current remuneration: £30,000 per annum

Material interests in any contract which is significant to the Company's business: Director of Computershare Services (Guernsey) Ltd who act as Registrar to the Fund

Stephen Bligh
Chairman of the Audit Committee

Date of appointment: 28 April 2015

Aged 62, Stephen was previously with KPMG for 34 years, specialising in the audit of FTSE 350 companies in property and construction. He is a fellow of the Institute of Chartered Accountants in England & Wales and was previously a non-executive Board Member of the Department of Business, Innovation & Skills.

Current remuneration: £35,000 per annum

Material interests in any contract which is significant to the Company's business: None

Alastair Hughes
Senior Independent Director

Date of appointment: 26 April 2017

Aged 53, Alastair Hughes has over 25 years of experience in real estate markets, is a non-executive director of British Land PLC and Tritax Big Box. He was previously the Managing Director of Jones Lang LaSalle ('JLL') in the UK before becoming the CEO for Europe, Middle East and Africa and then most recently becoming the CEO for Asia Pacific. Alastair is a Chartered Surveyor and sat on the Global Executive Board of JLL.

Current remuneration: £35,000 per annum

Material interests in any contract which is significant to the Company's business: None

No Director has any entitlement to pensions and the Company has not awarded any share options or long-term performance incentives to any of them. No element of Directors' remuneration is performance-related. There were no payments to Directors for loss of office.

No Director has a service contract with the Company; however, each of the Directors has a letter of appointment with the Company. The Directors' letter of appointment, which set out the terms of their appointment, are available for inspection at the Company's registered office address during normal business hours and will be available for inspection at the AGM.

Report of the Directors

The Directors of the Company and its subsidiaries (together, the 'Group') present their report and the audited financial statements of the Group for the year ended 31 March 2019. The Company is incorporated in Guernsey, Channel Islands under The Companies (Guernsey) Law, 2008 ('Companies Law').

Results and dividends

The results for the year under review are set out in the attached financial statements.

During the year the Company has declared and paid the following interim dividends to its ordinary shareholders in accordance with the solvency test (contained in the Companies Law):

Dividend for quarter	Date paid	Rate
31 March 2018	31 May 2018	0.62 pence per share
30 June 2018	31 August 2018	0.62 pence per share
30 September 2018	5 December 2018	0.6355 pence per share
31 December 2018	15 March 2019	0.65 pence per share

Subject to the solvency test provided for in the Companies Law being satisfied, all dividends are declared and paid as interim dividends. The Directors do not therefore recommend a final dividend. A dividend for the quarter ended 31 March 2019 of 0.65 pence per share ('pps') was declared on 10 May 2019 and will be paid on 7 June 2019.

The split of dividend paid between Property Income Distribution ('PID') and Ordinary dividend for the year ending 31 March 2019 is 1.4 pps and 1.1255 pps respectively.

Share capital

As at 31 March 2019 and the date of this Report, the Company has 565,664,749 (2018: 565,664,749) ordinary shares in issue of which 47,151,340 ordinary shares (representing 8.3% of the Company's total issued share capital) are held in treasury (2018: 47,151,340). The total number of voting rights of the Company is 518,513,409 (2018: 518,513,409) and this figure may be used by shareholders as the denominator for the calculations by which they will determine if they are required to notify their interest in, or a change in their interest in the Company, under the Disclosure Guidance and Transparency Rules.

Key services providers

The Board has adopted an outsourced business model and has appointed the following key service providers:

Investment Manager

The Board reviews the Investment Manager's performance at its quarterly Board meetings. In addition, the Board made its annual visit to the Investment Manager in May 2019 to review portfolio strategy and the Investment Manager's capabilities in more depth. Subsequently, the Directors formally discussed the performance of the Investment Manager at a private session.

On the basis of this review, and the extensive selection process undertaken prior to appointing the Investment Manager, the Board remains satisfied that the Investment Manager has the appropriate capabilities required to support the Company, and believes that the continuing appointment of the Investment Manager under the terms of the current investment management agreement, further details are set out below, is in the interest of shareholders.

The Investment Manager receives a fee of 1.1% per annum of the Company's NAV for providing investment management and accounting services. The fee is payable monthly in arrears. There is no performance fee. The investment management agreement can be terminated by either party on not less than nine months' written notice or on immediate notice in the event of certain breaches of its terms or the insolvency of either party.

The Company has appointed the Investment Manager as the AIFM under the AIFMD. There is no additional fee paid to the Investment Manager for this service.

Administration

The Board appointed Northern Trust International Fund Administration Services (Guernsey) Limited as the administrator to the Company (the 'Administrator'). The Administrator is entitled to an annual fee equal to £120,000.

Northern Trust (Guernsey) Limited has been appointed by the Board to provide depositary services, as required under the AIFMD at an annual fee of £40,000.

Going concern and viability

Going concern

The Directors have examined significant areas of possible financial risk and have reviewed cash flow forecasts and compliance with the debt covenants, in particular the loan to value covenant and interest cover ratio. They have not identified any material uncertainties which would cast significant doubt on the Group's ability to continue as a going concern for a period of not less than 12 months from the date of the approval of the financial statements. The Directors have satisfied themselves that the Group has adequate resources to continue in operational existence for the foreseeable future.

After due consideration, the Board believes it is appropriate to adopt the going concern basis in preparing the financial statements.

Brexit

The Company's properties were independently valued as at 31 March 2019 and Brexit is only one of a number of market factors which the independent valuers will have taken into consideration in determining their valuations. The valuations are not qualified with regard to Brexit. The Company has over 300 tenants with varying degrees of exposure to Brexit. The Board has considered reasonable sensitivities, including potential falls in property valuations arising from, inter alia, Brexit, in concluding that it will remain a going concern for a period of not less than twelve months from the date of the approval of the financial statements.

Viability statement

The 2016 UK Corporate Governance Code requires the Board to make a Viability Statement which considers the Company's current position and principal risks and uncertainties together with an assessment of future prospects.

The Board conducted this review over a five year time horizon which is selected to match the period over which the Board monitors and reviews its financial performance and forecasting. The Investment Manager prepares five year total return forecasts for the UK commercial real estate market. The Investment Manager uses these forecasts as part of analysing acquisition opportunities as well as for its annual asset level business planning process. At the annual Manager Visit the Board receives an overview of the asset level business plans which the

Investment Manager uses to assess the performance of the underlying portfolio and therefore make investment decisions such as disposals and investing capital expenditure. The Company's principal borrowings are for a weighted duration of eight years and the average unexpired lease term, assuming all tenants vacate at the earliest opportunity, is eight years.

The Board's assessment of viability considers the principal risks and uncertainties faced by the Company, as detailed on pages 28 to 29 of the Strategic Report, which could negatively impact its ability to deliver the investment objective, strategy, liquidity and solvency of the Company. This includes considering a cash flow model prepared by the Manager that analyses the sustainability of the Company's cash flows, dividend cover, compliance with bank covenants, REIT compliance and general liquidity requirements for a five year period. These metrics are subject to a sensitivity analysis which involves flexing a number of the main assumptions including macro economic scenarios, delivery of specific asset management initiatives, rental growth and void/reletting assumptions. The Board also reviews assumptions regarding capital recycling and the Company's ability to refinance or extend financing facilities.

Based on the assessment, the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five year period of its assessment.

Anti-bribery policy

The Company continues to be committed to carrying out its business fairly, honestly and openly. To this end, it has undertaken a risk assessment of its internal procedures and the policies of the Company's main service providers which aim to prevent bribery being committed by Directors and persons associated with the Company on the Company's behalf and to ensure compliance with the Bribery Act.

Directors

The Directors of the Company together with their beneficial interest in the Company's ordinary share capital as at the date of this report are given below:

Director	Number of ordinary shares	Percentage (%)
Lorraine Baldry	–	–
Graham Basham	–	–
Stephen Bligh	64,000	Less than 0.1
Alastair Hughes	100,000	Less than 0.1

Substantial shareholdings

As at 31 March 2019 the Directors were aware that the following shareholders each owned 3% or more of the issued ordinary shares of the Company.

	Number of ordinary shares	Percentage (%)
Investec Wealth & Investment (UK)	86,735,642	16.7
Schroders Investment Management Limited	86,591,878	16.7
Premier Fund Managers Ltd (UK)	40,977,139	7.9
Alliance Trust Savings Limited	31,800,387	6.1
BlackRock Inc	24,164,759	4.7
Brooks Macdonald Asset Management	21,161,675	4.1
The Vanguard Group Inc	20,297,217	3.9

Independent auditors

KPMG Channel Islands Limited ('KPMG') have expressed their willingness to continue as auditors to the Company (the 'Auditors') and resolutions proposing their reappointment and authorising the Directors to determine their remuneration for the coming year will be put to shareholders at the Annual General Meeting ('AGM') of the Company.

The Audit Committee's evaluation of the Auditors is described in the Report of the Audit Committee on page 40.

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditors are unaware and each Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

Status for taxation

The Director of Income Tax in Guernsey has granted the Company exemption from Guernsey income tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 and the income of the Company may be distributed or accumulated without deduction of Guernsey Income Tax. Exemption under the above mentioned Ordinance entails the payment by the Company of an annual fee of £1,200.

The Group's tax charge remains low because it has tax exempt status in the UK as a UK Real Estate Investment Trust ('REIT'). The Group has been a UK REIT since 2015 and the Group's property income and gains are exempt from UK corporate taxes provided a number of conditions in relation to the Group's activities are met including, but not limited to, distributing at least 90% of the Group's UK tax exempt profit as property income distributions ('PIDs'). The residual business in the UK is subject to UK tax as normal.

Shareholders who are in any doubt concerning the taxation implications of a REIT should consult their own tax advisers.

Report of the Directors continued

Key Information Document
A Key Information Document ('KID') for the Company was published in January 2018, in accordance with the Packaged Retail and Insurance-Based Investment Products Regulations ('PRIIPS'). The calculation of figures and performance scenarios contained in the KID are prescribed by PRIIPS and have neither been set nor endorsed by the Board. In fact, the Board is of the opinion that PRIIPS is inconsistently applied by market participants and hence creates confusion amongst investors.

AIFMD remuneration disclosures for Schroder Real Estate Investment Management Limited ('SREIM') for the year to 31 December 2018
Quantitative remuneration disclosures to be made in this Annual Report in accordance with FCA Handbook rule FUND 3.3.5 are published on the following website http://www.schroders.com/en/investor-relations/shareholders-and-governance/disclosures/remuneration-disclosures/

Statement of Directors' Responsibilities
The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing as applicable matters relating to going concern; and
- use the going concern basis of preparation unless they intend to either liquidate the Company or cease operations or have no realistic alternative to do so.

The Directors are responsible for keeping proper accounting records which 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 Law. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Responsibility Statement of the Directors in respect of the Annual Report
We confirm to the best of our knowledge:
- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit of the Group and the undertakings included in the consolidation taken as a whole and comply with the Companies Law;
- the Strategic Report on pages 12 to 29 and Governance Report on pages 30 to 40 include a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties it faces; and
- the Annual Report and Consolidated Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

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

Resolutions at 2019 Annual General Meeting
THIS SECTION IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.
If you are in any doubt about the contents of this section of the document or the action you should take, you are recommended to seek immediately your own personal financial advice from an appropriately qualified independent adviser authorised pursuant to the Financial Services and Markets Act 2000.

If you have sold or otherwise transferred all your shares in the Company, please send this document (including the Notice of AGM) and the accompanying documents at once to the purchaser, transferee, or to the stockbroker, bank or other person through whom the sale or transfer was effected for onward transmission to the purchaser or transferee. However, such documents should not be distributed, forwarded or transmitted in or into the United States, Canada, Australia or Japan or into any other jurisdiction if to do so would constitute a violation of applicable laws and regulations in such other jurisdiction.

The Notice of the Annual General Meeting of Shareholders is set out on pages 78 and 79. The following paragraphs explain the resolutions to be put to the AGM.

Ordinary Resolutions 1–8
Ordinary Resolutions 1–8 are being proposed to approve the ordinary business of the Company to: (i) consider and approve the consolidated Annual Report and the remuneration report of the Company for the year ended 31 March 2019; (ii) re-elect the Directors; and (iii) re-appoint the Auditors and to authorise the Directors to determine the Auditor's remuneration.

Ordinary Resolution 9 Approval of the Company's dividend policy
The Company's dividend policy is to pay a sustainable level of quarterly dividends to shareholders (in arrears). It is intended that successful execution of the Company's strategy will enable a progressive dividend policy.

The Company's objective and strategy, outlined in the Chairman's Statement and Investment Manager's Report, is to deliver sustainable net income growth in due course through active management of the underlying portfolio. Any future decision to increase the dividend will be determined by factors including whether it is sustainable over the long term, current and anticipated future market conditions, rental values and the potential impact of any future debt refinancing.

As the Company is a REIT, the Board must also ensure that dividends are paid in accordance with the requirements of the UK REIT regime (pursuant to part 12 of the UK Corporation Tax Act 2010) in order to maintain the Company's REIT status. Shareholders should note that the dividend policy is not a profit forecast and dividends will only be paid to the extent permitted in accordance with the Companies Law and the UK REIT regime.

The Board acknowledges that the dividend policy is fundamental to shareholders' income requirements as well as the Company's investment and financial planning. Therefore, in accordance with the principles of good corporate governance and best practice relating to the payment of interim dividends without the approval of a final dividend by a company's shareholders, a resolution to approve the Company's dividend policy will be proposed annually for approval.

Special Resolution 1 Authority to repurchase shares
The Company did not buy back any ordinary shares during the year ended 31 March 2019. The Directors currently have authority to repurchase up to 14.99% of the Company's ordinary shares and will seek annual renewal of this authority from shareholders at the AGM. The Board monitors the level of the ordinary share price compared to the NAV per ordinary share. Where appropriate on investment grounds, the Company may from time to time repurchase its ordinary shares, but the Board recognises that movements in the ordinary share price, premium or discount, are driven by numerous factors, including investment performance, gearing and market sentiment. Accordingly, it focuses its efforts principally on addressing sources of risk and return as the most effective way of producing long term value for Shareholders. Any repurchase of ordinary shares will be made subject to Guernsey law and within any guidelines established from time to time by the Board. The making and timing of any repurchases will be at the absolute discretion of the Board, although the Board will have regard to the effects of any such repurchase on long-term shareholders in exercising its discretion.

Purchases of ordinary shares will only be made through the market for cash at prices below the prevailing NAV of the ordinary shares (as last calculated) where the Directors believe such purchases will enhance shareholder value. Such purchases will also only be made in accordance with the Listing Rules and the Disclosure Guidance and Transparency Rules which provide that the maximum price to be paid for each ordinary share must not be more than the higher of: (i) 5% above the average mid-market value of the ordinary shares for the five business days before the purchase is made; and (ii) that stipulated by the regulatory technical standards adopted by the European Union pursuant to the Market Abuse Regulation from time to time. Any ordinary shares purchased under this authority may be cancelled or held in treasury.

This authority will expire at the conclusion of the Annual General Meeting of the Company to be held in 2020 unless varied, revoked or renewed prior to such date by ordinary resolution of the Company.

Special Resolution 2 Authority to disapply pre-emption rights
The Directors require specific authority from shareholders before allotting new ordinary shares for cash (or selling shares out of treasury for cash) without first offering them to existing shareholders in proportion to their holdings. Special Resolution 2 empowers the Directors to allot new ordinary shares for cash or to sell ordinary shares held by the Company in treasury for cash, otherwise than to existing shareholders on a pro-rata basis, up to such number of ordinary shares as is equal to 10% of the ordinary shares in issue (including treasury shares) on the date the resolution is passed. No ordinary shares will be issued without pre-emption rights for cash (or sold out of treasury for cash) at a price less than the prevailing net asset value per ordinary share at the time of issue or sale from treasury.

The Directors do not intend to allot or sell ordinary shares other than to take advantage of opportunities in the market as they arise and will only do so if they believe it to be advantageous to the Company's existing shareholders and when it would not result in any dilution of the net asset value per ordinary share (owing to the fact that no ordinary shares will be issued or sold out of treasury for a price less than the prevailing net asset value per ordinary share).

This authority will expire on the earlier of the conclusion of the Annual General Meeting of the Company to be held in 2020 or on the expiry of 15 months from the passing of this Special Resolution 2.

The Board considers that the resolutions to be proposed at the AGM are in the best interests of the Company's shareholders as a whole. The Board therefore recommends unanimously to shareholders that they vote in favour of each of the resolutions, as they intend to do in respect of their own beneficial holdings.

Lorraine Baldry
Chairman

Stephen Bligh
Director

20 May 2019

Corporate Governance

The Directors are committed to maintaining high standards of corporate governance. Insofar as the Directors believe it to be appropriate and relevant to the Company, it is their intention that the Company should comply with best practice standards for the business carried on by the Company.

The Guernsey Financial Services Commission (the 'GFSC') states in the Finance Sector Code of Corporate Governance (the 'Code') that companies which report against the UK Corporate Governance Code or the Association of Investment Companies Code of Corporate Governance (the 'AIC Code') are deemed to meet the Code, and need take no further action.

The Board has considered the principles and recommendations of the AIC Code. The AIC Code addresses all the principles set out in the UK Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance.

The Board considers that reporting against the principles and recommendations of the AIC Code, which has been endorsed by the Financial Reporting Council ('FRC'), will provide better information to shareholders.

It is the Board's intention to continue to comply with the AIC Code. In July 2018, the FRC published a new version of the UK Corporate Governance Code (the '2018 UK Code'), prompting the AIC to publish a new version of the AIC Code in 2019 (the '2019 AIC Code'). Both the 2018 UK Code and the 2019 AIC Code apply to accounting periods beginning on or after 1 January 2019, at which point they will supersede the previous versions of these documents.

A copy of the AIC Code can be found at www.theaic.co.uk

Statement of compliance

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

The UK Corporate Governance Code includes provisions relating to:
- the role of the chief executive;
- Executive Directors' remuneration; and
- internal audit function.

For the reasons set out above the Board considers that these provisions are not relevant to the Company, being an externally managed investment company. The provision in relation to the internal audit function is referred to in the Audit Committee report. The Company has therefore not reported further in respect of these provisions.

Role of the Board

The Board has determined that its role is to consider and determine the following principal matters which it considers are of strategic importance to the Company:
- The overall objectives of the Company, as described under the paragraph above headed 'Investment Policy and Strategy' and the strategy for fulfilling those objectives within an appropriate risk framework in light of market conditions prevailing from time to time.
- The capital structure of the Company, including consideration of an appropriate policy for the use of borrowings both for the Company and in any joint ventures in which the Company may invest from time to time.
- The appointment of the Investment Manager, Administrator and other appropriately skilled service providers and to monitor their effectiveness through regular reports and meetings.
- The key elements of the Company's performance including NAV growth and the payment of dividends.

Board decisions

The Board makes decisions on, among other things, the principal matters set out under the paragraph above headed 'Role of the Board'. Issues associated with implementing the Company's strategy are generally considered by the Board to be non-strategic in nature and are delegated either to the Investment Manager or the Administrator, unless the Board considers there will be implementation matters significant enough to be of strategic importance to the Company and should be reserved to the Board. Generally these are defined as:
- large property decisions affecting 10% or more of the Company's assets;
- large property decisions affecting 5% or more of the Company's rental income; and
- decisions affecting the Company's financial borrowings.

Board performance evaluation

As in prior years, the Board has undertaken a review of its performance. The review concluded that the Board was operating effectively and that the Directors had the breadth of skills required to fulfil their roles.

Non-Executive Directors, rotation of Directors and Directors' tenure

The UK Corporate Governance Code recommends that Directors should be appointed for a specified period. The Board has resolved in this instance that Directors' appointments need not comply with this requirement as all Directors are non-executive and their respective appointments can be terminated at any time without penalty. The Board has approved a policy that all Directors will stand for re-election annually.

The Board considers that independence is not compromised by length of tenure and that it has the appropriate balance of skills, experience and length of service.

The Board has determined that all the Directors are independent of the Investment Manager. Alastair Hughes is the Senior Independent Director.

The appointment and replacement of Directors is governed by the Company's Articles, the Companies Law, related legislations and the Listing Rules. The Articles may only be amended by a special resolution of the shareholders.

Board composition, changes and diversity
The Board currently consists of four Non-Executive Directors. The Chairman is Lorraine Baldry. The biography of each of these Directors is set out on pages 30 and 31 of the report. The Board considers each of the Directors to be independent.

The independence of each Director is considered on a continuing basis. The Board is satisfied that it is of sufficient size with an appropriate balance of skills and experience, independence and knowledge of both the Company and the wider investment company sector, to enable it to discharge its respective duties and responsibilities effectively and that no individual or group of individuals is, or has been, in a position to dominate decision making. Accordingly the Board approves the nomination for re-election of each of the Directors at the forthcoming Annual General Meeting.

When a vacancy arises the Board selects the best candidate taking into account the skills and experience required, while taking into consideration Board diversity as part of a good corporate governance culture.

Board committees
The Board has delegated certain of its responsibilities to its Audit and Nomination Committees. Each of these committees has formal terms of reference established by the Board, which are available on the Company's website.

Audit Committee
Details of the Audit Committee are set out in the Report of the Audit Committee.

Nomination Committee
The role of the Nomination Committee, chaired by Lorraine Baldry, is to consider and make recommendations to the Board on its composition and makes recommendations to the Board with regards any adjustment that may be appropriate, including in connection with the renewable and re-election of the Board, so as to maintain an appropriate balance of skills, experience and diversity, including gender, and to ensure progressive refreshing of the Board. On individual appointments, the Nomination Committee leads the process and makes recommendations to the Board.

Before the appointment of a new director, the Nomination Committee prepares a description of the role and capabilities required for a particular appointment. While the Nomination Committee is dedicated to selecting the best person for the role, it aims to promote diversification and the Board recognises the importance of diversity. The Board agrees that its members should possess a range of experience, knowledge, professional skills and personal qualities as well as the independence necessary to provide effective oversight of the affairs of the Company.

Remuneration Committee
As all the Directors are non-executives, the Board has resolved that it is not necessary to have a Remuneration Committee.

Board meetings and attendance
The Board meets at least four times each year. Additional meetings are also arranged as required and regular contact between Directors, the Investment Manager and the Administrator is maintained throughout the year. Representatives of the Investment Manager and Company Secretary attend each Board meeting and other advisers also attend when requested to do so by the Board. At least once a year the Board carries out a site visit to properties owned by the Company.

Attendance records for the four quarterly Board meetings and two six-monthly Audit Committee meetings during the year under review are set out in the table below.

	Board	Audit Committee
Lorraine Baldry (Chairman)	4/4	2/2
Alastair Hughes	4/4	1/2
Graham Basham	4/4	1/2
Stephen Bligh	4/4	2/2
No. of meetings during the year	4	2

In addition to its regular quarterly meetings, the Board met on six other occasions during the year, attended by all or the majority of Directors.

Information flows
All Directors receive, in a timely manner, relevant management, regulatory and financial information and are provided, on a regular basis, with key information on the Company's policies, regulatory requirements and internal controls. The Board receives and considers reports regularly from the Investment Manager and other key advisers and ad hoc reports and information are supplied to the Board as required.

Data protection and security
The Board has reviewed its systems and controls in light of the implementation of the General Data Protection Regulation (EU Regulation 2016/679) (the 'GDPR') to ensure that the Company is compliant with the requirements of the GDPR. As part of this process the Board has taken steps to update its contracts and policies accordingly and is comfortable that it meets its obligations as a controller of personal data. The Board also requires its Investment Manager and Administrator to have robust information security and data protection environment in place. This is reviewed with the Investment Manager at the annual Manager visit day. All Board communication of a confidential nature is managed via a secure Board application. The Company's privacy notice is available on its webpage.

Directors' and Officers' liability insurance
During the year, the Company has maintained insurance cover for its Directors under a liability insurance policy.

Relations with shareholders
The Board believes that the maintenance of good relations with both institutional and retail shareholders is important for the long-term prospects of the Company. The Board receives feedback on the views of shareholders from its corporate broker, the Investment Manager and from the Chairman. Through this process the Board seeks to monitor the views of shareholders and to ensure an effective communication programme.

The Board believes that the Annual General Meeting provides an appropriate forum for investors to communicate with the Board, and encourages participation. The Notice of Annual General Meeting on pages 78 and 79 sets out the business of the Annual General Meeting to be held on 18 September 2019.

Remuneration Report

The Company's Articles currently limit the aggregate fees payable to the Board of Directors to a total of £250,000 per annum. Subject to this overall limit, it is the Board's policy to determine the level of Directors' fees having regard to the fees payable to non-executive directors in the industry generally, the role that individual Directors fulfil in respect of Board and Committee responsibilities, and time committed to the Company's affairs.

Directors receive a base fee of £30,000 per annum, and the Chairman receives £50,000 per annum. The Chairman of the Audit Committee and the Senior Independent Director receive an additional fee of £5,000 respectively. The fees were reviewed by an external consultant during 2015, which led to the recommendation adopted and current level of fees taking effect from 1 October 2015.

No Director past or present has any entitlement to pensions, and the Company has not awarded any share options or long-term performance incentives to any of them. No element of Directors' remuneration is performance-related. There were no payments to former directors for loss of office.

The Board believes that the principles of Section D of the UK Corporate Governance Code relating to remuneration do not apply to the Company, except as outlined above, as the Company has no executive Directors.

No Director has a service contract with the Company, however, each of the Directors has a letter of appointment with the Company. The Directors' letters of appointment, which set out the terms of their appointment, are available for inspection at the Company's registered office address during normal business hours and will be available for inspection at the AGM.

All Directors are appointed for an initial term covering the period from the date of their appointment until the first AGM thereafter, at which they are required to stand for re-election in accordance with the Articles. When recommending whether an individual Director should seek re-election, the Board will take into account the provisions of the UK Corporate Governance Code, including the merits of refreshing the Board and its Committees.

The Board has approved a policy that all Directors will stand for re-election annually.

Performance

The performance of the Company is described on page 26 in the Business Model report.

The following amounts were paid by the Company for services as non-executive Directors:

Director	**31 March 2019 £**	31 March 2018 £
Lorraine Baldry (Chairman)	50,000	50,000
Keith Goulborn[1, 2]	–	35,000
John Frederiksen[1]	–	2,500
Stephen Bligh[3]	35,000	35,000
Graham Basham[4]	30,000	30,000
Alastair Hughes[2]	35,000	27,910
Total	**150,000**	**180,410**

1 John Frederiksen retired on 25 April 2017. Keith Goulborn retired on 31 March 2018.
2 Senior Independent Director.
3 Chairman of the Audit Committee.
4 Graham Basham was a director on a majority of the subsidiary companies, for which an additional £21,000 was paid to his employer, Active Group, during the year for his service. Mr Basham owns 15% of Active Group.

Information to be disclosed in accordance with Listing Rule 9.8.4R

Listing Rule 9.8.4C requires the Company to include certain information in a single identifiable section of this annual report or a cross reference table indicating where the information required under Listing Rule 9.8.4R is set out.

The Directors confirm that there are no disclosures to be made in this regard.

Lorraine Baldry
Chairman

Stephen Bligh
Director

20 May 2019

Report of the Audit Committee

Composition
The Audit Committee is chaired by Stephen Bligh with Lorraine Baldry, Graham Basham and Alastair Hughes as members. During the year, Lorraine Baldry stepped down from the Audit Committee based on guidance from the Financial Reporting Council's ('FRC') UK Corporate Governance Code. The Board considers that Stephen Bligh's professional experience makes him suitably qualified to chair the Audit Committee.

Responsibilities
The Audit Committee ensures that the Company maintains the highest standards of integrity in financial reporting and internal control. This includes responsibility for reviewing the half-year and annual financial statements before their submission to the Board. In addition, the Audit Committee is specifically charged under its terms of reference to advise the Board, inter alia, on the terms and scope of the appointment of the Auditors, including their remuneration, independence, objectivity and reviewing with the Auditors the results and effectiveness of the audit and the interim review.

Work of the Audit Committee
The Audit Committee meets no less than twice a year and, if required, meetings are also attended by the Investment Manager, the Administrator and the Auditor. During the year under review, the Audit Committee met on two occasions to consider:
- The contents of the interim and annual financial statements and to consider whether, taken as a whole, they were fair, balanced and understandable and provided the information necessary for shareholders to assess the Company's performance, business model and strategy;
- The effectiveness of the Company's system of internal control;
- The external Auditor's terms of appointment, audit plan, half year review findings and year-end report;
- The management representation letter to the Auditors;
- The effectiveness of the audit process;
- The independence, effectiveness and objectivity of the external Auditor;
- The risk assessment of the Company; and
- Compliance with the UK REIT regime.

Significant matters considered by the Audit Committee in relation to the financial statements

Matter	Action
Property valuation Property valuation is central to the business and is a significant area of judgement which is inherently subjective, although the valuations are performed by independent firms of valuers: Knight Frank LLP and BNP Paribas Real Estate UK for the joint ventures. Errors in valuation could have a material impact on the Company's net asset value.	The Audit Committee reviewed the outcomes of the valuation process throughout the year and discussed the detail of each quarterly valuation with the Investment Manager at the Board meetings. Members of the Audit Committee met with Knight Frank LLP and BNP Paribas Real Estate UK outside the formal meeting to discuss the process, assumptions, independence and communication with the Investment Manager and their valuations. Furthermore, as this is the main area of audit focus, the Auditors contact the valuers directly and independently of the Investment Manager. The Audit Committee receives detailed verbal and written reports from KPMG on this matter as part of their interim and year end reporting to the Audit Committee. On the basis of the above, the Audit Committee concluded that the valuations were suitable for inclusion in the financial statements.

Internal control
The UK Corporate Governance Code requires the Board to conduct, at least annually, a review of the adequacy of the Company's systems of internal control, and to report to shareholders that it has done so. The Audit Committee, on behalf of the Board, also regularly reviews a detailed 'Risk Map' identifying significant strategic, investment-related, operational and service provider related risks and ensures that risk management and all aspects of internal control are reviewed at least annually.

The Company's system of internal controls is substantially reliant on the Investment Manager's and the Administrator's own internal controls and internal audit processes due to the relationships in place.

Although the Board believes that it has a robust framework of internal controls in place, this can provide only reasonable and not absolute assurance against material financial misstatement or loss and is designed to manage, not eliminate, risk. No significant issues were identified from the internal controls review.

Internal audit
The Audit Committee considered the need for an internal audit function and concluded that this function is provided by Schroder's Group Internal Audit reviews, which cover the functions provided by the Investment Manager, Schroder Real Estate Investment Management Limited.

In addition, the Investment Manager prepares an ISAE 3402/AAF 01/06 Internal Controls Report which includes the Company within the scope of the review. This report is reviewed by Ernst & Young LLP ('EY') which issued an unqualified opinion for the year ended December 2018. The Audit Committee has considered both the Investment Manager's internal controls report and the review by EY.

Report of the Audit Committee continued

External Auditor remuneration, independence and effectiveness
Annually, the Audit Committee considers the remuneration and independence of the external auditor. The Committee recommends the remuneration of the external auditor to the Board and keeps under review the ratio of audit to non-audit fees to ensure that the independence and objectivity of the external auditor are safeguarded.

Effectiveness of the independent audit process
The Audit Committee evaluated the effectiveness of the independent audit firm and process prior to making a recommendation on its re-appointment at the forthcoming Annual General Meeting. As part of the evaluation, the Committee considered feedback from the Investment Manager on the audit process and the half year and year end report from the Auditor, which details the auditor's compliance with regulatory requirements, on safeguards that have been established and their own internal quality control procedures. The Audit Committee had discussions with the audit partner, on audit planning, accounting policies and audit findings, and met the audit partner both with and without representatives of the Investment Manager present. The Chairman of the Audit Committee also had informal discussions with the audit partner during the course of the year. The Committee is satisfied with the effectiveness of the audit.

Review of auditor appointment
KPMG has been the Group's Auditor since inception in 2004. In order to benchmark KPMG's service quality, effectiveness and value for money, together with adopting the UK Corporate Governance code on audit tendering and rotation, the Audit Committee conducted a formal tender process during May/June 2014. Three firms, including KPMG, were asked to participate in this process. Following this, a recommendation was made to the Audit Committee to retain KPMG as the Group's auditor.

The Audit Committee's current intention is for the next audit tender to take place within three years, at the end of the current audit partner's tenure, when the audit firm will be changed.

Non-audit services
In order to help safeguard the independence and objectivity of the auditor, the Audit Committee maintains a policy on the engagement of the external auditor to provide non-audit services. The Audit Committee's policy for the use of the external auditor for non-audit services recognises that there are certain circumstances where, due to KPMG's expertise and knowledge of the Company, it will often be in the best position to perform non-audit services. Under the policy, the use of the external auditor for non-audit services is subject to pre-clearance by the Audit Committee. Clearance will not be granted if it is believed it would impair the external auditor's independence or where provision of such services by the Company's auditor is prohibited. Prior to undertaking any non-audit service, KPMG also completes its own independence confirmation processes which are approved by the audit partner.

During the year, the non-audit services fees paid to KPMG were £13,250, (2018: £13,000) in relation to the interim review.

Stephen Bligh
Director

20 May 2019

Independent Auditor's Report

Our opinion is unmodified

We have audited the consolidated financial statements (the "Financial Statements") of Schroder Real Estate Investment Trust Limited (the "Company") and its subsidiaries (together, the "Group"), which comprise the consolidated statement of financial position as at 31 March 2019, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying Financial Statements:

- give a true and fair view of the financial position of the Group as at 31 March 2019, and of the Group's financial performance and cash flows for the year then ended;
- are prepared in accordance with International Financial Reporting Standards (IFRS); and
- comply with the Companies (Guernsey) Law, 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company and Group in accordance with, UK ethical requirements including FRC Ethical Standards as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Key audit matters: our assessment of the risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the Financial Statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, 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. In arriving at our audit opinion above, the key audit matter was as follows (unchanged from 2018):

	The risk	Our response
Valuation of investment property held directly and indirectly through investment in joint ventures Investment property £371.1 million; (2018: £389.0 million) Investment in joint ventures £80.2 million; (2018: £77.7 million) Refer to page 39 of the Report of the Audit Committee, significant accounting policies note and disclosure notes 11, 12 and 19	**Basis:** Directly held investment property accounted for 71.1% of the Group's total assets at 31 March 2019 (2018: 76.2%) and the investment in joint ventures accounted for a further 15.4% of Group's total assets (2018: 15.2%). The fair value of the directly and indirectly held investment property at 31 March 2019 was assessed by the Board of Directors based on independent valuations prepared by the Company's and the joint ventures' external property valuers (together, the "External Valuers"). **Risk:** As highlighted in the Report of the Audit Committee, the valuation of investment property is a significant area of judgment and requires subjective assumptions to be made. Determination of the fair value of directly and indirectly held investment property is considered a significant audit risk due to the magnitude of the balances and that such valuations require the use of significant judgments and subjective assumptions.	Our audit procedures included: **Internal Controls:** We assessed the design and implementation of the review control over the valuations prepared by the External Valuers. **Evaluating experts engaged by management:** We assessed the competence, capabilities and objectivity of the External Valuers. We also assessed their independence by considering the scope of their work and the terms of their engagement. **Evaluating assumptions and inputs used in the valuation:** With the assistance of our own real estate specialist we critically assessed the valuations prepared by the External Valuers by evaluating the appropriateness of the valuation methodologies and assumptions used, including undertaking discussions on key findings with the External Valuers and challenging the assumptions used based on market information. We compared a sample of key inputs to the valuations such as yields, occupancy and tenancy contracts for consistency with other audit findings and observable market evidence. **Assessing disclosures:** We assessed the directly held investment property and investment in joint ventures fair value disclosures in the financial statements for compliance with IFRS requirements.

Independent Auditor's Report continued

Our application of materiality and an overview of the scope of our audit
Materiality for the Financial Statements as a whole was set at £3.7 million, determined with reference to a benchmark of Group total assets of £522.0 million, of which it represents 0.7% (2018: 0.7%).

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £185,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Group was undertaken to the materiality level specified above, which has informed our identification of significant risks of material misstatement and the associated audit procedures performed in those areas as detailed above.

The Group team performed the audit of the Group as if it was a single aggregated set of financial information. The audit was performed using the materiality level set out above and covered 100% of total Group revenue, total Group profit before taxation, and total Group assets and liabilities.

We have nothing to report on going concern
We are required to report to you if we have anything material to add or draw attention to in relation to the directors' statement in note 1 to the Financial Statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group's use of that basis for a period of at least twelve months from the date of approval of the Financial Statements. We have nothing to report in this respect.

We have nothing to report on the other information in the Annual Report
The directors are responsible for the other information presented in the Annual Report together with the Financial Statements. Our opinion on the Financial Statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our Financial Statements audit work, the information therein is materially misstated or inconsistent with the Financial Statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Disclosures of principal risks and longer-term viability
Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the Viability Statement on pages 32 and 33 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the Principal Risks and Uncertainties disclosures describing these risks and explaining how they are being managed or mitigated;
- the directors' explanation in the Viability Statement on pages 32 and 33 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Corporate governance disclosures
We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the 2016 UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report to you in these respects.

We have nothing to report on other matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- the Company has not kept proper accounting records; or
- the Financial Statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 39, the Directors are responsible for: the preparation of the Financial Statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group'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 they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of this report and restrictions on its use by persons other than the Company's members as a body

This report is made solely to the Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Lee Clark
For and on behalf of KPMG Channel Islands Limited
Chartered Accountants and Recognised Auditors
Glategny Court
Glategny Esplanade
St Peter Port
Guernsey
GY1 1WR

20 May 2019

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2019

	Note	**31 March 2019 £000**	31 March 2018 £000
Rental income		25,278	24,041
Other income	4	1,339	1,545
Property operating expenses	5	(2,375)	(1,734)
Net rental and related income, excluding joint ventures		**24,242**	**23,852**
Share of net rental income in joint ventures		3,311	2,754
Net rental and related income, including joint ventures		27,553	26,606
Profit on disposal of investment property	11	**2,156**	**594**
Net unrealised valuation gain on investment property	11	**1,556**	**20,195**
Expenses			
Investment management fee	3	(3,363)	(3,531)
Valuers' and other professional fees		(1,633)	(1,549)
Administrators' fee	3	(120)	(120)
Auditor's remuneration	6	(128)	(128)
Directors' fees	7	(150)	(180)
Abortive transaction costs	7	–	(1,507)
Other expenses	7	(202)	(223)
Total expenses		**(5,596)**	**(7,238)**
Net operating profit before net finance costs		**22,358**	**37,403**
Refinancing costs	7	(3,128)	–
Finance costs		(6,807)	(6,819)
Net finance costs		**(9,935)**	**(6,819)**
Share of net rental income in joint ventures	12	3,311	2,754
Share of valuation gain in joint ventures	12	167	498
Profit before taxation		**15,901**	**33,836**
Taxation	8	–	–
Profit and total comprehensive income for the year attributable to the equity holders of the parent		**15,901**	**33,836**
Basic and diluted earnings per share	9	**3.1p**	**6.5p**

All items in the above statement are derived from continuing operations. The accompanying notes 1 to 24 form an integral part of the financial statements.

Consolidated Statement of Financial Position

As at 31 March 2019

	Note	31 March 2019 £000	31 March 2018 £000
Investment property	11	371,097	388,976
Investment in joint ventures	12	80,165	77,748
Non-current assets		**451,262**	**466,724**
Trade and other receivables	13	49,689	14,415
Cash and cash equivalents	14	21,042	29,218
Current assets		**70,731**	**43,633**
Total assets		**521,993**	**510,357**
Issued capital and reserves	15	382,828	380,022
Treasury shares	15	(26,452)	(26,452)
Equity		**356,376**	**353,570**
Interest-bearing loans and borrowings	16	156,230	148,505
Non-current liabilities		**156,230**	**148,505**
Trade and other payables	17	9,387	8,282
Current liabilities		**9,387**	**8,282**
Total liabilities		**165,617**	**156,787**
Total equity and liabilities		**521,993**	**510,357**
Net Asset Value per Ordinary share	18	68.7p	68.2p

The financial statements on pages 44 to 62 were approved at a meeting of the Board of Directors held on 20 May 2019 and signed on its behalf by:

Lorraine Baldry
Chairman

Stephen Bligh
Director

The accompanying notes 1 to 24 form an integral part of the financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2019

	Note	Share premium £000	Treasury share reserve £000	Revenue reserve £000	Total £000
Balance as at 31 March 2017		**219,090**	**(26,452)**	**139,952**	**332,590**
Profit for the year		–	–	33,836	33,836
Dividends paid	10	–	–	(12,856)	(12,856)
Balance as at 31 March 2018		**219,090**	**(26,452)**	**160,932**	**353,570**
Profit for the year		–	–	15,901	15,901
Dividends paid	10	–	–	(13,095)	(13,095)
Balance as at 31 March 2019		**219,090**	**(26,452)**	**163,738**	**356,376**

The accompanying notes 1 to 24 form an integral part of the financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 March 2019

	31 March 2019 £000	31 March 2018 £000
Operating activities		
Profit for the year	15,901	33,836
Adjustments for:		
Profit on disposal of investment property	(2,156)	(594)
Net valuation gain on investment property	(1,556)	(20,195)
Share of profit of joint ventures	(3,478)	(3,252)
Net finance cost	9,935	6,819
Operating cash generated before changes in working capital	**18,646**	**16,641**
(Increase)/decrease in trade and other receivables	(179)	12,087
Increase/(decrease) in trade and other payables	1,105	(613)
Cash generated from operations	**19,572**	**28,088**
Finance costs paid	(6,541)	(6,585)
Tax paid	–	–
Cash flows from operating activities	**13,031**	**21,503**
Investing activities		
Proceeds from sale of investment property	12,447	6,544
Acquisition of investment property	(23,191)	–
Additions to investment property	(2,761)	(8,504)
Addition to joint ventures	(2,250)	(350)
Net income distributed from joint ventures	3,311	2,754
Cash flows from investing activities	**(12,444)**	**444**
Financing activities		
Additions to debt	8,500	–
Refinancing fees paid	(4,168)	–
Dividends paid	(13,095)	(12,856)
Cash flows used in financing activities	**(8,763)**	**(12,856)**
Net (decrease)/increase in cash and cash equivalents for the year	**(8,176)**	**9,091**
Opening cash and cash equivalents	**29,218**	**20,127**
Closing cash and cash equivalents	**21,042**	**29,218**

The accompanying notes 1 to 24 form an integral part of the financial statements.

Notes to the Financial Statements

1. Significant accounting policies

Schroder Real Estate Investment Trust Limited ('the Company') is a closed-ended investment company registered in Guernsey. The consolidated financial statements of the Company for the year ended 31 March 2019 comprise the Company and its subsidiaries (together referred to as the 'Group').

Statement of compliance
The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board (the 'IASB'), and interpretations issued by the International Financial Reporting Interpretations Committee.
The financial statements give a true and fair view and are in compliance with The Companies (Guernsey) Law, 2008, applicable legal and regulatory requirements and the Listing Rules of the UK Listing Authority.

Basis of preparation
The financial statements are presented in sterling, which is the Company's functional currency, rounded to the nearest thousand. They are prepared on the historical cost basis except that investment property and derivative financial instruments are stated at their fair value.

The accounting policies have been consistently applied to the results, assets, liabilities and cash flows of the entities included in the consolidated financial statements and are consistent with those of the previous year.

Going concern
The Directors have examined significant areas of possible financial risk including cash and cash requirements and the debt covenants, in particular the loan to value covenants and interest cover ratios on the loans with Canada Life and Royal Bank of Scotland. In July 2018, the Group completed a refinancing activity which included extending a portion of the Canada Life debt and increasing the revolving credit facility ('RCF') with Royal Bank of Scotland ('RBS'). 100% of the Canada Life loan now matures on 15 April 2028 and The Royal Bank of Scotland loan matures in July 2023. Additionally, in January 2019 the RCF was further increased providing additional undrawn capacity of £20 million. The RCF is an efficient and flexible source of funding due to the margin of 1.6% and the ability to be repaid and redrawn as often as required. The additional loan amount matures in July 2023 and is coterminus with the existing facilities.

The Directors have not identified any material uncertainties which would cast significant doubt on the Group's ability to continue as a going concern for a period of not less than 12 months from the date of the approval of the financial statements. The Directors have satisfied themselves that the Group has adequate resources to continue in operational existence for the foreseeable future.

After due consideration, the Board believes it is appropriate to adopt the going concern basis in preparing the consolidated financial statements.

Use of estimates and judgements
The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The most significant estimates made in preparing these financial statements relate to the carrying value of investment properties, including those within joint ventures, which are stated at fair value. The Group uses external professional valuers to determine the relevant amounts. Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are disclosed in note 19.

Basis of consolidation
Subsidiaries
The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries drawn up to 31 March each year. Subsidiaries are those entities, including special purpose entities, controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Where properties are acquired by the Group through corporate acquisitions but the acquisition does not meet the definition of a business combination, the acquisition has been treated as an asset acquisition.

1. Significant accounting policies continued

Joint ventures

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's share of profit or loss of jointly controlled entities on an equity accounted basis. When the Group's share of losses exceeds its interest in an entity, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or is making payments on behalf of an entity.

Transactions eliminated on consolidation

Intra-group balances and any gains and losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Gains arising from transactions with joint ventures are eliminated to the extent of the Group's interest in the entity. Losses are eliminated in the same way as gains but only to the extent that there is no evidence of impairment.

Investment property

Investment property is land and buildings held to earn rental income together with the potential for capital growth.

Acquisitions and disposals are recognised on the unconditional exchange of contracts. Acquisitions are initially recognised at cost, being the fair value of the consideration given, including transaction costs associated with the investment property.

After initial recognition, investment properties are measured at fair value, with unrealised gains and losses recognised in profit and loss. Realised gains and losses on the disposal of properties are recognised in profit and loss in relation to carrying value. Fair value is based on the market valuations of the properties as provided by a firm of independent chartered surveyors at the reporting date. Market valuations are carried out on a quarterly basis.

As disclosed in note 20, the Group leases out all owned properties on operating leases. A property held under an operating lease is classified and accounted for as an investment property where the Group holds it to earn rentals, capital appreciation, or both. Any such property leased under an operating lease is classified as an investment property and carried at fair value.

Financial instruments

Non-derivative financial instruments

Financial assets

Non-derivative financial instruments comprise trade and other receivables and cash and cash equivalents. These are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest rate method less any impairment losses.

Cash and cash equivalents

Cash at bank and short-term deposits that are held to maturity are carried at cost. Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value. For the purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash in hand and short-term deposits at banks with a term of no more than three months.

Financial liabilities

Non-derivative financial instruments comprise loans and borrowings and trade and other payables.

Loans and borrowings

Borrowings are recognised initially at fair value of the consideration received, less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the profit and loss over the period of the borrowings on an effective interest basis.

Trade and other payables

Trade and other payables are stated at amortised cost.

Share capital

Ordinary shares including treasury shares are classified as equity.

Dividends

Dividends are recognised in the period in which they are paid.

Notes to the Financial Statements continued

1. Significant accounting policies continued

Impairment

Financial assets

A financial asset, other than those at fair value through profit and loss, is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

The Group's significant financial assets that are subject to IFRS 9's new expected credit loss model are trade receivables from the leasing of investment properties. The credit risk associated with unpaid rent is deemed to be low. The Group was required to revise its impairment methodology under IFRS 9. This did not result in a material change in the loss allowance recognised under IFRS 9 compared to the previous impairment provision held under IAS 39. Note 19 provides further details on the measurement of the loss allowance and amount recognised at 31 March 2019.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property but including joint ventures, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to that asset.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the 'cash-generating unit').

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the profit and loss.

Provisions

A provision is recognised in the Consolidated Statement of Financial Position when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

Rental income

Rental income from investment properties is recognised on a straight-line basis over the term of ongoing leases and is shown gross of any UK income tax. Lease incentives are spread evenly over the lease term.

Surrender premiums and dilapidations are recognised in line with individual lease agreements when cash inflows are certain.

Finance costs

Finance costs comprise interest expense on borrowings that are recognised in profit and loss. Attributable transaction costs incurred in establishing the Group's credit facilities are deducted from the fair value of borrowings on initial recognition and are amortised over the lifetime of the facilities through profit and loss. Finance costs are accounted for on an effective interest basis.

Expenses

All expenses are accounted for on an accruals basis. The costs recharged to occupiers of the properties are presented net of the service charge income as management consider that the property agent acts as principal in this respect.

Taxation

SREIT elected to be treated as a UK REIT with effect from 1 May 2015. The UK REIT rules exempt the profits of the Group's UK property rental business from UK corporation and income tax. Gains on UK properties are also exempt from tax, provided they are not held for trading. The Group is otherwise subject to UK corporation tax.

As a REIT, the Company is required to pay Property Income Distributions equal to at least 90% of the Group's exempted net income. To remain a UK REIT there are a number of conditions to be met in respect of the principal company of the Group, the Group's qualifying activity and its balance of business. The Group continues to meet these conditions.

Segmental reporting

The Directors are of the opinion that the Group is engaged in a single segment of business, being property investment and in one geographical area, the United Kingdom. There is no one tenant that represents more than 10% of Group revenues. SREIM acts as adviser to the Board, who then make management decisions following their recommendations. As such the Board of Directors are considered to be the chief operating decision maker. A set of consolidated IFRS information is provided on a quarterly basis.

2. New standards and interpretations

Standards, interpretations and amendments to published standards that are effective for the first time

The following standards, amendments and interpretations endorsed by the EU were effective for the first time for the Group's 31 March 2019 year end and had no material impact on the financial statements:

- IFRS 2 (amended) – Share Based Payments;
- IFRS 4 (amended) – Insurance Contracts;
- IAS 40 (amended) – Investment Property;
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration; Annual Improvements to IFRSs (2014–2016 cycle);
- IFRS 9 Financial Instruments (effective from 1 January 2018). This standard applies to classification and measurement of financial assets and financial liabilities, impairment provisioning and hedge accounting. The Group's assessment of IFRS 9 determined that the main area of potential impact was impairment provisioning on trade receivables, given the requirement to use a forward-looking expected credit loss model. The Directors have completed their assessment of IFRS 9 and conclude that its adoption has no material impact on the financial statements;
- IFRS 15, 'Revenue from contracts with customers' is a converged standard from the IASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally. It is more prescriptive in terms of what should be included within revenue than IAS 18 'Revenue'. The standard is applicable to service charge income, facilities management income, investment property disposals and trading property disposals, but excludes rent receivable, which is within the scope of IFRS 16. The Directors have completed their assessment of IFRS 15 and conclude that its adoption has no material impact on the financial statements.

Standards, interpretations and amendments to published standards that have been issued but are not yet effective

The following standards, amendments and interpretations were in issue at the date of approval of these financial statements but were not yet effective for the current accounting year and have not been adopted early. Based on the Group's current circumstances, the Directors do not anticipate that their adoption in future periods will have a material impact on the financial statements of the Group.

IFRS 16 Leases (effective 1 January 2019) specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. As the Group does not hold any material operating leases as lessee, the impact of the standard is not expected to be material to the financial statements.

3. Material agreements

Schroder Real Estate Investment Management Limited is the Investment Manager to the Company. The Investment Manager is entitled to a fee together with reasonable expenses incurred in the performance of its duties. The fee is payable monthly in arrears and shall be an amount equal to one twelfth of the aggregate of 1.1% of the NAV of the Company. The Investment Management Agreement can be terminated by either party on not less than nine months' written notice or on immediate notice in the event of certain breaches of its terms or the insolvency of either party. The total charge to profit and loss during the year was £3,363,000 (2018: £3,531,000). At the year end £287,000 (2018: £556,000) was outstanding.

Northern Trust International Fund Administration Services (Guernsey) Limited is the Administrator to the Company. The Administrator is entitled to an annual fee equal to £120,000 (2018: £120,000) of which £30,000 (2018: £30,000) was outstanding at the year end. In addition to this £40,000 (2018: £40,000) was paid for depository fees of which £3,334 (2018: £3,334) was outstanding at year end.

4. Other income

	31 March 2019 £000	31 March 2018 £000
Dilapidations	915	265
Surrender premium	414	610
Miscellaneous income	10	670
	1,339	**1,545**

Notes to the Financial Statements continued

5. Property operating expenses

	31 March 2019 £000	31 March 2018 £000
Agents' fees	56	78
Repairs and maintenance	149	43
Advertising	33	55
Rates – vacant[1]	821	376
Security	19	14
Service charge, insurance and utilities on vacant units	986	503
Ground rent	124	141
Bad debts	156	489
Other	31	35
	2,375	**1,734**

1 Previous period includes a rates refund totalling £587,000.

6. Auditor's remuneration

The total expected audit fees for the year are £117,170 (2018: £115,000) and £13,250 (2018: £13,000) for the half year review of the financial statements. There were no additional fees paid to the auditors during the year.

7. Other expenses

	31 March 2019 £000	31 March 2018 £000
Directors' and officers' insurance premium	9	9
Regulatory costs	21	21
Professional fees	135	109
Other expenses	37	84
	202	**223**

Directors' fees

Directors are the only officers of the Company and there are no other key personnel.

The Directors' annual remuneration for services to the Group was £150,000 (2018: £180,000), as set out in the Remuneration Report on page 38.

One off transaction costs

One-off costs of £3,128,000 relating to refinancing were incurred in the current year.

In 2018 one-off abortive transaction costs of £1,507,000 relating to the attempted acquisition of a major portfolio were incurred in the prior year. There were no similar costs in this period.

8. Taxation

	31 March 2019 £000	31 March 2018 £000
Tax expense in year	–	–
Reconciliation of effective tax rate		
Profit before tax	15,901	33,836
Effect of:		
Tax using UK corporation tax rate of 19%	3,021	6,429
Revaluation gain not taxable	(296)	(3,837)
Share of profit of associates and joint ventures not taxable	(661)	(618)
Profit on disposal of investment property not taxable	(410)	(113)
UK REIT exemption	(1,654)	(1,861)
Current tax expense in the year	**–**	**–**

SREIT and its Guernsey registered subsidiaries have obtained exempt company status in Guernsey under the terms of the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 so that they are exempt from Guernsey taxation on income arising outside Guernsey and on bank interest receivable in Guernsey. Each Company is, therefore, only liable for a fixed fee of £1,200 per annum. The Directors intend to conduct the Group's affairs such that they continue to remain eligible for exemption.

SREIT is a real estate investment trust ('REIT') and benefits from the various tax advantages offered by the UK REIT regime.

9. Basic and diluted earnings per share

Earnings per share

The basic and diluted earnings per share for the Group is based on the net profit for the year of £15,901,000 (2018: £33,836,000) and the weighted average number of ordinary shares in issue during the year of 518,513,409 (2018: 518,513,409).

10. Dividends paid

In respect of	Ordinary shares	Rate (pence)	31 March 2019 £000
Quarter 31 March 2018 dividend paid 31 May 2018	518.51 million	0.62	3,215
Quarter 30 June 2018 dividend paid 31 August 2018	518.51 million	0.62	3,215
Quarter 30 September 2018 dividend paid 5 December 2018	518.51 million	0.64	3,295
Quarter 31 December 2018 dividend paid 15 March 2019	518.51 million	0.65	3,370
		2.53	**13,095**

In respect of	Ordinary shares	Rate (pence)	31 March 2018 £000
Quarter 31 March 2017 dividend paid 31 May 2017	518.51 million	0.62	3,214
Quarter 30 June 2017 dividend paid 31 August 2017	518.51 million	0.62	3,214
Quarter 30 September 2017 dividend paid 6 December 2017	518.51 million	0.62	3,214
Quarter 31 December 2017 dividend paid 7 March 2018	518.51 million	0.62	3,214
		2.48	**12,856**

A dividend for the quarter ended 31 March 2019 of 0.65 pence (£3.4 million) was declared on 10 May 2019 and will be paid on 7 June 2019.

Notes to the Financial Statements continued

11. Investment property

	Leasehold £000	Freehold £000	Total £000
Fair value as at 31 March 2017	**37,403**	**328,824**	**366,227**
Additions	721	7,783	8,504
Gross proceeds on disposals	(35)	(6,509)	(6,544)
Realised gain on disposals	35	559	594
Net unrealised valuation (loss)/gain on investment property	(944)	21,139	20,195
Fair value as at 31 March 2018	**37,180**	**351,796**	**388,976**
Reclassification between freehold and leasehold	5,600	(5,600)	–
Additions	88	25,864	25,952
Gross proceeds on disposals	–	(47,543)	(47,543)
Realised gain on disposals	–	2,156	2,156
Net unrealised valuation (loss)/gain on investment property	(3,046)	4,602	1,556
Fair value as at 31 March 2019	**39,822**	**331,275**	**371,097**

The balance above includes:

	Leasehold £000	Freehold £000	Total £000
Investment property	39,822	312,364	352,186
Investment property held for sale	–	18,911	18,911
Fair value as at 31 March 2019	**39,822**	**331,275**	**371,097**

Two of the investment properties have been determined to meet the criteria of a held for sale asset at the period end at a value of £18,911,000 (31 March 2018: £nil). Of these properties Allied Industrial Estate, Acton exchanged unconditional contracts on 16 May 2019. Details of this disposal can be seen in note 24.

The fair value of investment properties as determined by the valuer totals £417,550,000 (2018: £399,725,000). Of this amount £36,100,000 is in relation to the unconditional exchange of contracts for Victory House in Brighton (2018: £nil). In addition to this, £10,352,000 (2018: £10,749,000) relating to lease incentives is included within trade and other receivables.

The unrealised net valuation gain on investment property consists of unrealised gains of £2,057,000 (2018: £24,924,000) net of unrealised losses of £501,000 (2018: £4,729,000).

The fair value of investment property has been determined by Knight Frank LLP, a firm of independent chartered surveyors, who are registered independent appraisers. The valuation has been undertaken in accordance with the RICS Valuation – Professional Standards Global January 2017, issued by the Royal Institution of Chartered Surveyors (the 'Red Book') including the International Valuation Standards.

The properties have been valued on the basis of 'Fair Value' in accordance with the RICS Valuation – Professional Standards VPS4(7.1) Fair Value and VPGA1 Valuations for Inclusion in Financial Statements which adopt the definition of Fair Value used by the International Accounting Standards Board.

The valuation has been undertaken using appropriate valuation methodology and the Valuer's professional judgement. Consistent with prior year, the Valuer's opinion of Fair Value was primarily derived using recent comparable market transactions on arm's length terms, where available, and appropriate valuation techniques (the Investment Method).

The properties have been valued individually and not as part of a portfolio.

11. Investment property continued

All investment properties are categorised as Level 3 fair values as they use significant unobservable inputs. There have not been any transfers between levels during the year. Investment properties have been classed according to their real estate sector. Information on these significant unobservable inputs per class of investment property is disclosed below:

Quantitative information about fair value measurement using unobservable inputs (Level 3) as at 31 March 2019

31 March 2019		Industrial[1]	Retail (incl. retail warehouse)	Office	Other	Total
Fair value (£000)		146,350	111,450	139,500	20,250	417,550
Area ('000 sq ft)		1,737	553	634	177	3,101
Net passing rent per sq ft per annum	Range Weighted average	£0 – £10.84 £4.58	£0 – £38.50 £12.63	£0 – £25.72 £11.50	£0 – £13.00 £7.92	£0 – £38.50 £7.62
Gross ERV per sq ft per annum	Range Weighted average	£3.75 – £12.77 £5.58	£7.40 – £38.50 £14.73	£9.50 – £27.50 £16.46	£8.18 – £13.00 £9.07	£3.75 – £38.50 £9.64
Net initial yield[1]	Range Weighted average	0% – 6.75% 5.09%	0% – 9.54% 5.87%	0% – 8.98% 4.89%	4.73% – 7.68% 6.49%	0% – 8.98% 5.30%
Equivalent yield	Range Weighted average	4.44% – 8.05% 5.95%	5.35% –10.09% 6.38%	5.15% –10.53% 6.75%	4.73% – 7.83% 6.59%	4.44% –10.53% 6.36%

1 Yields based on rents receivable after deduction of head rents but gross of non-recoverables.

Quantitative information about fair value measurement using unobservable inputs (Level 3) as at 31 March 2018

31 March 2018		Industrial[1]	Retail (incl. retail warehouse)	Office	Other	Total
Fair value (£000)		128,450	138,825	111,700	20,750	399,725
Area ('000 sq ft)		1,716	599	547	177	3,039
Net passing rent per sq ft per annum	Range Weighted average	£0 – £10.83 £4.13	£0 – £38.50 £13.89	£0 – £25.81 £13.56	£0 – £6.15 £4.52	£0 – £38.50 £7.77
Gross ERV per sq ft per annum	Range Weighted average	£3.75 – £11.50 £5.36	£7.40 – £38.50 £15.23	£9.50 – £27.50 £15.70	£8.23 – £13.00 £9.11	£3.75 – £38.50 £9.38
Net initial yield[1]	Range Weighted average	0% – 6.81% 5.17%	0% – 8.25% 5.61%	0% – 17.41% 6.22%	0% – 5.80% 3.62%	0% – 17.41% 5.53%
Equivalent yield	Range Weighted average	4.84% – 8.91% 6.40%	4.75% – 8.68% 6.00%	5.60% – 10.41% 7.01%	4.75% – 7.83% 6.61%	4.75% – 10.41% 6.44%

1 Yields based on rents receivable after deduction of head rents but gross of non-recoverables.

Sensitivity of measurement to variations in the significant unobservable inputs

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy of the Group's property portfolio, together with the impact of significant movements in these inputs on the fair value measurement, are shown below:

Unobservable input	Impact on fair value measurement of significant increase in input	Impact on fair value measurement of significant decrease in input
Passing rent	Increase	Decrease
Gross ERV	Increase	Decrease
Net initial yield	Decrease	Increase
Equivalent yield	Decrease	Increase

There are interrelationships between the yields and rental values as they are partially determined by market rate conditions.

Notes to the Financial Statements continued

11. Investment property continued

The sensitivity of the valuation to changes in the most significant inputs per class of investment property are shown below:

Estimated movement in fair value of investment properties at 31 March 2019	**Industrial £000**	**Retail £000**	**Office £000**	**Other £000**	**All sectors £000**
Increase in ERV by 5%	7,147	5,236	6,003	549	18,935
Decrease in ERV by 5%	(6,860)	(4,490)	(5,846)	(526)	(17,722)
Increase in net initial yield by 0.25%	(6,846)	(4,550)	(6,781)	(750)	(18,799)
Decrease in net initial yield by 0.25%	7,552	4,955	7,512	811	20,659

Estimated movement in fair value of investment properties at 31 March 2018	Industrial £'000	Retail £'000	Office £'000	Other £'000	All sectors £'000
Increase in ERV by 5%	6,559	6,057	4,837	731	18,184
Decrease in ERV by 5%	(5,460)	(5,405)	(4,792)	(737)	(16,394)
Increase in net initial yield by 0.25%	(5,929)	(5,920)	(4,318)	(1,341)	(17,277)
Decrease in net initial yield by 0.25%	6,532	6,473	4,680	1,540	18,911

12. Investment in joint ventures

	£000
Closing balance as at 31 March 2017	76,900
Purchase of interest in City Tower Unit Trust	350
Share of profit for the year	3,252
Distribution received	(2,754)
Closing balance as at 31 March 2018	**77,748**
Purchase of interest in City Tower Unit Trust	2,250
Share of profit for the year	3,478
Distribution received	(3,311)
Closing balance as at 31 March 2019	**80,165**

Summarised joint venture financial information not adjusted for the Group's share	**31 March 2019 £000**	31 March 2018 £000
Total assets	250,170	240,090
Total liabilities[1]	3,118	2,129
Revenues for year	8,969	8,056
Total comprehensive income	20,918	20,827
Net asset value attributable to Group	80,165	77,748
Total comprehensive income attributable to the Group	**3,478**	**3,252**

1 Liabilities that are non-recourse to the Group.

13. Trade and other receivables

	31 March 2019 £000	31 March 2018 £000
Rent receivable	866	974
Other debtors and prepayments	12,604	13,441
Receivable relating to disposals	36,219	–
	49,689	**14,415**

Other debtors and prepayments includes £10,352,000 (2018: £10,749,000) in respect of lease incentives.

14. Cash and cash equivalents

As at 31 March 2019, the Group had £21.0 million (2018: £29.2 million) in cash. £1.2 million (2018: £1.0 million) is held in respect of rental deposits (see note 17).

15. Issued capital and reserves

Share capital

The share capital of the Company is represented by an unlimited number of ordinary shares of no par value. As at the date of this Report, the Company has 565,664,749 ordinary shares in issue (2018: 565,664,749) of which 47,151,340 ordinary shares are held in treasury (2018: 47,151,340). The total number of voting rights of the Company is 518,513,409 (2018: 518,513,409).

Treasury capital

47,151,340 (2018: 47,151,340) ordinary shares which represent 8.3% (2018: 8.3%) of the Company's total issued share capital are held in treasury.

Revenue reserve

This reserve represents an accumulated amount of the Group's prior earnings, net of dividends.

16. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate risk, see note 19.

	31 March 2019		31 March 2018	
	£000	£000	£000	£000
Non-current liabilities				
Loan facility		158,585		150,085
Less: Finance costs incurred	(2,621)		(1,814)	
Add: Amortised finance costs	266	(2,355)	234	(1,580)
		156,230		**148,505**

The Group entered into a £129.6 million loan facility with Canada Life on 16 April 2013 that has 20% of the loan maturing on 15 April 2023 and with the balance of 80% maturing on 15 April 2028, with a fixed interest rate of 4.77%. On 2 July 2018, the 20% of the Canada Life loan maturing on 15 April 2023 was refinanced, extending the maturity date, increasing the length of the loan to that of the 80%, maturing on 15 April 2028, making it coterminous with the 80% balance. The interest rate for this element of the loan was amended to 3.00% from 4.77%.

On 2 July 2018, the Company refinanced its existing £20.5 million revolving credit facility ('RCF') with Royal Bank of Scotland. The RCF limit was increased from £20.5 million to £32.5 million and the maturity date extended from July 2019 to July 2023. The interest rate is based on the loan to value ratio as below:
- LIBOR + 1.60% if loan to value is less than or equal to 60%
- LIBOR + 1.85% if loan to value is greater than 60%

During both the current and prior year the loan to value has remained less than 60%. Since this loan has variable interest, an interest rate cap for 100% of the loan was entered into, which comes into effect if GBP three-month LIBOR reaches 1.5%. As at the reporting date GBP three-month LIBOR has not reached 1.5%.

On 9 August 2018 an additional amount of £10 million was drawn down on the available RCF to assist in the acquisition of new assets The Tun and The Arc.

Notes to the Financial Statements continued

16. Interest-bearing loans and borrowings continued

In January 2019 the RCF limit was increased from £32.5 million to £52.5 million providing additional undrawn capacity of £20 million.

On 4 March 2019 following the sale of Commercial Road an amount of £1.5 million was repaid. As at 31 March 2019 the total drawn amount on the RCF is £29 million.

As at 31 March 2019 the Group has a loan balance of £158.6 million and £2.4 million of unamortised arrangement fees (31 March 2018: £150.1 million and £1.6 million of unamortised arrangement fees). During the year additional costs relating to the refinancing were incurred. Break costs of £2.6 million and other fees totalling £0.5 million have been written off to the income statement in the year. Additionally costs totalling £1.1 million have been capitalised and are being charged to the income statement in line with the Group's amortisation policy.

The Canada Life facility has a first charge security over all the property assets in the ring-fenced Security Pool (the 'Security Pool') which at 31 March 2019 contained properties valued at £318.2 million (2018: £356.5 million). Various restraints apply during the term of the loan although the facility has been designed to provide significant operational flexibility. The RBS facility has a first charge security over all the property assets held in SREIT No.2 Limited, which at 31 March 2019 contained properties valued at £105.9 million (2018: £43.3 million).

The principal covenants for Canada Life and RBS are that the loan should not comprise more than 65% of the value of the assets in the Security Pool nor should estimated rental and other income arising from assets in the Security Pool, calculated on any interest payment date and one year projected from any interest payment date, comprise less than 185% of the interest payments. For the RBS facility, the forward looking interest cover covenant is 250%.

As at the Interest Payment Date, the Canada Life interest cover calculated in accordance with the ICR covenant was 333% (2018: 352%) and the forward looking interest cover was 314% (2018: 329%), with the Loan to value ratio of 36.7% (22.1% net of all cash) (2018: 36.4%, 28.2% net of all cash). The RBS interest cover calculated in accordance with the ICR covenant was 495% (2018: 513%) with the loan to value ratio of 27.4% (2018: 47.4%).

17. Trade and other payables

	31 March 2019 £000	31 March 2018 £000
Rent received in advance	4,532	4,782
Rental deposits	1,193	963
Interest payable	1,391	1,391
Other trade payables and accruals	2,271	1,146
	9,387	**8,282**

18. NAV per ordinary share

The NAV per ordinary share is based on the net assets of £356,376,000 (2018: £353,570,000) and 518,513,409 (2018: 518,513,409) ordinary shares in issue at the reporting date.

19. Financial instruments, properties and associated risks

Financial risk factors

The Group holds cash and liquid resources as well as having debtors and creditors that arise directly from its operations. The Group uses interest rate contracts when required to limit exposure to interest rate risks, but does not have any other derivative instruments.

The main risks arising from the Group's financial instruments and properties are market price risk, credit risk, liquidity risk and interest rate risk. The Group has no exposure to foreign currency exchange risk. The Board regularly reviews and agrees policies for managing each of these risks and these are summarised below.

Market price risk

Rental income and the market value for properties are generally affected by overall conditions in the economy, such as changes in gross domestic product, employment trends, inflation and changes in interest rates. Changes in gross domestic product may also impact employment levels, which in turn may impact the demand for premises. Furthermore, movements in interest rates may also affect the cost of financing for real estate companies. Both rental income and property values may also be affected by other factors specific to the real estate market, such as competition from other property owners, the perceptions of prospective tenants of the attractiveness, convenience and safety of properties, the inability to collect rents because of bankruptcy or the insolvency of tenants, the periodic need to renovate, repair and release space and the costs thereof, the costs of maintenance and insurance, and increased operating costs.

The Directors monitor the market value of investment properties by having independent valuations carried out quarterly by a firm of independent chartered surveyors. Note 11 sets out the sensitivity analysis on the market price risk. Concentration risk based on industry and geography, is set out in the tables on page 5. Included in market price risk is interest rate risk which is discussed further on page 60.

19. Financial instruments, properties and associated risks continued

Credit risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Group. In the event of default by an occupational tenant, the Group will suffer a rental income shortfall and incur additional costs, including legal expenses, in maintaining, insuring and re-letting the property. The Investment Manager reviews reports prepared by Dun & Bradstreet, or other sources to assess the credit quality of the Group's tenants and aims to ensure there is no excessive concentration of risk and that the impact of any default by a tenant is minimised.

In respect of credit risk arising from other financial assets, which comprise cash and cash equivalents, exposure to credit risk arises from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments. In order to mitigate such risks, cash is maintained with major international financial institutions with high quality credit ratings. During the year and at the reporting date the Group maintained relationships with branches and subsidiaries of HSBC. HSBC's credit rating is AA negative (provided by Standard and Poor).

The maximum exposure to credit risk for rent receivables at the reporting date by type of sector was:

	31 March 2019 Carrying amount £000	31 March 2018 Carrying amount £000
Office	3	148
Industrial	599	742
Retail	264	84
	866	**974**

Rent receivables which are past their due date, but which were not impaired at the reporting date, were:

	31 March 2019 Carrying amount £000	31 March 2018 Carrying amount £000
0–30 days	775	640
31–60 days	21	3
61–90 days	34	85
91 days+	36	246
	866[1]	**974**[1]

1 Net of bad debt provisions of £156,000 (2018: £489,000).

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties in meeting obligations associated with its financial obligations.

The Group's investments comprise UK commercial property. Property and property related assets are inherently difficult to value due to the individual nature of each property. As a result, valuations are subject to substantial uncertainty. There is no assurance that the estimates resulting from the valuation process will reflect the actual sales price even where such sales occur shortly after the valuation date. Investments in property are relatively illiquid; however the Group has tried to mitigate this risk by investing in properties that it considers to be good quality.

In certain circumstances, the terms of the Group's debt facilities entitle the lender to require early repayment and in such circumstances the Group's ability to maintain dividend levels and the net asset value could be adversely affected. The Investment Manager prepares cash flows on a rolling basis to ensure the Group can meet future liabilities as and when they fall due.

Notes to the Financial Statements continued

19. Financial instruments, properties and associated risks continued

The following table indicates the maturity analysis of the financial liabilities.

As at 31 March 2019	Carrying amount £000	Expected cash flows £000	6 months or less £000	6 months–2 years £000	2–5 years £000	More than 5 years £000
Financial liabilities						
Interest-bearing loans and borrowings and interest	157,621	220,463	3,117	9,350	47,505	160,491
Trade and other payables	3,464	3,464	2,271	–	–	1,193
Total financial liabilities	**161,085**	**223,927**	**5,388**	**9,350**	**47,505**	**161,684**

As at 31 March 2018	Carrying amount £000	Expected cash flows £000	6 months or less £000	6 months – 2 years £000	2–5 years £000	More than 5 years £000
Financial liabilities						
Interest-bearing loans and borrowings and interest	149,896	212,213	3,217	9,651	38,854	160,491
Trade and other payables	2,109	2,109	1,146	–	–	963
Total financial liabilities	**152,005**	**214,322**	**4,363**	**9,651**	**38,854**	**161,454**

Interest rate risk

Exposure to market risk for changes in interest rates relates primarily to the Group's long-term debt obligations and to interest earned on cash balances. As interest on the Group's long-term debt obligations is payable on a fixed-rate basis the Group is not exposed to interest rate risk, but is exposed to changes in fair value of long-term debt obligations driven by interest rate movements. As at 31 March 2019 the fair value of the Group's £129.6 million loan with Canada Life was £140.3 million (2018: £140.3 million). The RBS revolving credit facility is a low margin flexible source of funding with a margin of 1.6% above three-month LIBOR and it is considered by management that the carrying value is equal to fair value.

A 1% increase or decrease in short-term interest rates would increase or decrease the annual income and equity by £104,000 based on the cash balance as at 31 March 2019.

Fair values

The fair values of financial assets and liabilities are not materially different from their carrying values, unless disclosed below, in the financial statements.

The fair value hierarchy levels are as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – inputs for the assets or liability that are not based on observable market data.

There have been no transfers between Levels 1, 2 and 3 during the year (2018: none).

The following summarises the main methods and assumptions used in estimating the fair values of financial instruments and investment property.

Investment property – Level 3

Fair value is based on valuations provided by an independent firm of chartered surveyors and registered appraisers. These values were determined after having taken into consideration recent market transactions for similar properties in similar locations to the investment properties held by the Group. The fair value hierarchy of investment property is Level 3. See note 11 for further details.

19. Financial instruments, properties and associated risks continued

Interest-bearing loans and borrowings – Level 2

Fair values are based on the present value of future cash flows discounted at a market rate of interest. Issue costs are amortised over the period of the borrowings. As at 31 March 2019 the fair value of the Group's £129.6 million loan with Canada Life was £140.3 million (2018: £140.3 million).

Trade and other receivables/payables – Level 2

All receivables and payables are deemed to be due within one year and as such the notional amount is considered to reflect the fair value.

Capital management

The Board's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain future development of the business. The objective is to ensure that it will continue as a going concern and to maximise the return to its equity shareholders through an appropriate level of gearing. The Company's capital management process ensures it meets its financial covenants in its borrowing arrangements. Breaches in meeting the financial covenants could permit the lenders to immediately accelerate the repayment of loans and borrowings. The Company monitors as part of its quarterly board meetings that it will adhere to specific leverage, interest cover and rental cover ratios. There have been no breaches in the financial covenants of any loans and borrowings during the financial year.

The Company's debt and capital structure comprises the following:

	31 March 2019 £000	31 March 2018 £000
Debt		
Fixed rate loan facility	129,585	129,585
Floating rate loan facility[1]	29,000	20,500
Equity		
Called-up share capital	192,638	192,638
Reserves	163,738	160,932
	356,376	353,570
Total debt and equity	**514,961**	**503,655**

There were no changes in the Group's approach to capital management during the year.

1 Please note that this amount refers to the amount drawn. The total facility limit as at 31 March 2019 was £52.5 million.

20. Operating leases

The Group leases out its investment property under operating leases. At 31 March 2019 the future minimum lease receipts under non-cancellable leases are as follows:

	31 March 2019 £000	31 March 2018 £000
Less than one year	25,138	24,573
Between one and five years	76,120	80,004
More than five years	75,679	73,026
	176,937	**177,603**

The total above comprises the total contracted rent receivable as at 31 March 2019.

The Group has entered into leases on its property portfolio. The commercial property leases typically have lease terms between 5 and 15 years and include clauses to enable periodic upward revision of the rental charge according to prevailing market conditions. Some leases contain options to break before the end of the lease term.

Notes to the Financial Statements continued

21. List of subsidiary and joint venture undertakings

The companies listed below are those which were part of the Group at 31 March 2019 and 31 March 2018:

Undertaking	Category	Country of incorporation	Ultimate ownership
SREIT No.2 Ltd	Subsidiary	Guernsey	100%
SREIT Holdings No.2 Ltd	Subsidiary	Guernsey	100%
SREIT Holdings Ltd	Subsidiary	Guernsey	100%
SREIT Property Ltd	Subsidiary	Guernsey	100%
SREIT (Portergate) Ltd	Subsidiary	Guernsey	100%
SREIT (Victory) Ltd	Subsidiary	Guernsey	100%
SREIT (Uxbridge) Ltd	Subsidiary	Guernsey	100%
SREIT (City Tower) Ltd	Subsidiary	Guernsey	100%
SREIT (Store) Ltd	Subsidiary	Guernsey	100%
SREIT Holdings No.3 Ltd	Subsidiary	Guernsey	100%
SREIT No.3 Finance Ltd	Subsidiary	Guernsey	100%
SREIT (Bedford) Ltd	Subsidiary	Guernsey	100%
City Tower Unit Trust	Joint venture	Jersey	25%
Store Unit Trust	Joint venture	Jersey	50%

The company listed below was liquidated during the year ended 31 March 2019:

Undertaking	Category	Country of incorporation	Ultimate ownership
St John's Centre (Bedford) Ltd	Subsidiary	UK	100%

22. Related party transactions

Material agreements are disclosed in note 3. Transactions with Directors and the Investment Manager are disclosed in note 7. Transactions with joint ventures are disclosed in note 12.

23. Capital commitments

As at 31 March 2019 the Group had capital commitments of £9.4 million (2018: £1.2 million).

24. Post balance sheet events

On 16 May 2019 unconditional contracts were exchanged to sell Allied Industrial Estate, Acton for £18.875 million. The buyer has paid a non-refundable deposit of £1.89 million and completion is due in November 2019.

EPRA Performance Measures (unaudited)

As recommended by EPRA (European Public Real Estate Association), EPRA performance measures are disclosed in the section below.

EPRA performance measures: summary table

	31 March 2019 £000	31 March 2018 £000
EPRA earnings	12,022	12,549
Adjusted EPRA earnings[1]	**15,150**	**14,056**
EPRA earnings per share	2.3	2.4
Adjusted EPRA earnings per share[1]	**2.9**	**2.7**
EPRA NAV	**356,376**	**353,568**
EPRA NAV per share	**68.7**	**68.2**
EPRA NNNAV	**343,322**	**332,590**
EPRA NNNAV per share	**66.2**	**64.1**
EPRA Net Initial Yield	**5.0%**	**5.0%**
EPRA topped-up Net Initial Yield	**5.3%**	**5.5%**
EPRA Vacancy Rate	**8.5%**	**7.2%**
EPRA Cost Ratios – including direct vacancy costs	27.6%	33.1%
Adjusted EPRA Cost Ratios – including direct vacancy costs[1]	**21.2%**	**27.5%**
EPRA Cost Ratios – excluding direct vacancy costs	27.6%	29.8%
Adjusted EPRA Cost Ratios – excluding direct vacancy costs[1]	**21.2%**	**24.2%**

1 Adjusted for one off company transactions in the prior year.

a. EPRA earnings and EPS

Total comprehensive income excluding realised and unrealised gains/ losses on investment property, share of profit on joint venture investments and changes in fair value of financial instruments, divided by the weighted average number of shares.

	31 March 2019 £000	31 March 2018 £000
IFRS profit after tax	15,901	33,836
Adjustments to calculate EPRA Earnings:		
Profit on disposal of investment property	(2,156)	(594)
Net valuation gain on investment property	(1,556)	(20,195)
Share of valuation (loss)/gain in associates and joint ventures	(167)	(498)
EPRA earnings	**12,022**	**12,549**
Company adjustments[1]	3,128	1,507
Adjusted EPRA earnings	**15,150**	**14,056**
Weighted average number of Ordinary shares	518,513,409	518,513,409
IFRS earnings per share (pence)	**3.1**	**6.5**
EPRA earnings per share (pence)	**2.3**	**2.4**
Adjusted EPRA earnings per share (pence)	**2.9**	**2.7**

1 The Company adjustments relate to one–off costs.

EPRA Performance Measures (unaudited) continued

b. EPRA NAV per share

The net asset value adjusted to exclude assets or liabilities not expected to crystallise in a long-term investment property model, divided by the number of shares in issue.

	31 March 2019 £000	31 March 2018 £000
IFRS NAV per financial statements	356,376	353,570
EPRA NAV	356,376	353,570
Shares in issue at end of year	518,513,409	518,513,409
IFRS NAV per share (pence)	**68.7**	**68.2**
EPRA NAV per share (pence)	**68.7**	**68.2**

c. EPRA NNNAV per share

The EPRA NAV adjusted to include the fair value of debt, divided by the number of shares in issue.

	31 March 2019 £000	31 March 2018 £000
EPRA NAV	356,376	353,568
Adjustments to calculate EPRA NNNAV:		
Fair value of debt	(13,054)	(12,279)
EPRA NNNAV	**343,322**	**341,289**
EPRA NNNAV per share (pence)	**66.2**	**65.8**

d. EPRA Net Initial Yield

Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the grossed up market value of the complete property portfolio. The EPRA 'topped up' NIY is the EPRA NIY adjusted for unexpired lease incentives.

	31 March 2019 £000	31 March 2018 £000
Investment property – wholly owned	381,450	399,725
Investment property – share of joint ventures and funds	79,163	77,770
Complete property portfolio	**460,613**	**477,495**
Allowance for estimated purchasers' costs	26,716	27,695
Gross up completed property portfolio valuation	**487,329**	**505,190**
Annualised cash passing rental income	26,983	27,054
Property outgoings	(2,375)	(1,734)
Annualised net rents	**24,608**	**25,320**
Notional rent expiration of rent-free periods[1]	1,029	2,566
Topped-up net annualised rent	**25,637**	**27,886**
EPRA NIY	**5.0%**	**5.0%**
EPRA 'topped-up' NIY	**5.3%**	**5.5%**

1 The period over which rent-free periods expire is two years (2018: two years).

e. EPRA Cost Ratios

Administrative and operating costs as a percentage of gross rental income calculated including and excluding direct vacancy costs.

	31 March 2019 £000	31 March 2018 £000
Administrative/property operating expense line per IFRS income statement	7,970	8,972
Ground rent costs	(124)	(141)
EPRA Costs (including direct vacancy costs)	**7,846**	**8,831**
Direct vacancy costs	(1,769)	(879)
EPRA Costs (excluding direct vacancy costs)	**6,077**	**7,952**
Company adjustments	–	(1,507)
Adjusted EPRA Costs (including company adjustment costs)	**7,846**	**7,324**
Direct vacancy costs	(1,769)	(879)
Adjusted EPRA Costs (excluding direct vacancy costs)	**6,077**	**6,445**
Gross Rental Income less ground rent costs	25,154	23,900
Share of Joint Ventures income less ground rent costs	3,311	2,754
Gross Rental Income	**28,465**	**26,654**
EPRA Cost Ratio (including direct vacancy costs)	27.6%	33.1%
EPRA Cost Ratio (excluding direct vacancy costs)	21.2%	29.8%
EPRA Vacancy Rate	8.5%	7.2%
Adjusted EPRA Cost Ratio (including company adjustment costs)	27.6%	27.5%
Adjusted EPRA Cost Ratio (excluding direct vacancy costs)	21.2%	24.2%

Sustainability Performance Measures (Environmental) (unaudited)

SREIT reports sustainability information in accordance with EPRA Best Practice Recommendations on Sustainability Reporting (sBPR) 2017, 3rd Edition for the 12 months, 1 January 2018 – 31 December 2018, presented with comparison against 2017. As permitted by the EPRA Sustainability Reporting Guidelines, environmental data has been developed and presented in line with the Global Real Estate Sustainability Benchmark (GRESB).

The reporting boundary has been scoped to where SREIT has operational control: managed properties where SREIT is responsible for payment of utility invoices and / or arrangement of waste disposal contracts. 'Operational control' has been selected as the reporting boundary (as opposed to 'financial control' or 'equity share') as this reflects the portion of the portfolio where the Company can influence operational procedures and, ultimately, sustainability performance. The operational control approach is the most commonly applied within the industry.

In 2017 there were 21 such managed assets within the portfolio. In 2018, this increased to 23 managed assets, reflecting the purchase of two new assets (The Arc in Nottingham and The Tun in Edinburgh). All managed assets are included within the below data for 2018.

Where data coverage is less than 100%, a supporting explanation is provided within the data notes immediately below the relevant table. Energy and water consumption data is reported according to automatic meter reads, manual meter reads or invoice estimates. Where required, missing consumption data has been estimated by pro-rating data from other periods using recognised techniques. The proportion of data that is estimated is presented in the footnotes to the data tables. Historic consumption data has been restated where more complete and/or accurate records have become available.

SREIT does not contain any managed assets that consume energy from district heating or cooling sources. Therefore, the EPRA sBPR DH&C-Abs and DH&C-LfL indicators are not applicable and not presented in this report. Furthermore, the Company does not have any direct employees; it is served by the employees of the Investment Manager (Schroder Real Estate Investment Management Limited). Accordingly, the EPRA Overarching Recommendation for companies to report on the environmental impact of their own offices is not relevant/material and not presented in this report.

This report has been prepared by EVORA Global, retained sustainability and energy management consultants to Schroder Real Estate Investment Management.

Total energy consumption (Elec-Abs; Fuels-Abs)

The table below sets out total landlord obtained energy consumption from the Company's managed portfolio by sector.

	Total electricity consumption (kWh)		Total fuel consumption (kWh)	
Sector	2017	**2018**	2017	**2018**
Office	3,225,386	3,290,220	1,969,103	2,214,422
Coverage	10/10	11/11	9/9	12/12
Retail	186,638	126,882	1,599	2,155
Coverage	2/2	2/2	1/1	1/1
Mixed Use[1]	2,573,373	2,609,116	–	–
Coverage	1/1	1/1	–	–
Industrial, Distribution Warehouse	161,585	111,971	376	1,705
Coverage	5/5	5/5	2/2	2/2
Retail, Warehouse	22,415	22,888	–	–
Coverage	1/1	1/1	–	–
Leisure	286,216	271,648	222,289	163,545
Coverage	1/1	1/1	1/1	1/1
Total	**6,455,613**	**6,432,725**	**2,193,367**	**2,381,827**
Coverage	**20/20**	**21/21**	**13/13**	**16/16**
Total electricity and fuel	**8,648,979**	**8,814,551**	**–**	**–**
Coverage	**20/20**	**22/22**	**–**	**–**
Renewable electricity	**97%**	**98%**	**–**	**–**
Coverage	**20/20**	**21/21**	**–**	**–**

1 Mixed Use presents 25% of energy consumption at City Tower, Manchester (reflecting the Company's 25% ownership share).

Consumption data relates to the managed portfolio only:
- Offices: Common areas, shared services and/or whole building.
- Mixed-Use: Whole building.
- Retail: Common areas and tenant voids.
- Retail Warehouse: Exterior areas only.
- Industrial, Distribution Warehouse: Exterior areas and tenant voids.
- Leisure: Common areas and external areas.
- Energy procured directly by tenants is not reported.
- Estimation: 0.1% of Electricity and 1% of Gas data have been estimated through pro-rating.
- Where appropriate (for relevant assets), consumption data has been adjusted to reflect the Company's share of asset ownership.
- Coverage relates to the number of managed assets for which data is reported.
- Renewable electricity (%) is calculated according to the attributes of energy supply contracts as at 31 December 2018 and only reflects renewable electricity procured under a 100% 'green tariff' (i.e. where generation is from 100% renewable sources). The renewables percentage of standard (non 'green tariff') energy supplies are not currently known and therefore has not been included within this number. As far as we know, no renewable fuel was consumed during the reporting period and therefore a percentage renewable fuel figure is not presented here.
- All energy was procured from a third-party supplier. No 'self-generated' renewable energy was consumed during the reporting period and is therefore not presented here.

Sustainability Performance Measures (Environmental) (unaudited) continued

Like-for-like energy consumption (Elec-LfL; Fuels-LfL; Energy-Int)

The table below sets out the like-for-like landlord obtained energy consumption from the Company's managed portfolio by sector.

	Total electricity (kWh)			Total fuels (kWh)			Energy Intensity (kWh/m²)	
Sector	2017	**2018**	Change	2017	**2018**	Change	2017	**2018**
Office	3,225,386	3,180,842	(1%)	1,969,103	2,008,722	2%	144	143
Coverage		10/10			9/9		10/10	
Retail	17,521	14,683	(16%)				13	11
Coverage		1/1					1/1	
Mixed Use[1]	2,573,373	2,609,116	1%				178	181
Coverage		1/1					1/1	
Industrial, Distribution Warehouse	3,596	786	(78%)[2]				0.2	0.1
Coverage		1/1					1/1	
Retail, Warehouse	22,415	22,888	2%				1.8	1.9
Coverage		1/1					1/1	
Leisure	286,216	271,648	(5%)	222,289	163,545	(26%)	184	157
Coverage		1/1			1/1		1/1	
Total	**6,128,507**	**6,099,963**	**(0.5%)**	**2,191,392**	**2,172,267**	**(1%)**		
Coverage		**15/15**			**10/10**		**15/15**	
Total electricity and fuel	**8,319,899**	**8,272,229**	**(1%)**					
Coverage			**15/15**					

1 Mixed Use presents 25% of energy consumption at City Tower, Manchester (reflecting the Company's 25% ownership share).
2 Consumption relates to external lighting only for a single industrial, distribution warehouse, which underwent an extensive LED lighting upgrade during the reporting period.

- Like-for-like excludes assets that were purchased, sold or under refurbishment during the two years reported.
- Consumption data relates to the managed portfolio only:
  - Offices: Common areas, shared services and/or whole building
  - Mixed-Use: Whole building
  - Retail: Common areas and tenant voids
  - Retail, Warehouse: Exterior areas only
  - Industrial, Distribution Warehouse: Exterior areas only
  - Leisure: Common areas and external areas
  - Energy procured directly by tenants is not reported.
- Estimation: 0.1% of Electricity and 1% of Gas data have been estimated through pro-rating.
- Where appropriate (for relevant assets), consumption data has been adjusted to reflect the Company's share of ownership.
- Coverage relates to the number of managed assets for which data is reported.
- Intensity: An energy intensity kWh/m² is reported for assets within the like-for-like portfolio. The numerator is landlord-managed energy consumption and the denominator is net lettable floor area (m²). For Leisure/Retail, common parts energy consumption is divided by common parts area (m²). As common parts area is not typically measured and therefore known, where required we have taken the known net lettable area and applied an internal benchmark: 25% common part area for unenclosed centres and 35% for enclosed centres.

Greenhouse gas emissions (GHG-Dir-Abs; GHG-Indir-Abs; GHG-Int)

The table below sets out the Company's greenhouse gas emissions by sector.

	Absolute emissions (tCO_2e)		Like-for-like emissions (tCO_2e)			Intensity ($kg\ CO_2e/m^2$)	
Sector	2017	**2018**	2017	**2018**	Change	2017	**2018**
Office							
Scope 1	362	407	362	370	2%	41	35
Scope 2	1,134	931	1,134	900	(21%)		
Coverage	10/10	12/12					10/10
Retail							
Scope 1						3	2
Scope 2	66	36	6	4	(33%)		
Coverage	2/2	2/2					1/1
Mixed Use[1]							
Scope 1	–	–				63	51
Scope 2	905	739	905	739	(18%)		
Coverage	1/1	1/1					1/1
Industrial, Distribution Warehouse							
Scope 1	0.1	0.3	–	–		0.09	0.02
Scope 2	57	32	1.26	0.22	(83%)		
Coverage	5/5	5/5	1/1				
Retail, Warehouse							
Scope 1	–	–	–	–		0.6	0.5
Scope 2	8	6	8	6	(25%)		
Coverage	1/1	1/1					1/1
Leisure							
Scope 1	41	30	41	30	(27%)	41	31
Scope 2	101	77	101	77	(24%)		
Coverage	1/1	1/1					1/1
Total							
Scope 1	**403**	**438**	**403**	**400**	**(1%)**		
Scope 2	**2,270**	**1,821**	**2,155**	**1,727**	**(20%)**		
Scope 1 & 2	**2,673**	**2,259**	**2,558**	**2,126**	**(17%)**		
Coverage	**20/20**	**22/22**					**15/15**

1 Mixed Use presents 25% of energy consumption at City Tower, Manchester (reflecting the Company's 25% ownership share).

Like-for-like excludes assets that were purchased, sold or under refurbishment during the two years reported.

Sustainability Performance Measures (Environmental) (unaudited) continued

Greenhouse gas emissions (GHG-Dir-Abs; GHG-Indir-Abs; GHG-Int) continued
The Company's greenhouse gas (GHG) inventory has been developed as follows:
- Fuels/electricity GHG emissions factors taken from UK government's Greenhouse Gas Reporting Factors for Company Reporting (2017 and 2018).
- GHG emissions from electricity (Scope 2) are reported according to the 'location-based' approach.
- GHG emissions are presented as tonnes of carbon dioxide equivalent (tCO_2e). GHG intensity is presented as kilograms of carbon dioxide equivalent ($kgCO_2e$), where possible.

Emissions data relates to the managed portfolio only:
- Offices: Common areas, shared services and/or whole building
- Mixed-Use: Whole building
- Retail: Common areas and tenant voids
- Retail, Warehouse: Exterior areas only
- Industrial, Distribution Warehouse: Exterior areas and tenant voids
- Leisure: Common areas and external areas
- Emissions associated with energy procured directly by tenants is not reported
- Estimation: 0.1% of Electricity and 1% of Gas data have been estimated through pro-rating
- Where appropriate (for relevant assets), emissions data has been adjusted to reflect the Company's share of asset ownership.
- Coverage relates to the number of managed assets for which data is reported
- Intensity: An intensity $kgCO_2e/m^2$ is reported for assets within the like-for-like portfolio. The numerator is landlord-managed GHG emissions from energy consumption and the denominator is net lettable floor area (m^2). For Leisure/Retail, common parts GHG emissions is divided by common parts area (m^2). As common parts area is not typically measured and therefore known, where required we have taken the known net lettable area and applied an internal benchmark: 25% common part area for unenclosed centres and 35% for enclosed centres.

Water (Water-Abs; Water-LfL; Water-Int)
The table below sets out water consumption for assets managed by the Company.

	Absolute water consumption (m^3)		Like for like water consumption (m^3)			Intensity (m^3/m^2)	
Sector	2017	**2018**	2017	**2018**	Change	2017	**2018**
Office	9,855	7,898	9,855	7,898	(20%)[1]	0.33	0.26
Coverage	8/8	8/8					8/8
Retail	1,816	2,392	1,654	2,313	40%[2]	0.7	1.0
Coverage	2/2	2/2					1/1
Mixed Use[3]	5,512	5,564	5,512	5,564	1%	0.38	0.39
Coverage	1/1	1/1					1/1
Leisure	277	242	277	242	(13%)	0.08	0.07
Coverage	1/1	1/1					1/1
Total	**17,460**	**16,096**	**17,298**	**16,017**	**(8%)**		
Coverage	**12/12**	**12/12**					**11/11**

1 This reduction is due to a number of factors, including water leaks that were reported to have taken place in 2017 and occupancy changes between the reported periods.
2 This increase is due to a cleaning contractor using a jet washer, which was not previously used.
3 Mixed Use presents 25% of energy consumption at City Tower, Manchester (reflecting the Company's 25% ownership share).

Like-for-like excludes assets that were purchased, sold or under refurbishment during the two years reported.

All consumption data relates to the managed portfolio only:
- Offices and Mixed use: Whole building
- Retail and Leisure: Common parts
- There is no landlord responsibility for water in Retail, Warehouses and Industrial, Distribution Warehouse
- Water procured directly by tenants is not reported
- Estimation: 3% of water data has been estimated through pro-rating
- Where appropriate (for relevant assets), consumption data has been adjusted to reflect the Company's share of ownership
- Coverage relates to the number of managed assets for which data is reported
- Intensity: An intensity m^3/m^2 is reported for assets within the like-for-like portfolio. The numerator is landlord-managed water consumption and the denominator is net lettable floor area (m^2). For Leisure/Retail, common parts water consumption is divided by common parts area (m^2). As common parts area is not typically measured and therefore known, where required we have taken the known net lettable area and applied an internal benchmark: 25% common part area for unenclosed centres and 35% for enclosed centres
- All water was procured from a municipal supply. As far as we are aware, no surface, ground or rainwater was consumed during the reporting period and therefore is not presented here.

Waste (Waste-Abs; Waste-LfL)
The table below sets out waste managed by the Company by disposal route and sector.

		Absolute tonnes				Like-for-like tonnes				
		2017		**2018**		2017		**2018**		
		Tonnes	%	Tonnes	%	Tonnes	%	Tonnes	%	% change
Office	Recycled	85	39%	112	50%	85	39%	107	49%	26%
	Incineration with energy recovery	131	60%	114	50%	131	61%	112	51%	(15%)
	Direct to landfill	–	–	–	–	–	–	–	–	–
	Total	**217**		**227**		**217**		**219**		**1%**
	Coverage	**9/9**		**10/10**		**9/9**				
Retail	Recycled	68	62%	98	69%					
	Incineration with energy recovery	42	38%	44	31%					
	Direct to landfill	–	–	–	–					
	Total	**111**		**142**						
	Coverage	**3/3**		**3/3**						
Mixed Use[1]	Recycled	115	71%	94	59%	115	71%	94	59%	(19%)
	Incineration with energy recovery	48	29%	64	41%	48	29%	64	41%	35%
	Direct to landfill	–	–	–	–	–	–	–	–	–
	Total	**162**		**158**		**162**		**158**		**(3%)**
	Coverage	**1/1**		**1/1**		**1/1**				
Leisure	Recycled	127	44%	166	50%	127	44%	166	50%	30%
	Incineration with energy recovery	164	56%	165	50%	164	56%	165	50%	1%
	Direct to landfill	–	–	–	–	–	–	–	–	–
	Total	**291**		**331**		**291**		**331**		**14%**
	Coverage	**1/1**		**1/1**		**1/1**				
Total	Recycled	396	51%	470	55%	327	49%	367	52%	12%
	Incineration with energy recovery	385	49%	388	45%	343	51%	342	48%	–
	Direct to landfill	–	–	–	–	–	–	–	–	–
	Total	**781**		**858**		**670**		**708**		**6%**
	Coverage	**14/14**		**15/15**		**11/11**				

1 Mixed Use presents 25% of energy consumption at City Tower, Manchester (reflecting the Company's 25% ownership share).

Sustainability Performance Measures (Environmental) (unaudited) continued

Waste (Waste-Abs; Waste-LfL) continued

- Whilst zero waste is sent direct to landfill, a residual component of the 'recycled' and 'incineration with energy recovery' waste streams may end up in landfill.
- Like-for-like excludes assets that were purchased, sold or under refurbishment during the two years reported.
- Waste data relates to the managed portfolio only.
- Waste management procured directly by tenants is not reported.
- The Company has no waste management responsibilities for Retail, Warehouse and Industrial, Distribution Warehouse.
- Where appropriate (for relevant assets), waste data has been adjusted to reflect the Company's share of asset ownership.
- Coverage relates to the number of managed assets for which data is reported.
- Reported data relates to non-hazardous waste only. Hazardous waste is not reported as due to the low volumes produced it is not considered material. Furthermore, robust tonnage data on the small quantities that are produced is not available.

Sustainability certification (Cert-Tot): Green building certificates

Rating	Portfolio by floor area (%)
Offices (BREEAM In Use)	1.3
Mixed Use[1] (BREEAM Fit Out/Refurbishment)	0.1
All other sectors	–
Coverage	100

1 Mixed Use presents 25% of energy consumption at City Tower, Manchester (reflecting the Company's 25% ownership share).

- Green building certificate records for the Fund are provided as at 31 March 2019 by portfolio floor area.
- Data provided includes managed and non-managed assets (i.e. the whole portfolio).
- Where appropriate (for relevant assets), floor area coverage data has been adjusted to reflect the Fund's share of ownership.

Sustainability certification (Cert-Tot): Energy performance certificates

Energy performance certificate rating	Portfolio by floor area (%)
A	0.03
B	3.3
C	29.1
D	26.9
E	13.5
F	1.5
G	2.2
Exempt	1.6
No EPC	21.9
Coverage	100

- Energy Performance Certificate (EPC) records for the Company are provided as at 31 December 2018 by portfolio floor area.
- Data provided includes managed and non-managed assets (i.e. the whole portfolio).
- Where appropriate (for relevant assets), floor area coverage data has been adjusted to reflect the Company's share of asset ownership, including 25% of the net lettable area of City Tower, Manchester (reflecting the Company's 25% ownership share) and 50% of Store Street, London (reflecting the Company's 50% ownership share).
- The information on EPCs is continuously reviewed and updated.
- EPCs are known for 78% of the portfolio by floor area. In general terms, since the introduction of the EPC Regulations in 2008, EPCs are required for the letting of units or buildings or the sale of buildings. In addition, the UK Minimum Energy Efficiency Standards regulations ('MEES') came into force for commercial buildings on 1 April 2018 and require a minimum EPC rating of E for new lettings; the rules apply to all leases from 1 April 2023. The EPCs for the portfolio will be managed to ensure compliance with the MEES regulations. The F&G EPCs relate to ten units in six assets.

Sustainability Performance Measures (Social)

EPRA's Sustainability Best Practices Recommendations Guidelines 2017 ('EPRA's Guidelines') include Social and Governance reporting measures to be disclosed for the entity i.e. the Company. The Company is an externally managed real estate investment trust and has no direct employees. A number of these Social Performance measures relate to entity employees and therefore these measures are not relevant for reporting at the entity level. The Investment Manager to the Company, Schroder Real Estate Investment Management Limited, is part of Schroders PLC which has responsibility for the employees that support the Company. The Company aims to comply with EPRA's Guidelines and therefore has included Social and Governance Performance Measure disclosures in this report. However, these are presented as appropriate for the activities and responsibilities of the Schroder Real Estate Investment Trust Limited (the 'Company'), Schroders PLC or the Investment Manager, Schroder Real Estate Investment Management Limited.

The Schroders PLC Annual Report and Accounts for the 12 months to 31 March 2019 supports the performance measures in relation to the Investment Manager as set out below. Schroders PLC's principles in relation to people including diversity, gender pay gap, values, employee satisfaction survey, wellbeing and retention can be found at:
https://www.schroders.com/en/sysglobalassets/digital/global/annual-report/documents/annual-report-full.pdf and,
https://www.schroders.com/en/people/diversity-and-inclusion/gender-equality-at-schroders/

Employee gender diversity (Diversity-Emp)

As at 31 March 2019 the Company Board comprised four members: one (25% female); three (75% male).

For further information on Schroders PLC employee gender diversity, covering more employee categories, please refer to Schroders 2018 Annual Report and Accounts (page 32):
https://www.schroders.com/en/sysglobalassets/digital/global/annual-report/documents/annual-report-full.pdf

Gender pay ratio (Diversity-Pay)

The remuneration of the Company Board is set out on page 38 of this Report and Accounts document.

Schroders PLC female representation and gender pay report can be found in Schroders 2018 Annual Report and Accounts (page 78):
https://www.schroders.com/en/sysglobalassets/digital/global/annual-report/documents/annual-report-full.pdf

Information on Diversity and Inclusion at Schroders can be found at:
https://www.schroders.com/en/people/diversity-and-inclusion

The following are reported for Schroders in relation to the Investment Management of the Company:

Training and development (Emp-Training)

Schroders requires employees to complete mandatory internal training. Schroders encourages all staff with professional qualifications to maintain the training requirements of their respective professional body.

Employee performance appraisals (Emp-Dev)

Schroders' performance management process requires annual performance objective setting and annual performance reviews for all staff.
The Investment Manager confirms that performance appraisals were completed for 100% of investment staff relevant to the Company in 2018.

The following are reported for Schroders PLC:

Employee turnover and retention (Emp-Turnover)

For Schroders PLC turnover and retention rates please refer to Schroders Annual Report and Accounts (page 33):
https://www.schroders.com/en/sysglobalassets/digital/global/annual-report/documents/annual-report-full.pdf

Employee health and safety (H&S-Emp)

Schroders PLC does not include employee health and safety performance measures in its Annual Report and Accounts.

Sustainability Performance Measures (Social) continued

The following are reported in relation to the assets held in the Company's portfolio over the reporting period to 31 December 2018:

Asset health and safety assessments (H&S-Asset)
Health and safety impacts were assessed or reviewed for compliance or improvement for 100% of managed assets held in the Company portfolio during the reporting period.

Asset health and safety compliance (H&S-Comp)
No incidents of non-compliance with regulations/and or voluntary codes were identified during the reporting period.

Community engagement, impact assessments and development programmes (Comty-Eng)
Local community engagement, impact assessments and/or development programmes were completed for 4% (2 of 46) assets during the reporting period.

	Portfolio by number assets (%)
Mixed Use	2
Industrial, Distribution Warehouse	2
Total	**4**

Sustainability Performance Measures (Governance)

Composition of the highest governance body (Gov-Board)

The Board of the Company comprised four Non-Executive Independent Directors (0 executive Board members) for the 12 months to 31 March 2019.

- The average tenure of the four directors to 31 March is three years and eight months
- The number of Directors with competencies relating to environmental and social topics is three and their experience can be seen in their biographies.

Nominating and selecting the highest governance body (Gov-Select)

The role of the Nomination Committee, chaired by Lorraine Baldry, is to consider and make recommendations to the Board on its composition so as to maintain an appropriate balance of skills, experience and diversity, including gender, and to ensure progressive refreshing of the Board. On individual appointments, the Nomination Committee leads the process and makes recommendations to the Board.

Before the appointment of a new Director, the Nomination Committee prepares a description of the role and capabilities required for a particular appointment. While the Nomination Committee is dedicated to selecting the best person for the role, it aims to promote diversification and the Board recognises the importance of diversity. The Board agrees that its members should possess a range of experience, knowledge, professional skills and personal qualities as well as the independence necessary to provide effective oversight of the affairs of the Company.

Process for managing conflicts of interest (Gov-Col)

The Company's Conflicts of Interest Policy sets out the policy and procedures of the Board and the Company Secretary for the management of conflicts of interest.

Report of the Depositary to the Shareholders

Northern Trust (Guernsey) Limited has been appointed as Depositary to Schroder Real Estate Investment Trust Limited (the 'Company') in accordance with the requirements of Article 36 and Articles 21(7), (8) and (9) of the Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010 (the 'AIFM Directive').

We have enquired into the conduct of Schroder Real Estate Investment Management Limited (the 'AIFM') for the year ended 31 March 2019, in our capacity as Depositary to the Company.

This report including the review provided below has been prepared for and solely for the Shareholders in the Company. We do not, in giving this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown.

Our obligations as Depositary are stipulated in the relevant provisions of the AIFM Directive and the relevant sections of Commission Delegated Regulation (EU) No 231/2013 (collectively the 'AIFMD legislation').

Amongst these obligations is the requirement to enquire into the conduct of the AIFM and the Company and their delegates in each annual accounting period.

Our report shall state whether, in our view, the Company has been managed in that period in accordance with the AIFMD legislation. It is the overall responsibility of the AIFM to comply with these provisions. If the AIFM or their delegates have not so complied, we as the Depositary will state why this is the case and outline the steps which we have taken to rectify the situation.

The Depositary and its affiliates is or may be involved in other financial and professional activities which may on occasion cause a conflict of interest with its roles with respect to the Company. The Depositary will take reasonable care to ensure that the performance of its duties will not be impaired by any such involvement and that any conflicts which may arise will be resolved fairly and any transactions between the Depositary and its affiliates and the Company shall be carried out as if effected on normal commercial terms negotiated at arm's length and in the best interests of Shareholders.

Basis of Depositary review

The Depositary conducts such reviews as it, in its reasonable discretion, considers necessary in order to comply with its obligations and to ensure that, in all material respects, the Company has been managed (i) in accordance with the limitations imposed on its investment and borrowing powers by the provisions of its constitutional documentation and the appropriate regulations and (ii) otherwise in accordance with the constitutional documentation and the appropriate regulations. Such reviews vary based on the type of company, the assets in which a company invests and the processes used, or experts required, in order to value such assets.

Review

In our view, the Company has been managed during the year, in all material respects:

i. In accordance with the limitations imposed on the investment and borrowing powers of the Company by the constitutional document; and by the AIFMD legislation; and
ii. Otherwise in accordance with the provisions of the constitutional document; and the AIFMD legislation.

For and on behalf of
Northern Trust (Guernsey) Limited

Glossary

Articles	means the Company's Articles of Incorporation, as amended from time to time.
Companies Law	means The Companies (Guernsey) Law, 2008.
Company	is Schroder Real Estate Investment Trust Limited.
Directors	means the directors of the Company as at the date of this document whose names are set out on pages 30 to 31 of this document and 'Director' means any one of them.
Disclosure Guidance and Transparency Rules	means the disclosure guidance and transparency rules contained within the FCA's Handbook of Rules and Guidance.
Earnings per share ('EPS')	is the profit after taxation divided by the weighted average number of shares in issue during the period. Diluted and Adjusted EPS are derived as set out under NAV.
EPRA	is European Public Real Estate Association.
EPRA NNNAV	is EPRA Triple Net Asset Value, being the NAV calculated under IFRS adjusted to reflect the fair value of financial instruments, debt and deferred taxation.
Estimated rental value ('ERV')	is the Group's external valuers' reasonable opinion as to the open market rent which, on the date of valuation, could reasonably be expected to be obtained on a new letting or rent review of a property.
FCA	is the UK Financial Conduct Authority.
Gearing	is the Group's net debt as a percentage of adjusted net assets.
Group	is the Company and its subsidiaries.
Initial yield	is the annualised net rents generated by the portfolio expressed as a percentage of the portfolio valuation.
Interest cover	is the number of times Group net interest payable is covered by Group net rental income.
Listing Rules	means the Listing Rules made by the FCA under Part VII of the UK Financial Services and Markets Act 2000, as amended.
Market Abuse Regulation	means regulation (EU) No.596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse.
MSCI	(formerly Investment Property Databank or 'IPD') is a company that produces an independent benchmark of property returns.
NAV total return	is calculated taking into account both capital returns and income returns in the form of dividends paid to shareholders.
Net Asset Value or NAV	is shareholders' funds divided by the number of shares in issue at the period end.
Net rental income	is the rental income receivable in the period after payment of ground rents and net property outgoings.
REIT	is Real Estate Investment Trust.
Reversionary yield	is the anticipated yield, which the initial yield will rise to once the rent reaches the estimated rental value.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at 1 London Wall Place, EC2Y 5AU on 18 September 2019 at 11a.m.

Resolution on	Agenda
Form of Proxy	1. To elect a Chairman of the Meeting.
	To consider and, if thought fit, pass the following Ordinary Resolutions:
Ordinary Resolution 1	2. To receive, consider and approve the Consolidated Annual Report and Financial Statements of the Company for the year ended 31 March 2019.
Ordinary Resolution 2	3. To approve the Remuneration Report for the year ended 31 March 2019.
Ordinary Resolution 3	4. To re-elect Ms Lorraine Baldry as a Director of the Company.
Ordinary Resolution 4	5. To re-elect Mr Stephen Bligh as a Director of the Company.
Ordinary Resolution 5	6. To re-elect Mr Alastair Hughes as a Director of the Company.
Ordinary Resolution 6	7. To re-elect Mr Graham Basham as a Director of the Company.
Ordinary Resolution 7	8. To re-appoint KPMG Channel Islands Limited as Auditor of the Company until the conclusion of the next Annual General Meeting.
Ordinary Resolution 8	9. To authorise the Board of Directors to determine the Auditor's remuneration.
Ordinary Resolution 9	10. To receive and approve the Company's Dividend Policy which appears on page 35 of the Annual Report.
	To consider and, if thought fit, pass the following Special Resolutions:
Special Resolution 1	11. That the Company be authorised, in accordance with section 315 of The Companies (Guernsey) Law, 2008, as amended (the 'Companies Law'), to make market acquisitions (within the meaning of section 316 of the Companies Law) of ordinary shares in the capital of the Company ('ordinary shares'), provided that: a. the maximum number of ordinary shares hereby authorised to be purchased shall be 14.99% of the issued ordinary shares on the date on which this resolution is passed; b. the minimum price which may be paid for an ordinary share shall be £0.01; c. the maximum price (exclusive of expenses) which may be paid for an ordinary share shall be the higher of (i) 105% of the average of the mid-market value of the ordinary shares for the five business days immediately preceding the date of the purchase; and (ii) that stipulated by the regulatory technical standards adopted by the European Union pursuant to the Market Abuse Regulation; d. such authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2020 unless such authority is varied, revoked or renewed prior to such date by ordinary resolution of the Company in general meeting; and e. the Company may make a contract to purchase ordinary shares under such authority prior to its expiry which will or may be executed wholly or partly after its expiration and the Company may make a purchase of ordinary shares pursuant to any such contract.
Special Resolution 2	12. That the Directors of the Company be and are hereby empowered to allot ordinary shares of the Company for cash as if the pre-emption provisions contained under Article 13 of the Articles of Incorporation did not apply to any such allotments and to sell ordinary shares which are held by the Company in treasury for cash on a non-pre-emptive basis provided that this power shall be limited to the allotment and sales of ordinary shares: a. up to such number of ordinary shares as is equal to 10% of the ordinary shares in issue (including treasury shares) on the date on which this resolution is passed; b. at a price of not less than the net asset value per share as close as practicable to the allotment or sale; provided that such power shall expire on the earlier of the conclusion of the Annual General Meeting of the Company to be held in 2020 or on the expiry of 15 months from the passing of this Special Resolution, except that the Company may before such expiry make offers or agreements which would or might require ordinary shares to be allotted or sold after such expiry and notwithstanding such expiry the Directors may allot or sell ordinary shares in pursuance of such offers or agreements as if the power conferred hereby had not expired.

Close of Meeting.

By Order of the Board

For and on behalf of
Northern Trust International Fund Administration Services (Guernsey) Limited
Secretary
20 May 2019

Notes

1 To be passed, an Ordinary Resolution requires a simple majority of the votes cast by those shareholders voting in person or by proxy at the AGM (excluding any votes which are withheld) to be voted in favour of the resolution.

2 To be passed, a Special Resolution requires a majority of at least 75% of the votes cast by those shareholders voting in person or by proxy at the AGM (excluding any votes which are withheld) to be voted in favour of the resolution.

3 A member who is entitled to attend and vote at the meeting is entitled to appoint one or more proxies to exercise all or any of their rights to attend and, on a poll, speak or vote instead of him or her. A proxy need not be a member of the Company. More than one proxy may be appointed provided that each proxy is appointed to exercise the rights attached to different shares held by the member.

4 A form of proxy is enclosed for use at the meeting. The form of proxy should be completed and sent, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, so as to reach the Company's Registrars, Computershare Investor Services (Guernsey) Limited, at The Pavilions, Bridgwater Road, Bristol, BS99 6ZY at least 48 hours before the time of the AGM (excluding any part of a day that is not a working day).

5 Completing and returning a form of proxy will not prevent a member from attending in person at the meeting and voting should he or she so wish.

6 To have the right to attend and vote at the meeting (and also for the purpose of calculating how many votes a member may cast on a poll) a member must have his or her name entered on the register of members not later than 48 hours before the time of the AGM.

7 Pursuant to Article 41 of the Uncertificated Securities (Guernsey) Regulations 2009, entitlement to attend and vote at the meeting and the number of votes which may be cast thereat will be determined by reference to the register of members of the Company at close of business on 16 September 2019. Changes to entries in the register of members of the Company after that time shall be disregarded in determining the rights of any member to attend and vote at such meeting.

Corporate Information

Registered address
PO Box 255
Trafalgar Court
Les Banques
St. Peter Port
Guernsey GY1 3QL

Directors (all Non-Executive)
Lorraine Baldry (Chairman)
Stephen Bligh
Alastair Hughes
Graham Basham

Investment Manager and Accounting Agent
Schroder Real Estate Investment Management Limited
1 London Wall Place
London
EC2Y 5AU

Secretary and Administrator
Northern Trust International Fund Administration Services (Guernsey) Limited
PO Box 255
Trafalgar Court
Les Banques
St. Peter Port
Guernsey GY1 3QL

Depositary
Northern Trust (Guernsey) Limited
PO Box 255
Trafalgar Court
Les Banques
St. Peter Port
Guernsey GY1 3QL

Solicitors to the Company
as to English Law:
Stephenson Harwood LLP
1 Finsbury Circus
London
EC2M 7SH

as to Guernsey Law:
Mourant Ozannes
Royal Chambers
St. Julian's Avenue
St. Peter Port
Guernsey GY1 4HP

FATCA GIIN
5BM7YG.99999.SL.831

Independent Auditor
KPMG Channel Islands Limited
Glategny Court
Glategny Esplanade
St. Peter Port
Guernsey GY1 1WR

Property valuer
Knight Frank LLP
55 Baker Street
London
W1U 8AN

Joint sponsor and brokers
J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London
E14 5JP

Numis Securities Limited
10 Paternoster Square
London
EC4M 7LT

Tax Advisers
Deloitte LLP
2 New Street Square
London
EC4A 3BZ

Receiving Agent and UK Transfer/Paying Agent
Computershare Investor Services (Guernsey) Limited
Queensway House
Hilgrove Street
St. Helier
Jersey
JE1 1ES

The Company's privacy notice is available on its webpage.

MIX
Paper from
responsible sources
FSC
www.fsc.org

Designed and produced by emperor
Visit us at emperor.works

Schroders

Schroder Real Estate Investment Manager Limited
1 London Wall Place, London EC2Y 5AU, United Kingdom
Tel: +44 (0)20 7658 6000

schroders.com

@schroders

Schroder Real Estate Investment Trust Limited Annual Report and Consolidated Financial Statements for the year ended 31 March 2019