Schroders

Schroder Real Estate Investment Trust Limited

Annual Report and Consolidated Financial Statements

For the year ended 31 March 2020

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 Investment Schemes Rules 2008.

Objective

The Company aims to provide shareholders with an attractive level of income and the potential for income and capital growth as a result of its investments in, and active management of, a diversified portfolio of UK commercial real estate.

The Company's dividend policy is to pay a sustainable level of distributions to shareholders. However, in light of the ongoing market uncertainty in relation to the Covid-19 pandemic, the Board announced on 6 April 2020 its intention to postpone the dividend payment due to be paid in June 2020. Whilst the Board recognises the importance of dividends to shareholders, in the current circumstances, it feels that it is in the best interests of shareholders to not continue with this payment at this time. This will be reviewed as clarity improves around the economic backdrop. The Board's intention would be to pay the postponed dividend in part or whole at a later stage and a further announcement will be made in due course. It is intended that successful execution of the Company's strategy will enable a progressive dividend policy to be adopted over the longer term.

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

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

Investment strategy

Our strategy is to own and actively manage a portfolio of properties located in the UK's Winning Cities and Regions. These locations are benefiting from higher economic growth resulting from structural changes such as urbanisation, rapid changes and growth of technology, changing demographics and social as well as positive impact themes. These locations have diversified local economies, sustainable occupational demand and favourable supply and demand characteristics. These properties offer good long-term fundamentals in terms of location and specification and are let at affordable rents, with the potential for income and capital growth due to good stock selection and asset management. We aim to grow income and enhance shareholder returns by capturing stronger economics in these location by active management.

Covid-19

The Covid-19 pandemic is an unprecedented event for the modern global economy that has increased the risks associated with delivering the Company's strategy. The pandemic is leading to market uncertainty and volatility as well as uncertainty over rental income generated by the portfolio. This has required an immediate focus on rent collection, reducing risk and implementing new property management procedures to ensure tenants can return safely to our buildings.

The Company made significant progress during the reporting period in delivering on its stated strategy, reducing the quantum and cost of its debt, completing several disposals of more mature assets at profitable levels and further focusing on robust net operating income in expectation of a market slowdown. These steps, which also improved the Company's defensive qualities and increased cash reserves, were driven by our concerns around weakening economic conditions in 2019 caused by political uncertainty and the late stage in the real estate market cycle. The period since 31 March 2020 has been characterised by the extraordinary effects of the Covid-19 pandemic on both the real estate and wider economic landscape, which will likely be felt for some time. However, as a result of the action taken by the Company, it is extremely well placed to mitigate a period of market volatility.

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Highlights over the year to 31 March 2020

Highlights

Disposals completed since January 2019

£95m

Saving per annum from £129.6m refinancing

£2.5m p.a.

Total return outperformance vs the MSCI/IPD Benchmark over 1 and 3 years

1.7% p.a.

NAV total return, adjusted for the refinancing costs, for year to March 2020

-1.5%

Portfolio located in Winning Cities and Regions

82%

Portfolio weighted to the office and industrial sectors

68%

Loan to Value ('LTV'), net of all cash[5]

23.7%

- £95 million of disposals completed since January 2019 at an average net initial yield of 3.0%
- Refinancing of £129.6 million term loan with Canada Life resulting in an annual interest saving of £2.5 million[1] per annum, with term extended to 13 and 20 years
- Sustained real estate total return outperformance of 1.7% versus the MSCI/IPD Benchmark Index total return over the past 12 months, 1.7% p.a. over the past three years and 1.0% p.a. since IPO in July 2004[2]
- Net asset value ('NAV') total return, adjusted for the refinancing costs, of -1.5%[5] for the year to March 2020[3]
- 82% of the portfolio located in Winning Cities and Regions[4]
- 68% of the portfolio weighted to the office and industrial sectors, with a below Benchmark retail weighting and no shopping centres
- Loan to Value[5] ('LTV'), net of all cash, at 23.7%

1 Post the payment of a £25.8 million break fee and write off of £1.6 million of unamortised loan costs.
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 Excluding one-off refinancing costs related to the Canada Life loan in 2020 of £27.4 million.
4 Winning Cities and Regions defined as higher growth locations – Source: Oxford Economics/Schroders.
5 This is an APM, please see page 77 for details.

Highlights over the year to 31 March 2020 continued

Strategic

Net asset value ('NAV') total return, adjusted for the refinancing cost[1]

-1.5%

(2019: 4.5%)

Dividend cover[1]

90%

(2019: 114%)

1 This is an APM, please see page 77 for details.

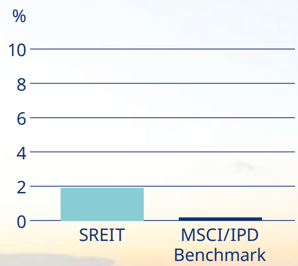
Performance

Portfolio total return[1]

1 year

1.9%

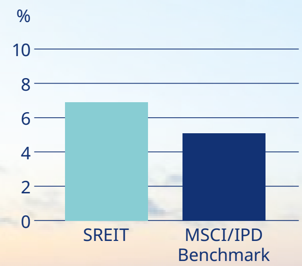
(Benchmark: 0.2%)



3 years

6.9%

(Benchmark: 5.1%)

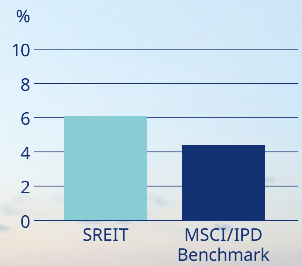


Portfolio income return[1]

1 year

6.1%

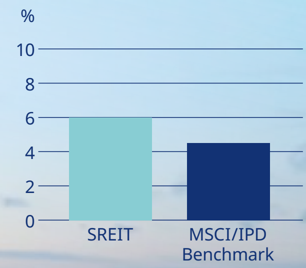
(Benchmark: 4.4%)



3 years

6.0%

(Benchmark: 4.5%)

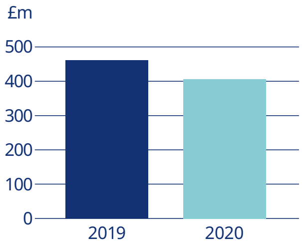


Financial

Value of property assets and joint ventures[2]

£406.2m

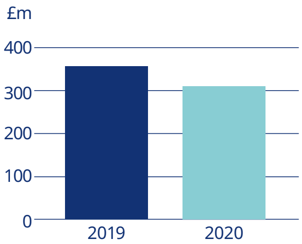
(2019: £460.6m)



Net asset value

£309.8m

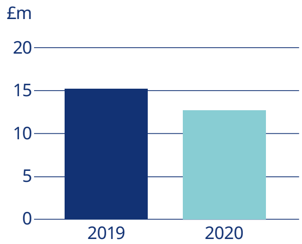
(2019: £356.4m)



Underlying earnings[3]

£12.7m

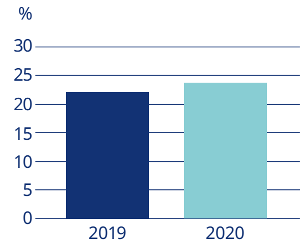
(2019: £15.2m)



Loan to Value, net of all cash

23.7%

(2019: 22.1%)



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 Reconciles to valuation reports from Knight Frank for the portfolio and BNP for the joint ventures. Does not include any IFRS adjustment for lease incentives nor the fair value of leasehold adjustments.
3 Adjusted EPRA earnings, please see page 74.

Portfolio Overview – At a Glance

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

Sector weightings

Offices (39.6%) (2019: 36.1%)

The Company is overweight in offices compared with the MSCI/IPD Benchmark. The focus is on buildings with good fundamentals in terms of location and specification in those Winning Cities and Regions that are attractive to a diverse occupier base. The largest office investments are in Bloomsbury (Central London), Manchester, Edinburgh and Uxbridge (North West London). The Company has no exposure to the City of London or Docklands offices.

Industrial (28.6%) (2019: 31.8%)

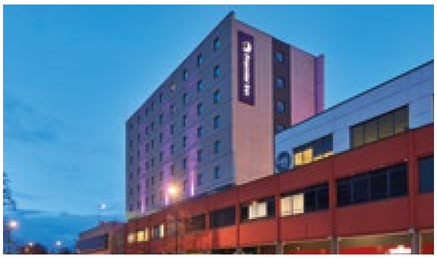
The Company owns a range of industrial warehouses, the largest being multi-let estates including Milton Keynes and Leeds, which are positively impacted by structural trends and where there are significant asset management opportunities to capture rental growth.

Retail (24.6%) (2019: 25.3%)

Retail single use – 18.1% (2019: 19.6%)
Retail part of mixed-use – 6.5% (2019: 5.7%)

The retail assets in the portfolio are predominantly well-managed retail warehouses and convenience retail mostly part of investments which have multiple uses such as offices and hotels, let at sustainable rents and which benefit from trends including 'click and collect'. The Company does not own any shopping centres.

Other (7.2%) (2019: 6.8%)



Other sectors include hotels and leisure properties. At present, the apportioned value of the 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 by value (£m/% of portfolio)

The top ten properties, including the share of the joint venture properties at City Tower in Manchester and Store Street in Bloomsbury, are set out below and comprise 65% of the portfolio value:

Property	Value (£m)[1]
1 Manchester, City Tower (25% share)	40.9 (10.1%)
2 Milton Keynes, Stacey Bushes Industrial Estate	39.4 (9.7%)
3 London, Store Street, Bloomsbury (50% share)	37.0 (9.1%)
4 Leeds, Millshaw Industrial Estate	34.6 (8.5%)
5 Bedford, St John's Retail Park	28.8 (7.1%)
6 Leeds, Headingley Central	27.0 (6.7%)
7 Uxbridge, 106 Oxford Road	17.6 (4.3%)
8 Norwich, Union Park Industrial Estate	17.3 (4.2%)
9 Edinburgh, The Tun	11.0 (2.7%)
10 Luton, The Galaxy	10.5 (2.6%)

Number of properties

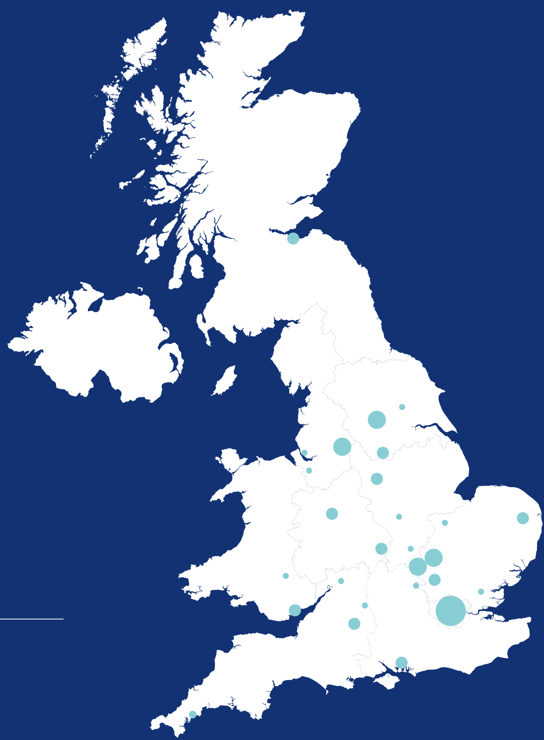
39

Valued at[1]

£264.1m

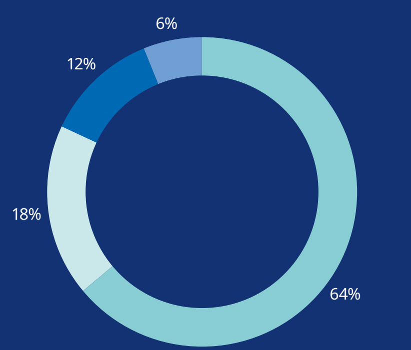
82%

of the portfolio by value located in higher growth locations

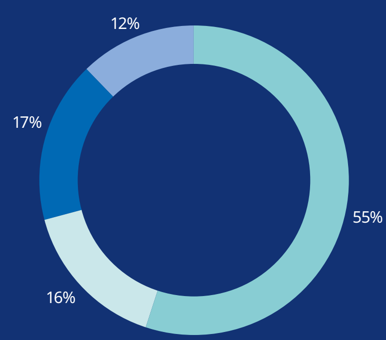


1 As per third party valuation reports unadjusted for IFRS lease incentive amounts.

SREIT[2]



% of UK GDP



Fastest growing centres
Third quartile
Second quartile
Slowest growing centres

2 Source: Oxford Economics, Schroders March 2020.

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 changes (mega themes) which are evident across the economy and real estate markets.

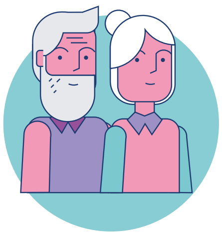
The portfolio is managed in accordance with an investment philosophy centred on consistent principles which are to invest in strong asset fundamentals and to actively manage assets in order to enhance value.

Mega themes

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

1. Urbanisation

40 mega cities by 2030 as 6 million people move to a town or city every month and by 2050 75% of the world is expected to live in cities.



2. Demographics

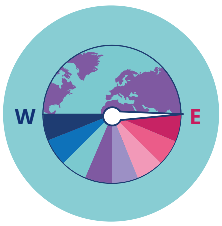
An extra billion people by 2030 as life expectancy increases.

3. Technology

90% of data that exists was created in the last two years and data volumes set to grow tenfold by 2025 with 80 billion connected devices.

4. Resources and infrastructure

Global demand for energy and food will increase by 20-40% over the next 20 years.



5. Emerging markets

China will be the biggest economy in 2030 and the 'E7'[1] will overtake the 'G7'[2].

6. Impact Investment

Positively impacting the environment and society with the potential to benefit investment returns.

1 'E7' are the 'Emerging 7' economies China, India, Brazil, Mexico, Russia, Indonesia and Turkey.
2 'G7' are the 'Group of 7' advanced economies Canada, France, Germany, Italy, Japan, the United Kingdom and the United States.

High-quality research

Research is focused on cyclical and structural trends in order to determine market strategy and exploit mispricing. 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, 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 2019 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 service and TMT hubs and value add manufacturing.

Infrastructure improvements

Transport, distribution, energy and technology.

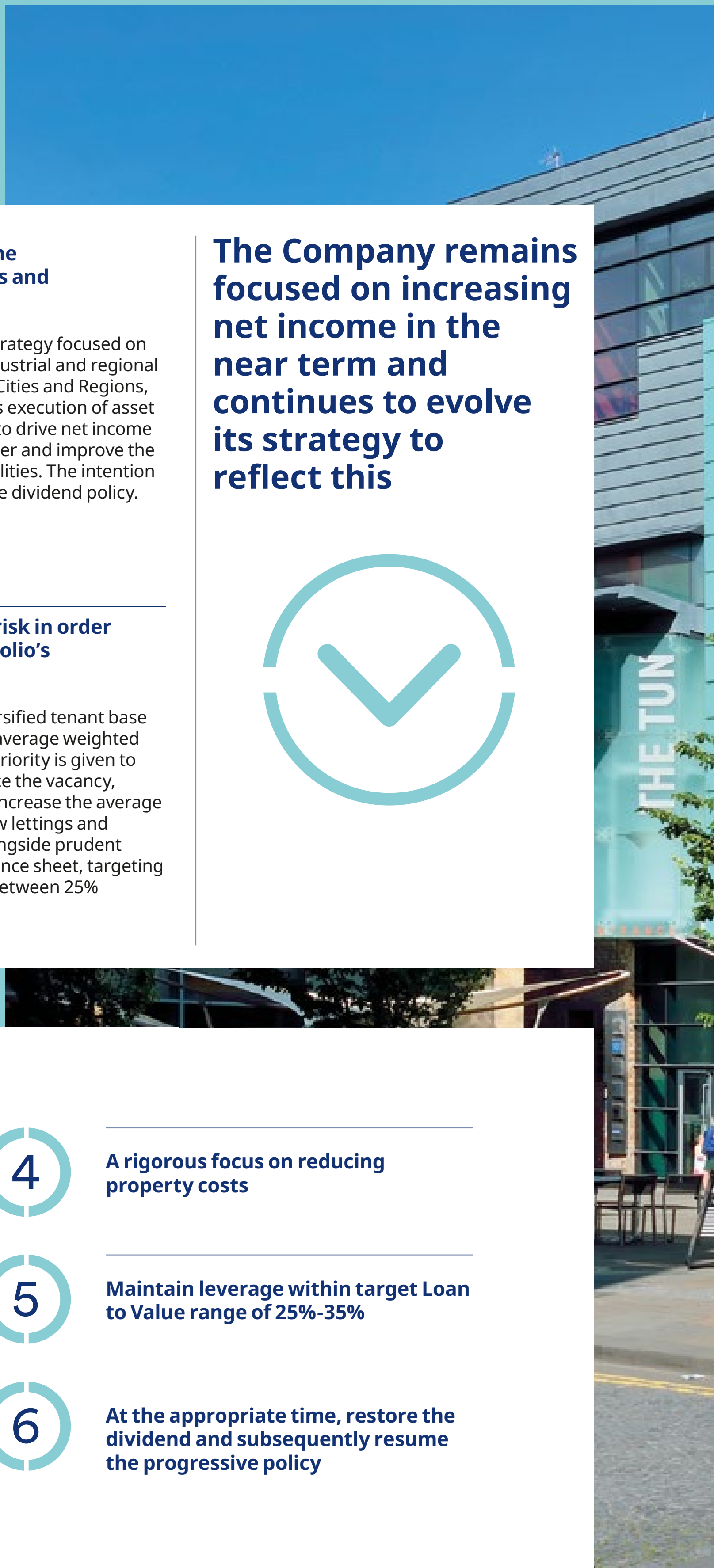
Employment growth

High value new jobs, wealth effect and population growth.

Environment

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

Our Strategic Objectives



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

The strategy focuses on Winning Cities and Regions which offer a competitive advantage in terms of higher levels of GDP per capita, 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 tenant base of 311 occupiers and an average weighted lease term of 5.6 years. Priority is given to continue efforts to reduce the vacancy, improve covenants and increase the average lease length through new lettings and lease restructurings, alongside prudent management of our balance sheet, targeting a Loan to Value ratio of between 25% and 35%.

The Company remains focused on increasing net income in the near term and continues to evolve its strategy to reflect this

The key strategic steps are:

1. **Manage the portfolio, working closely with our occupiers, to mitigate the impact of the Covid-19 pandemic**
2. **Delivery of asset management activity to grow net income and the portfolio's defensive qualities**
3. **Reinvest capital to grow net income and capitalise on an expected market correction**
4. **A rigorous focus on reducing property costs**
5. **Maintain leverage within target Loan to Value range of 25%-35%**
6. **At the appropriate time, restore the dividend and subsequently resume the progressive policy**


Hemma
Hemma

Performance Summary

Property performance

	31 March 2020	31 March 2019
Value of property assets and joint venture assets[1]	£406.2m	£460.6m[2]
Annualised rental income[3]	£24.9m	£27.0m
Estimated open market rental value[4]	£29.5m	£32.9m
Underlying portfolio total return	1.9%	7.2%
MSCI/IPD Benchmark total return[5]	0.2%	5.2%
Underlying portfolio income return	6.1%	5.5%
MSCI/IPD Benchmark income return	4.4%	4.6%

Financial summary

	31 March 2020	31 March 2019
Net asset value ('NAV')	£309.8m	£356.4m
NAV per ordinary share	59.7p	68.7p
EPRA NAV[6]	£309.8m	£356.4m
(Loss)/profit for the year	(£32.5m)	£15.9m
EPRA earnings[7]	£12.7m	£15.2m
Dividend cover[8]	90%	114%

Capital values

	31 March 2020	31 March 2019
Share price	38.9p	55.4p
Share price discount to NAV	(34.8%)	(19.4%)
NAV total return[9]	(1.5%)	4.5%
FTSE All-Share Index	3,107.42	3,978.28
FTSE EPRA/NAREIT UK Real Estate Index	1,402.39	1,710.33

1 Reconciles to the valuation reports from Knight Frank for the direct portfolio and BNP for the joint ventures. Does not include any IFRS adjustments for lease incentives nor the fair value of the leasehold adjustment for The Galaxy, Luton.
2 Includes transactions which had unconditionally exchanged, but which had not completed, prior to year end.
3 Represents the annualised contracted income as at 31 March 2020 of the portfolio, including rents from joint venture assets.
4 Represents the ERV of the portfolio as estimated by the valuers, including rents for the joint venture assets.
5 Source: MSCI Quarterly Version of Balanced Monthly Index Funds including joint venture investments on a like-for-like basis as at 31 March 2020.
6 This is an Alternative Performance Measure ('APM'). EPRA calculations are included in the EPRA Performance measures section on page 74.
7 This is an APM. EPRA calculations are included in the EPRA Performance measures section on page 74.
8 This is an APM. Details are included in the APM section on page 77.
9 This is an APM. Details are included in the APM section on page 77. This represents NAV total return excluding one-off refinancing costs of £27.4 million. NAV total return including finance costs of -9.4%.

Earnings and dividends

	31 March 2020	31 March 2019
EPRA earnings[1] (pps)	2.5	2.9
Dividends paid (pps)	2.72	2.53
Annualised dividend yield on 31 March share price	7.0%	4.6%

Bank borrowings

	31 March 2020	31 March 2019
On-balance sheet borrowings[2]	£129.6m	£158.6m
Loan to Value ratio ('LTV'), net of all cash[3]	23.7%	22.1%

Ongoing charges

	31 March 2020	31 March 2019
Ongoing charges (including fund and property expenses)[3]	2.3%	2.2%
Ongoing charges (including fund only expenses)[4]	1.4%	1.1%

1 This is an APM. EPRA calculations are included in the EPRA Performance measures section on page 74.
2 On balance sheet borrowings reflects the loan facilities with Canada Life and RBS without the deduction of unamortised finance costs of £0.8 million.
3 This is an APM. Details are included in the APM section on page 77.
4 This is an APM. Details are included in the APM section on page 77. The 2019 figure of 1.1% includes a VAT rebate on management fees.

Chairman's Statement

The long-term strategic objectives remain unchanged

Focused on maintaining balance sheet discipline, sustainably growing net income and reinstating the dividend with a progressive policy.

Lorraine Baldry
Chairman

Overview
The Company made progress over the financial year to 31 March 2020 executing its strategic objectives of growing net income, whilst also crystallising profits from disposals and mitigating risk due to political uncertainty and the late stage of the real estate market cycle.

The weaker sentiment of 2019, caused by slower economic growth and political uncertainty, was improved by the UK general election result, but this has now been overshadowed by the Covid-19 pandemic. This has led to a sharp economic downturn and global market volatility. The immediate impact on the real estate market is a reduction in liquidity and transactions, resulting in independent valuers invoking Market Uncertainty clauses across the sector.

The key issue for the real estate market is the extent to which the period of lockdown, and the subsequent mitigation period, affects the real economy and consequently the security of the Company's underlying rental income streams. Our initial response to the pandemic has therefore been on rent collection, reducing risk and implementing new property management procedures to ensure tenants can return safely to our buildings. This is explored further in the Investment Manager's report.

Whilst our portfolio is being materially impacted by Covid-19, the strategy implemented during the past few years, and which was accelerated during the most recent reporting period, means we are better placed to weather this impact, with good quality investments offering significant asset management upside, a focus in the most robust locations, and lower and more affordable long term-debt facilities.

In total £45 million of assets were sold during the financial year following a similar volume in the prior period. The disposal prices reflected a premium of 15% above the previous valuation and net of capital expenditure. This activity means since January 2019 a total of £95 million worth of disposals were achieved at an average net initial yield of 3.0%. The refinancing on 15 October 2019 reduced the Company's cost of debt by £2.5 million per annum and capitalised on historically low long-term interest rates. These actions have positioned the Company well, with high levels of cash, a long-term debt maturity profile, low leverage and reduced interest costs.

This activity resulted in a net asset value ('NAV') as at 31 March 2020 of £309.8 million or 59.7 pence per share ('pps') which compared with the NAV at the start of the year of £356.4 million. The NAV was impacted by one-off debt breakage and related costs linked to the refinancing of £27.4 million. The refinancing enabled the annualised dividend to be increased by 19% with total dividends paid for the year of £14.1 million. This resulted in a NAV total return of -9.4%, or -1.5% ignoring the one-off refinancing costs. The underlying property portfolio continues to deliver strong relative performance compared with its peer group, with an underlying portfolio total return of 1.9% for the financial year compared with the MSCI/IPD Benchmark Index of 0.2%. The portfolio is now ranked on the 15th percentile of the Index over the 16 years since launch in 2004.

Strategy

The Company has a clear and disciplined investment strategy focused on growing net income, reducing risk through portfolio diversification and increasing exposure to those Winning Cities and Regions which are expected to generate higher levels of economic growth. These Winning Cities and Regions have already resulted in better portfolio returns at a real estate level as the portfolio benefits from long-term structural trends such as demographic change, urbanisation and the development of new technologies.

The Company's diversified portfolio consists of 39 assets with 311 tenants and a focus on regional offices in Winning Cities and multi-let industrial warehousing. The Company's income is diverse, with its largest tenant only representing 6.1% of the contracted rental income.

The Covid-19 pandemic means the current focus is on the safety and wellbeing of our tenants, suppliers and other stakeholders, while protecting shareholders' long-term interests. Rent collection at 2 June was 74%, and whilst rental collection rates are being adversely impacted, the Manager is adopting a proactive approach to working with tenants to help manage their cash flows. The Company is able to draw on access to a 19 strong team of property professionals with deep sub-market and local occupier intelligence, which allows us to be forensic in our approach to asset management and is proving especially invaluable as we are focused on individual tenant engagement.

Any longer-term impact on the Company should also be mitigated by the diversified and granular nature of the portfolio and our overweight position to regional offices and our strong industrial exposure, two sectors which we believe will be more resilient in the coming months. For example, our regional offices are well catered with parking facilities which will be important for occupiers to travel safely to our premises. The portfolio in turn benefits from a lower exposure to parts of the economy most impacted by the Covid-19 pandemic, such as retail, hospitality, leisure and travel.

Dividend

As announced in April 2020, the Board took the step to postpone the dividend payment originally due to be paid in June 2020. Whilst the Board recognises the importance of dividends to shareholders and that the Company is well capitalised, in the current circumstances, we feel that it is not appropriate to continue this payment at this time. This will be reviewed as clarity improves around the economic backdrop in light of ongoing developments surrounding Covid-19. The Board's intention would be to pay the postponed dividend, either in part or in whole, at a later stage. A further announcement will be made in due course once market uncertainty is reduced and there is greater clarity.

Debt

The Company has two loan facilities, a £129.6 million term loan with Canada Life and a £52.5 million revolving credit facility ('RCF') with Royal Bank of Scotland International ('RBSI'). Following the refinancing, these facilities provide a low cost of debt and a blend of maturities from 2023, 2032 and 2039, reducing the Company's refinancing risk. In addition to the properties secured against the Canada Life and RBSI loan facilities, the Company has unsecured properties with a value of £38.2 million and current cash of approximately £85 million. This results in a Loan to Value ratio, net of cash, of 23.7%. During this period of volatility our low leverage is an advantage and the Board will seek to maintain our net LTV within our long-term borrowing guideline of 25% to 35%.

Responsible and Impact Investment

Responsible and Impact Investment is a priority and it is pleasing that the Company's work has again been recognised with the achievement of a three Green Star rating in the annual Global Real Estate Sustainability Benchmark ('GRESB') survey. The Company also achieved an EPRA Best Practice Sustainability Reporting Gold Award for the year-end accounts. This will continue to be a priority for the Board and the Manager.

Outlook

Whilst the outlook for the UK real estate market in light of the Covid-19 pandemic is uncertain, the Company has a strong balance sheet with a net Loan to Value of 23.7%. We expect capital values and rental income to fall in 2020. However, the quality of the portfolio, embedded asset management potential and above average income return will mitigate this risk. Most importantly, the cash realised from disposals means that the Company has both a significant buffer to protect it in the event a portion of rental income is deferred for several months, as well as the capacity to reinvest in the existing portfolio to improve returns and actively seek to selectively capitalise on future attractive lower prices in real estate investments.

The long-term strategic objectives therefore remain to maintain balance sheet discipline, sustainably grow net income and reinstate the dividend with a progressive policy. We are anticipating a challenging market environment during the current financial year due to the Covid-19 pandemic, but one that should also provide opportunities for well placed companies such as Schroder Real Estate Investment Trust.

Lorraine Baldry
Chairman
Schroder Real Estate Investment Trust Limited

8 June 2020

Investment Manager's Review

Key initiatives completed in the year to March 2020

The Company took significant strategic steps to reduce debt and its cost, completed several disposals at profitable levels and focused on robust net operating income. These steps have materially improved the Company's competitive position and outlook.

Duncan Owen
Investment Manager

Investment Manager's report
As Manager, significant progress has been made during the reporting period in delivering on the stated strategy. We reduced the quantum and cost of debt, completed several disposals at profitable levels and further focused on net operating income in expectation of a market slowdown. These steps improved the Company's defensive qualities and increased cash reserves. The actions were driven by our concerns around weakening economic conditions in 2019 caused by political uncertainty and the late stage in the real estate market cycle. The period since 31 March 2020 has been characterised by the extraordinary effects of the Covid-19 pandemic on both the real estate and wider economic landscape, which will likely be felt for some time. Following the above actions, the Company is extremely well placed to mitigate a period of market volatility.

The Company's net asset value ('NAV') as at 31 March 2020 was £309.8 million or 59.7 pence per share ('pps'). The Company's refinancing during the year incurred costs of £27.4 million. The refinancing generated an immediate cash interest saving of £2.5 million per annum which was passed on to shareholders through a 19% dividend increase in the interim dividend paid in March. A detailed analysis of the NAV is set out below:

	£m	pps
NAV as at 31 March 2019	**356.4**	**68.7**
Unrealised change in valuation of direct real estate portfolio and joint ventures	(13.2)	(2.6)
Capital expenditure	(6.5)	(1.3)
Realised gains on disposals	1.9	0.4
Net revenue	12.7[1]	2.5
Dividends paid	(14.1)	(2.7)
Pro forma NAV as at 31 March 2020 before refinancing costs	**337.2**	**65.0**
Refinancing costs	(27.4)	(5.3)
NAV as at 31 March 2020	**309.8**	**59.7**

The underlying portfolio, including joint ventures, decreased in value by -3.7% excluding capital expenditure over the 12 months to March 2020. Adjusting for capital expenditure and profitable disposals, the value changed by -3.8% and the total return from the underlying portfolio including rental income was 1.9%. This compared with the MSCI Benchmark of -4.1% and 0.2% respectively on a like-for-like basis. The independent valuations of the portfolio at the year end include an industry-standard statement highlighting Material Valuation Uncertainty as a result of the Covid-19 pandemic.

1 Net revenue is equal to EPRA earnings as per reconciliation on page 74.

Net revenue for the year totalled £12.7 million, or 2.5 pps, which was 16% below the previous financial year due to disposals. During the year dividends totalling £14.1 million were paid, which comprised three interim dividends of £3.4 million, or 0.65 pps, and a fourth, increased, interim dividend of £4.0 million or 0.7715 pps. This reflected dividend cover of 90% with significant cash reserves held pending reinvestment. The uncovered dividend level is because of disposals and reinvestment of the sales proceeds would provide excess cover.

The NAV of 59.7 pps reflects a like-for-like decrease, excluding the refinancing costs of -1.5%, compared with the NAV as at 31 March 2019. Including the one-off refinancing costs of £27.4 million, the NAV total return was -9.4%. The refinancing has provided cost savings with reduced annual bank interest charges of £2.5 million and an increased average loan term of 16 years.

Covid-19

The Covid-19 pandemic is the first time in living history that the world has faced a Global Health Crisis and so we do not know what will be the outcome. What we can see, however, is that the pandemic has led to horrendous economic data and as a consequence valuation uncertainty across the sector. It is also leading to rent deferrals and reductions in some instances. This has required an immediate focus on rent collection, reducing risk and implementing new property management procedures to ensure tenants can return safely to our buildings. As mentioned above, the actions taken in 2019 have meant the Company is in a particularly robust position to weather this storm and ultimately take advantage, however, it will affect performance during the intervening period.

At a macro level, Covid-19 is accelerating a number of the long-term structural changes that have already been identified in the Company's strategy and which will affect demand for real estate.

Increased demand for new technologies, and buildings which can accommodate these to enable more agile working, will generate higher value. This means that knowledge based economies should continue capturing more demand. These clusters should also benefit from public and private investment in health tech and life sciences. Businesses in these sectors competing for talent will demand high quality buildings that are adaptable and promote good health and wellbeing.

Other impacts such as the slowing pace of globalisation, particularly in relation to a more localised manufacturing sector, with supply chain diversification, could create greater demand for industrial space in locations capturing this new investment. In contrast, these trends and greater focus on climate change will lead to reduced demand for airfreight and reduced air travel more generally.

Finally, Covid-19 is changing social attitudes and consumer behaviour, with greater recognition of key workers and increased awareness of inequality. This will lead to changing patterns of consumption which will, for example, adversely impact retail models built on fast fashion, and boost demand for products that can appeal to both millennials and boomers. This could hasten even more the demise of physical retail that does not offer either hyper-convenience or a more fulfilling experience.

Strategy

The strategy over the year 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;
- Active management to continue to improve the defensive nature of the portfolio given the late stage of the real estate market cycle;
- Delivering sustainable net income growth;
- The profitable realisation of assets to crystallise gains following completion of asset management initiatives; and
- A disciplined approach to leverage, actively managing both cost and taking advantage of operational flexibility provided by the 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 1.9% compared with the MSCI Benchmark of 0.2%. The underlying portfolio has now outperformed over one, three, five and ten years and since the Company's IPO in 2004;
- Overweight exposure to high quality regional offices and multi-let industrial estates in higher growth cities and towns. Low retail exposure and no shopping centres;
- Diversified portfolio of 39 assets with 311 tenants. The Company's income is diverse and its largest tenant represents 6.1% of the contracted rental income;
- Portfolio level income return of 5.7% and reversionary income yield of 7.3%[1] reflecting the higher open market rental value of the portfolio. This is compared with 4.8% and 5.3% for the MSCI/IPD Benchmark respectively. The higher reversion should lead to stronger relative returns in a lower growth environment;
- 77 new lettings, rent reviews and renewals completed during the financial year totalling £6.5 million in annualised rental income and generating an additional £1.4 million of rent above the previous level;
- £95 million of disposals completed since the start of 2019, at a blended net initial yield of 3.0%, crystallising gains significantly above valuation following asset management;
- £129.6 million of debt refinanced in October 2019, which included the payment of a break fee and costs of £27.4 million, generating an immediate saving of £2.5 million per annum with improved covenant terms and a weighted term of 16.5 years;
- Consolidated net Loan to Value of 23.7% with cash and undrawn debt totalling approximately £85 million providing valuable operational flexibility. The RCF loan has now been drawn, providing current cash of £84.6 million for reinvestment, capital expenditure and a robust liquidity for the Company.

The steps taken to improve the Company's defensive qualities and increase cash reserves were driven by weakening market conditions in 2019 caused by political uncertainty and the late stage in the real estate market cycle.

Whilst the current Covid-19 pandemic was unexpected, it has triggered significant market uncertainty. As Manager we had communicated to investors that we expected a market correction and as a consequence the Company is well placed with liquidity and flexibility. In contrast with the financial crisis of 2007 and 2009, which was driven by excess financial leverage, the Covid-19 pandemic represents an unprecedented shock across the real economy and multiple business sectors. This has led to many businesses experiencing cash flow difficulties. This has principally accelerated the rate of structural change already identified in our key 'mega themes', which has been most acutely seen in the retail sector, compounding the pre-existing challenges largely arising from changing consumer habits.

1 Like-for-like with MSCI i.e. ignoring standard acquisition costs.

Investment Manager's Review continued

The Company's diversified portfolio and low retail weighting, as well as our close understanding of our tenants' businesses, meant that approximately 74%[1] of rents were collected for the first quarter of the new financial year. This figure is expected to rise as we agree repayment schedules and alternative arrangements with tenants for the remainder of the quarter. As a responsible manager we are working constructively with tenants who are experiencing genuine financial challenges. In these circumstances we are agreeing repayment plans and other solutions such as extensions of leases. Some rents are also being paid monthly, rather than quarterly, to support tenants' cash flow.

Government legislation restricting a landlord's ability to pursue rental arrears means there is a risk that arrears rise further during 2020 and this is being closely monitored. Where possible we are supporting tenants through action such as managing down service budgets where buildings have lower occupancy levels.

In light of this market uncertainty, the fourth quarter dividend payment due to shareholders in June 2020 was postponed and will be reviewed as the economic situation becomes clearer.

Whilst reacting to the Covid-19 pandemic is therefore a key current focus, with even greater emphasis on improving the Company's defensive qualities, the Company's medium-term strategic objectives remain unchanged, which are to:

- Deliver asset management activity to grow net income and the portfolio's defensive qualities;
- Reinvest capital to grow net income and capitalise on expected market correction;
- Rigorously focus on reducing property and corporate costs;
- Maintain leverage within the target Loan to Value range of 25%-35%;
- Evolve strategy to respond to the longer-term structural changes arising from Covid-19;
- Have further incorporation of environmental, social and governance factors alongside traditional economic considerations underpinning the asset management and investment strategy; and
- At the appropriate time, reinstate the dividend and subsequently resume the progressive policy.

Market overview

The UK economy is in recession following the lockdown imposed by the Government to slow the spread of Covid-19 on 23 March 2020. Consumer spending and investment has fallen sharply as people stay at home and businesses conserve cash. The Bank of England has cut the base rate to 0.1% and the Government has announced a raft of state-guaranteed loans, grants, tax holidays, wage supplements and other measures designed to support people and businesses.

As noted above, the retail, leisure and travel sectors are most affected by the Covid-19 pandemic, with a number of mid-market retailers, department stores and leisure operators likely to fail. Supermarkets, convenience stores and bulky goods retail parks are more defensive assets than shopping centres and the Company's retail exposure is concentrated in these defensive areas. 18% of the portfolio comprises assets where retail is the dominant use, the largest of which are retail warehouses, including St John's Retail Park, Bedford where Lidl will shortly open a new 22,000 sq ft supermarket which will act as a strong anchor to the park. The remaining exposure comprises mixed-use assets where the retail use is ancillary, for example Lidl, M&S Food and Starbucks supporting the office use at City Tower in Manchester.

Covid-19 is increasing demand for warehouses to fulfil online orders and could encourage a shift to deglobalise the supply chains of key industries. The overall impact on the warehouse market may be modest; the majority of warehouses are occupied by manufacturers, non-food retailers, third party logistics operators and local small businesses and we expect overall demand in these areas to fall in 2020. However, there remains a low supply of multi-let industrial estates in urban locations which support last-mile delivery alongside a highly diversified occupier base. The Company's industrial exposure largely comprises multi-let estates in locations such as Leeds and Milton Keynes let at sustainable rents which are expected to continue delivering an attractive income return.

The office sector has been the least affected of the traditional sectors by the Covid-19 pandemic, reflected in high rental collection rates. Although most offices are not in use, many occupiers have operated effectively by staff working from home. The immediate risk for the sector is serviced offices where revenues have fallen and operators are failing. The Company has negligible exposure and is competing in some markets by offering fitted out space on flexible terms to generate higher levels of income. We expect office demand in some markets to recover quickly, led by the growing tech, legal and public sectors as the Government recruits more staff. We also expect growth in life sciences, partly in response to the Covid-19 pandemic, with research facilities established close to universities and other institutions. We expect London sub-markets such as Bloomsbury and dominant regional cities such as Manchester, where the Company has large assets, to benefit from these trends.

Investment volumes have fallen sharply given uncertainty and the practical impediments to completing due diligence. The lack of transactions, combined with uncertainty on rent collection, means that we expect real estate yields will now rise despite the low level of bond yields. The Company now has approximately £85 million in cash, which provides important operational flexibility to capitalise on future investment opportunities.

Real estate portfolio

As at 31 March 2020 the portfolio comprised 39 properties valued at £406.2 million. This includes the Company's share of joint venture properties at City Tower in Manchester and Store Street in Bloomsbury, London.

The portfolio produces a rental income of £24.9 million per annum, reflecting a net initial income yield of 5.7% which compares with the MSCI Benchmark (the 'Benchmark') at 4.8%. The portfolio also benefits from fixed contractual annual rental uplifts of £2.0 million in the next 24 months. The independent valuers' estimate that the current rental value of the portfolio is £29.5 million per annum, reflecting a reversionary income yield of 7.3%, which compares favourably with the Benchmark at 5.3%. The Company's void rate is 7.3% calculated as a percentage on estimated rental value, with a weighted average lease length to the earlier of lease expiry or break of 5.8 years.

1 Rents are collected quarterly in advance, any rents collected in March 2020 relate to the June 2020 quarter.

Since January 2019 the Company has completed disposals totalling £95 million at an average net initial yield of 3.0%. These disposals crystallised profits from asset management and supported performance. The table below sets out the £45 million of disposals that completed during the financial year to 31 March 2020 at a combined premium, net of capital expenditure, of 15%:

Completion date	Address	Use	March 2019 valuation (£m)	Net sale price (£m)
01-Oct-19	Edinburgh, Haston House	Office	5.5	6.5
08-Oct-19	Alfreton, Recticel Unit	Industrial	10.2	10.4
15-Nov-19	Acton, Allied Way Industrial Estate	Cash & Carry	17.2	18.9
22-Nov-19	Hinckley, Coventry Road	Land	2.0	2.2
12-Dec-19	Peterborough, Finmere Park	Industrial	3.8	7.0
	Total		**38.7**	**45.0**

The data table below summarises the portfolio information as at 31 March 2020.

	Weighting (% of portfolio)	
Sector weightings by value	SREIT	Benchmark
City	0.0	3.6
Mid-town and West End	9.1	7.4
Rest South East	7.4	8.6
Office Rest of UK	23.1	7.2
Offices	**39.6**	**26.8**
South Eastern	10.4	16.0
Industrial Rest of UK	18.2	9.3
Industrial	**28.6**	**25.3**
South East	0.7	9.1
Rest of UK	11.2	5.0
Shopping centres	0.0	4.1
Retail warehouse	12.7	10.1
Retail	**24.6**	**28.3**
Other	**7.2**	**19.6**

	Weighting (% of portfolio)	
Regional weightings by value	SREIT	Benchmark
Central London[1]	9.1	18.3
South East excluding Central London	20.6	36.6
Rest of South	8.6	14.2
Midlands and Wales	27.9	12.2
North and Scotland	33.8	18.5
Northern Ireland	0.0	0.2

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

Investment Manager's Review continued

The top ten properties, including the share of the joint venture properties at City Tower in Manchester and Store Street in Bloomsbury, are set out below and comprise 65% of the portfolio value:

	Top ten properties	Value (£m)	% of portfolio
1	Manchester, City Tower (25% share)	40.9	10.1
2	Milton Keynes, Stacey Bushes Industrial Estate	39.4	9.7
3	London, Store Street, Bloomsbury (50% share)	37.0	9.1
4	Leeds, Millshaw Industrial Estate	34.6	8.5
5	Bedford, St John's Retail Park	28.8	7.1
6	Leeds, Headingley Central	27.0	6.7
7	Uxbridge, 106 Oxford Road	17.6	4.3
8	Norwich, Union Park Industrial Estate	17.3	4.2
9	Edinburgh, The Tun	11.0	2.7
10	Luton, The Galaxy	10.5	2.6
	Total as at 31 March 2020	**264.1**	**65.0**

The Company's income is diverse with 311 tenants, of which the Company's largest and top ten tenants represent 6.1% and 27.5% of the portfolio as a percentage of annual rent respectively:

	Top ten tenants	Rent p.a. (£m)	% of portfolio
1	University of Law Limited	1.58	6.1
2	Buckinghamshire New University	1.15	4.5
3	Sportsdirect.com Retail Limited	0.72	2.8
4	The Secretary of State	0.72	2.8
5	Matalan Retail Limited	0.57	2.2
6	Express Bi Folding Doors Limited	0.53	2.0
7	TJX UK Limited T/A Homesense	0.51	2.0
8	Jupiter Hotels Limited T/A Mercure	0.46	1.8
9	Cineworld Cinema Properties Ltd	0.45	1.7
10	Premier Inn Hotels Ltd	0.42	1.6
	Total as at 31 March 2020	**7.11**	**27.5**

Portfolio performance
A high level of asset management has led to continued outperformance of the underlying property portfolio compared with the MSCI/IPD Benchmark. The table below shows the performance to 31 March 2020 with the portfolio ranked on the 15th percentile of the Benchmark since IPO in 2004:

	SREIT total return p.a. (%)			MSCI/IPD Benchmark total return p.a. (%)			Relative p.a. (%)		
Period to 31 March 2020	One year	Three years	Since IPO[1]	One year	Three years	Since IPO	One year	Three years	Since IPO
Office	3.4	7.0	8.1	3.3	5.9	7.6	0.1	1.1	0.4
Industrial	9.1	16.5	9.5	5.7	13.0	8.7	3.2	3.0	0.7
Retail	-7.7	-1.5	4.4	-8.4	-1.7	3.9	0.8	0.1	0.5
Other	-5.1	-0.9	2.9	3.2	7.0	7.8	-8.1	-7.4	-4.6
All sectors	**1.9**	**6.9**	**7.4**	**0.2**	**5.1**	**6.3**	**1.7**	**1.7**	**1.0**

1 The Company listed in July 2004.

Investment Manager's Review continued

Transactions and asset management

Industrial

Leeds, Millshaw Industrial Estate

Asset strategy

The strategy over the year was to refurbish units to drive a higher rental income return and explore the potential for change of use over the longer term and acquiring adjoining interests.

Asset overview and performance

463,400 sq ft multi-let industrial estate in a prominent location comprising 27 units strategically located south of Leeds city centre close to the M62 and M621 motorways. As at 31 March 2020, the asset was valued at £34.6 million, reflecting a net initial income yield of 5.1% and a reversionary yield of 6.3%. During the year to 31 March 2020, the property delivered an 11.4% total return comprising an income return of 5.7% and capital growth of 5.4%.

Key activity

- Completed ten lettings, renewals and rent reviews that will generate additional net rental income (on expiry of contracted rent-free periods) of £0.6 million per annum compared with the valuation as at March 2019
- Progressing change of use strategy with completion of the JD Sport Gyms unit that adds amenity to the estate. Working with the adjoining owner of the White Rose Office Park to promote a new station to service the location
- Combined activity generated rental value growth of 2.4% over the year compared with the average for UK property of -0.7% and average UK industrial of 1.4%

Industrial

Milton Keynes, Stacey Bushes Industrial Estate

Asset strategy

The strategy over the year was to consolidate the higher rental tone and grow net income alongside developing 15,500 sq ft of new warehouse space on an adjoining site on receipt of planning.

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 2020, the asset was valued at £39.4 million, reflecting a net initial income yield of 4.8% and a reversionary yield of 5.2%. During the year to 31 March 2020, the property delivered an 8.7% total return comprising an income return of 5.5% and capital growth of 3.1%.

Key activity

- Completed four lettings, renewals and rent reviews that will generate additional net rental income (on expiry of contracted rent-free periods) of approximately £70,000 per annum compared with the valuation as at March 2019
- Development of six new warehouse units totalling 15,500 sq ft ongoing and due to complete in September. Target rent when let of £185,000 or £12 per sq ft
- Combined activity generated rental value growth of 2.0% over the year compared with the average for UK property of -0.7% and average UK industrial of 2.6%

Office
Edinburgh, The Tun

Asset strategy
The strategy over the year was to capitalise on low supply in the Edinburgh office market and improve rents through new lettings, re-gears and rent reviews.

Asset overview and performance
The Tun is a multi-let office building in Edinburgh city centre, located close to the Royal Mile and Scottish Parliament. As at 31 March 2020, the asset was valued at £11 million, reflecting a net initial income yield of 6.3% and a reversionary yield of 6.9%. During the year to 31 March 2020, the property delivered a 5.3% total return comprising an income return of 6.3% and capital growth of -0.9%.

Key activity
- Completed new letting to AFG Media that will generate additional net rental income (on expiry of contracted rent-free periods) of approximately £61,000 per annum compared with the valuation as at March 2019
- Asset management activity has established a new headline rent for the building of £26 per sq ft compared with the valuation rental value upon acquisition in 2018 of £21 per sq ft. Negotiated terms to extend the lease with the largest tenant, the BBC, by five years in return for improvements being carried out to their space
- Combined activity generated rental value growth of 0.7% over the year compared with the average for UK property of -0.7% and average UK regional offices of 1.4%

Office
Cheltenham, The Promenade

Asset strategy
The strategy over the year was to re-gear tenants to improve the income profile of the property and capture rental reversion.

Asset overview and performance
The Promenade is a 32,500 sq ft multi-let office located in a prime location in Cheltenham town centre. As at 31 March 2020, the asset was valued at £9.0 million, reflecting a net initial income yield of 6.2% and a reversionary income yield of 7.0%. During the year to 31 March 2020, the property delivered a 15.2% total return comprising an income return of 5.9% and capital growth of 8.9%.

Key activity
- New ten-year lease completed with Higher Education Statistics Authority ('HESA') at a revised rent of £327,684 per annum with a break at year six in return for three months' rent free and landlord contribution to refurbishment
- HESA's new rent represents a 50% increase from the previous rent of £219,700 per annum and increased the average weighted lease term at the building by 2.3 years
- Focus remains on capturing rental growth from low supply in a strong regional town with healthy demand driven by GCHQ
- Combined activity generated rental value growth of 6.7% over the year compared with the average for UK property of -0.7% and average UK regional offices of 1.4%

Investment Manager's Review continued

Transactions and asset management

25% share
Manchester, City Tower

Asset strategy
The strategy over the year was to refurbish and re-let the vacant office space and continue repositioning the ground floor space to attract more complementary retail and leisure operators.

Asset overview and performance
City Tower comprises a 610,000 sq ft mixed-use office, convenience retail and hotel asset on a three-acre site in Manchester city centre. As at 31 March 2020, the Company's share of the asset was valued at £40.9 million, reflecting a net initial income yield of 5.4% and a reversionary yield of 7.1%. During the year to 31 March 2020 the property delivered a 0.9% total return comprising an income return of 6.0% and capital growth of -6.6%.

Key activity
- Completed 16 lettings, renewals and rent reviews that will generate additional net rental income (on expiry of contracted rent-free periods) of £0.3 million per annum compared with the valuation as at March 2019. New tenants include the London School of Commerce, Coalfire and Sheppard Robson
- New lettings and lease re-gears under negotiation for 34,000 sq ft of office space
- Improvements to ground floor retail and leisure with the letting to Lidl and Triple Two Coffee completing with a further three lettings under offer
- The key focus for 2020 is letting the vacant office space that comprises 22% of rental value with an average rental tone of £22 per sq ft. This compares with pre-Covid-19 prime Manchester city centre office rents of £37.50 per sq ft
- Works due to commence shortly to create a new cycle hub and shower facility to serve as an additional tenant amenity and attract prospective occupiers

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 2020, the asset was valued at £29.8 million, reflecting a net initial income yield of 4.0% and a reversionary yield of 6.3%. During the year to 31 March 2020, the property delivered a -7.7% total return comprising an income return of 5.2% and capital growth of -12.4%. This was a result of weak sentiment towards the sector.

Key activity
- Former Homebase being converted and extended to create the new Lidl and Home Bargains units. These tenants will pay a combined £525,265 per annum on new 15-year leases when the works are completed during the next three months. There was approximately £1.5 million of development cost remaining at the year end
- The lettings are significant as they will drive footfall and increase the asset's defensive qualities with an increase in the average unexpired lease term from 4.9 to 7.7 years and a stabilised valuation yield for the whole asset, net of the remaining capital expenditure, of 6.75%
- Other activity over the year to March 2020 included a new letting to Easy Bathrooms at the current rental value; extending the Curry's PC World lease to create a ten-year term certain and settling the outstanding Costa Coffee rent review at a level reflecting a 17% uplift. Pre Covid-19 there was good interest in the two remaining vacant units

Responsible investing with impact

Responsible Investment is integral to how Schroder Real Estate manages its investments. Together with the Board, we believe that by understanding and managing the impact of Environmental, Social and Governance ('ESG') considerations we can generate better long-term returns for our clients, contribute to our tenants' business performance and create tangible benefits to the communities in which they are located.

Schroder Real Estate's sustainability programme is continually evolving, reflecting progression with industry sustainability targets, available technologies and the regulatory environment. Our programme looks to consistently improve the sustainability credentials of the Company's portfolio. In the past financial year, the Company's work has again been recognised with the achievement of an exceptional third Green Star in the annual Global Real Estate Sustainability Benchmark survey, where our score increased 16% on the previous year. The Company was also recognised with an EPRA Best Practice Sustainability Reporting Gold Award for the year-end accounts and was a finalist in the Energy Efficiency category in the UK Edie Sustainability Awards.

There will be an unrelenting focus on sustainability in the next financial year with our investment and asset management teams incorporating sustainability and impact credentials into all asset activities from new leases to capital expenditure. This is evident in our response to the market uncertainty in relation to the Covid-19 pandemic, where a core part of protecting the long-term value of our portfolio involves working to support our customers, occupiers, suppliers and team.

In relation to the environment, positive action is needed as the built environment is generally accepted to be responsible for 40% of global carbon emissions. In recognition of the role and responsibilities of the real estate industry and property owners, Schroder Real Estate signed the Better Buildings Partnership Climate Commitment in September 2019. This initiative supports the drive to net zero carbon in buildings and the first stage of this is to set out our pathway to net zero to 2050 by the end of 2020. This commitment is an extension of Schroder Real Estate's sustainability programme which includes targets to reduce energy consumption and greenhouse gas emissions. More detail on this matter can be found in our Sustainability section on page 25 of this report.

Finance

The Company has two loan facilities, a £129.6 million term loan with Canada Life and a £52.5 million revolving credit facility ('RCF') with Royal Bank of Scotland International ('RBSI'). In addition to the properties secured against the Canada Life and RBSI loan facilities, the Company has unsecured properties with a value of £38.2 million and current cash of £84.6 million. This results in a Loan to Value ratio, net of cash, of 23.7%.

£129.6 million term loan with Canada Life

On 8 October 2019 the Company announced the refinancing of its £129.6 million loan with Canada Life. This extended the average maturity from 8.5 to 16.5 years and reduced the interest rate from 4.4% to 2.5% per annum. The refinancing generated an immediate interest saving of £2.5 million. The loan is fully compliant with all covenants as summarised below:

Lender	Loan (£m)	Maturity	Total interest rate (%)	Asset value (£m)	Loan to Value ('LTV') ratio (%)[1]	LTV ratio covenant (%)[1]	Interest cover ratio ('ICR') (%)[2]	ICR ratio covenant (%)[2]	Projected interest cover ratio (%)[3]	Projected ICR ratio covenant (%)
Canada Life Term Loan	129.6	50%: 15/10/2032	2.5[4]	262.8	49.3	65	548	185	479	185
		50%: 15/10/2039			(40.7 net of cash in facility)					

The Company has significant headroom with LTV and ICR covenants summarised below:

- Net Loan to Value on the secured assets against this loan is 40.7%. On this basis the properties charged to Canada Life could fall in value by 37% prior to the 65% LTV covenant being reached
- The interest cover ratio is 548% based on actual net rents for the quarter to March 2020. A 66% fall in net income could be sustained prior to the loan covenant of 185% being breached
- After utilising available cash and uncharged properties, the valuation and actual net rents could fall by 51% and 69% respectively prior to either the LTV or interest cover ratio covenants being breached

1 Loan balance divided by property value as at 31 March 2020.
2 For the quarter preceding the Interest Payment Date ('IPD'), ((rental income received – void rates, void service charge and void insurance)/interest paid).
3 The projected ICR covenant for contracted rent for the four quarters following the IPD deducting assumed non-recoverable costs (void rates, void service charge and void insurance)/interest paid) based on average of the past four quarters.
4 Fixed total interest rate for the loan term.

Investment Manager's Review continued

£52.5 million RCF with RBSI
At 31 March 2020, the RCF was undrawn. The loan is fully compliant with its covenants as summarised below:

Lender	Loan (£m)	Maturity	Total interest rate (%)	Asset value (£m)	Loan to Value ('LTV') ratio (%)[1]	LTV ratio covenant (%)[2]	Interest cover ratio ('ICR') (%)[3]	ICR ratio covenant (%)	Projected interest cover ratio (%)[4]	Projected ICR ratio covenant (%)
RBS RCF	0.0[5]	03/07/2023	2.3[6]	105.3	0.0	65[7]	2,135	–	1,712	250

On 17 April 2020, post period end, the Company announced that it had drawn its RCF with RBSI in full, totalling £52.5 million. The Company has significant headroom within its LTV and ICR covenants. This is summarised below on the basis that the RCF is drawn and using the financials as at 31 March 2020:

- Fully drawn, the net Loan to Value on the secured assets against this loan is 49.9%. On this basis the properties charged to RBSI could fall in value by 23% prior to the 65% LTV covenant being breached, although while the Company is holding the balance drawn in cash, no breach of the LTV covenant would occur;
- Fully drawn, the interest cover ratio is 598% based on actual net rents. A 58% fall in net income could be sustained prior to the loan covenant of 250% being breached.

The RCF is an efficient source of funding that can be repaid and redrawn as often as required. If required, the Company has the ability to use unencumbered cash and assets to improve headroom against covenants or repay this facility.

Outlook
The immediate outlook for the real estate market and economy is highly uncertain due to the Covid-19 pandemic. We are assuming the UK economy enters a recessionary period with an increase in unemployment and reduced occupational demand, leading to falling capital and rental values. The extent of the downturn, and shape of the recovery, should become more clear as the lockdown eases over the coming months.

In advance of the Covid-19 pandemic, the Company took significant strategic steps to reduce debt and its cost, completed several disposals at profitable levels and focused on robust net operating income. These steps have materially improved the Company's competitive position and outlook. The improved defensive qualities and increased cash reserves have resulted in the Company being well placed given the current exceptional and uncertain economic situation.

Whilst we are expecting the sharp economic slowdown to be followed by a slow recovery, the current situation has accelerated the already identified structural changes and mega themes which have been central to our strategy. This, together with the large cash reserve, low leverage and low exposure to underperforming sectors, means we can act with a long-term view to maximise returns and are well placed to manage through a market correction.

Whilst our current focus is on navigating this period of uncertainty, we continue to deliver on our ongoing programme of asset management initiatives and have the ability to capitalise on affordable new investment opportunities. This will enable to us to deliver future income growth and total returns.

Duncan Owen
Investment Manager
Schroder Real Estate Investment Management Limited

8 June 2020

1 Loan balance divided by property value as at 31 March 2020.
2 Loan balance divided by property value as at 31 March 2020.
3 For the quarter preceding the Interest Payment Date ('IPD'), ((rental income received – void rates, void service charge and void insurance)/interest paid).
4 The projected ICR covenant for contracted rent for the four quarters following the IPD deducting assumed non-recoverable costs (void rates, void service charge and void insurance)/interest paid) based on average of the past four quarters.
5 Facility drawn at 31 March 2020 from a total available facility of £52.5 million.
6 Total interest rate as at 31 March 2020 comprising three months LIBOR of 0.7% 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.

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.

In recognition of these responsibilities, Schroder Real Estate joined other members of the Better Buildings Partnership in September 2019 to sign the Member Climate Change Commitment. The first stage of this commitment is for all signatories to determine a pathway to Net Zero Carbon during 2020. The full wording of the Commitment is at https://www.betterbuildingspartnership.co.uk/node/877

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. Its four Pillars of Impact: people, place, planet and prosperity, are referenced to the UN Sustainable Development Goals and used to consider impacts for funds and assets.

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 Real Estate with Impact approach and its 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 and which is approved by the Investment Committee. Key aspects of the Policy, performance against 2019's objectives and targets, as well as objectives and targets for the year ahead, are set out below.

Schroders' investment management process requires annual fund strategy statements and business plans to include sustainability considerations and an Impact and Sustainability Action Plan to be prepared for all acquisitions.

Property Manager Sustainability Requirements

Property managers play an integral role in supporting the sustainability programme. 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

Impact assessment

The Investment Manager in evolving its investment philosophy to incorporate 'positive impact' investing, with the aim to proactively take action to improve social and environment outcomes, established four Pillars of Impact: people, place, planet and prosperity, with key performance indicators for each pillar. The pillars are referenced to the UN Sustainable Development Goals: 8 Good work and economic growth, 11 Sustainable Cities and Communities and 13 Climate Action.

The Investment Manager has developed an impact measurement framework to assess impacts within portfolios. This framework supports analysis of social aspects for which examples include tenant satisfaction, selection of suppliers, enhancements to amenities at and around buildings and community support and involvement together with environmental aspects, for example energy reduction and use of renewables. An impact baselining exercise supports improvement opportunities across the Investment Manager's sustainability programme and for the Company supports impact aims and targets for 2020. This initial baselining exercise has been completed and the results reviewed to identify risks and opportunities in order to set improvement targets for 2020.

Sustainability Report continued

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 future-proof 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.

Schroder Real Estate has an energy and greenhouse gas emissions performance reduction target to achieve 18% reduction in landlord-controlled energy consumption by 2020/21 (2015/16 baseline) across all UK-managed assets. 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 involves reviewing all managed assets within the Company and identifying and implementing improvement initiatives where viable.

Schroder Real Estate can report for the 2019 calendar year for the managed assets held within the Company a reduction in landlord procured energy consumption of 5% on a like-for-like basis. Energy performance improvement initiatives are considered for all directly managed assets. Operational initiatives undertaken include energy audits to assess opportunities, upgrades to Automatic Meter Readers for improved energy monitoring and LED lighting upgrades.

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.

Schroder Real Estate has an objective to procure 100% renewable electricity for landlord-controlled supplies. Progress has been made to increase coverage over the 2019 year and at March 2020 99.5% of the Company's landlord-controlled electricity was on renewable tariffs.

Net Zero Carbon pathway
Schroder Real Estate joined other members of the Better Buildings Partnership ('BBP') in September 2019 to sign the Member Climate Change Commitment. The first stage of this commitment is for all signatories to determine a pathway to Net Zero Carbon during 2020. The commitment also includes developing climate change resilience strategies for portfolios and to determine consistent industry disclosure on climate change risks in line with industry standards, including the TCFD. The BBP commitment is an extension to the Investment Manager's sustainability programme and the BBP will be supporting members through development of their pathways and all aspects of the commitment over the course of 2020 and beyond.

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 3% increase in like-for-like water consumption is reported for the calendar year 2019 compared to calendar year 2018.

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 2019 the Company sent zero waste direct to landfill, 48% of waste was recycled and 52% incinerated with energy recovery.

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.

BREEAM In Use
During 2019 the Investment Manager completed a number of asset level BREEAM In Use assessments including one for the Company to consider the contribution of the scheme to enhancing asset sustainability credentials. BREEAM In Use is a third party assessment and certification of a building's operational performance against nine environmental categories: Energy, Water, Transport, Management, Waste, Pollution, Health & Well-Being, Land Use & Ecology and Materials. The framework supports the overall sustainability programme for the Company with improvement actions integrated into the responsibilities of the Investment Manager and property managers.

Health, wellbeing and productivity
The real estate industry has a good appreciation of the importance of the built environment on human health, wellbeing and productivity. There has been considerable development on what building aspects matter and certification schemes, including the Well Building and Fitwel Certifications, support landlords and tenants to address these. Schroder Real Estate has developed a Health and Wellbeing Framework to identify improvements across managed assets and within refurbishments and developments. This framework is being applied to the Company assets with improvements incorporated into property management plans.

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. Tenant engagement initiatives undertaken by the Property Manager include incorporating sustainability as an agenda item during tenant meetings and, where a tenant handbook exists, include information on sustainability.

At City Tower, Manchester the property manager held an Environmental Awareness Week to address and engage with tenants on issues such as waste management, sustainable transport, fair trade products and clothes' recycling.

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

Streamlined Energy and Carbon Reporting ('SECR')

An Energy and Carbon Report for the Company in compliance with the Streamlined Energy and Carbon Reporting requirements is included in the Appendices.

Energy Savings Opportunity Scheme

The Company did not qualify for participation in the 2015 Phase 1 of the Energy Savings Opportunity Scheme and did not fall within scope of the Scheme's 2019 Phase 2 requirements.

The Investment Manager and its advisers 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. The Company was awarded an EPRA Gold Award for Sustainability Reporting in 2019.

Global Real Estate Sustainability Benchmark

The Company participated in the annual Global Real Estate Sustainability Benchmark ('GRESB') survey in 2019, 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 2020, again with the objective of achieving a Green Star rating; this rating will be awarded for 2020, where scores for the two dimensions of Management and Performance are at least 50 out of 100.

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 have a sustainability objective within their 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 28 of Schroders' Annual Report and Accounts 2019.

https://www.schroders.com/en/sysglobalassets/annual-report/documents/Schroders_2019AnnualReport.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, 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 has made during 2019 and plans for 2020 towards combatting modern slavery in its business and supply chains. 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/

EPRA BPR GOLD
EPRA sBPR GOLD
EPRA EUROPEAN PUBLIC REAL ESTATE ASSOCIATION

GRESB 2019

Task Force for Climate-Related Financial Disclosure ('TCFD')

The Task Force on Climate-related Financial Disclosure ('TCFD') aims to mainstream reporting on climate-related risks and opportunities in organisations' annual financial filings. The TCFD framework is applicable to all sectors and is currently a voluntary framework, however it is anticipated that the framework may soon become mandatory.

The TCFD recommendations are comprehensive and as a result it is widely acknowledged that full alignment takes time. The recommendations are structured around four sections: Governance, Strategy, Risk Management, and Metrics and Targets. The Investment Manager has reviewed its current policies and practices against these criteria and provided this summary. Building on our well-established consideration of sustainability within the investment process, it will be important to further integrate the assessment of climate-related issues into existing reporting and decision-making processes in order to increase our alignment with TCFD recommendations.

Governance – In investing for the long term, we recognise the increasing importance of both forward-looking assessment of the potential impacts of climate change and the likely action necessary to ensure the assets and cities in which we invest remain resilient as we transition to a low-carbon economy. In line with our Investing with Impact approach, we are also seeking to promote a fair and socially conscious low-carbon transition, that supports social, as well as economic and physical, resilience within local communities.

Climate change is an established component of our sustainability programme, over which the Investment Manager has oversight and ultimate responsibility. Climate change is therefore already considered within our investment process; however, as it grows in importance it will be necessary to further its integration. We are reviewing our approach to ensure we cover the full range and depth of climate-related issues. Evolving the approach in this way will be key to ensuring continued oversight and management of exposure to material risks, together with identifying opportunities, across the asset life cycle, and delivering resilient long-term returns.

The Board is focused on ensuring that the Company delivers on its strategic objectives, while taking into account the impact on its stakeholders as a whole. It is our firm belief that prioritising positive stakeholder relationships is central to delivering long-term, sustainable returns. The environment is one of the five identified stakeholder groups, alongside our occupiers, our communities, our service providers and shareholders.

Strategy – Our investment philosophy and process is underpinned by fundamental research and an analytical approach that considers economic, demographic and structural influences on the market. We are considering how climate change may impact on these factors over time, as well as how governmental policies may enable mitigation of and adaption to climate change. This will enable incorporation of climate resilience into our Winning Cities investment strategy.

Through our approach of actively managing and improving the quality of our investments we are well placed to ensure assets remain fit for purpose in the transition to a low carbon economy and resilient to physical risks. We have a strong track record in reducing portfolio and asset-level energy consumption and greenhouse gas ('GHG') emissions at assets where we retain operational control. As signatories of the Better Buildings Partnership ('BBP') Member Climate Change Commitment, we have also recently voluntarily committed to achieving net zero carbon by 2050, and the latest and the first stage of this is to determine our net zero carbon pathway during 2020. The BBP is an industry association of leading UK commercial property owners committed to improving building sustainability.

Not only the right thing to do as a responsible landlord, delivering on our commitment to net zero carbon will also enable us to better manage potential risks posed by climate change, such as an evolving regulatory landscape and carbon pricing, and therefore protect the long-term value of assets.

We are currently reviewing our acquisition and asset business planning processes to identify areas to deepen the consideration of energy and GHG efficiency, as well as physical risks (e.g. flooding).

Risk Management – The existing portfolio-wide sustainability programme covers the life cycle of assets and enables systematic and continual appraisal of potentially material climate-related risks. Risk criteria assessed within due diligence inform our acquisition decisions (e.g. Energy Performance Certificates and Flood Risk), as well as business and sustainability plans during asset management.

For existing investments, potential climate-related risks are also tracked and managed through ongoing performance monitoring (e.g. energy and greenhouse emissions trends), action plans (e.g. energy efficiency improvement measures) and certification programmes (e.g. Energy Performance Certificates). Related key performance indicators for suppliers (e.g. property managers) also support climate risk management.

However, our understanding of the future potential impacts and risks from climate change is constantly evolving. Therefore, we are seeking to further embed the forward looking identification and assessment of climate-related issues into our research process, as this will allow ongoing monitoring of emerging risks. This may also identify possible enhancements to core components of our investment process, such as our risk assessment and management framework.

Metrics and Targets – In the appendix of this report, we report detailed performance trend data, efficiency ratios and assessment methodologies covering energy consumption, GHG emissions, water consumption and waste generation. Measuring energy consumption and GHG emissions across the portfolio supports our assessment and management of risks from transitioning to a low carbon economy, where for example, there may be increased regulation on building efficiency and carbon pricing. Measuring water consumption supports our understanding of exposure to potential future risks from certain physical climate change risks, such as water scarcity.

As also mentioned in the appendix section of this report, we have an ambitious energy and GHG emissions reduction target against which we have made good progress. These targets are a driving force behind our energy and GHG reduction programmes and are under constant review to ensure they are sufficiently ambitious and effective in managing future transition risk.

We note that historically we have focused on monitoring and targeting reductions where we have had most operational control – i.e. landlord-procured energy consumption only (so called 'Scope 1 and 2' GHG emissions). As the transition to a low carbon economy presents risks and opportunities for entire assets – i.e. landlord and tenant-controlled areas – we are reviewing the reach of our energy and GHG management programmes and considering how we may also support performance improvement in tenant-controlled areas (so called 'Scope 3' GHG emissions). Similarly, we are exploring opportunities to reduce GHG emissions associated with building materials consumed during construction and fit-out (so called 'embodied' 'Scope 3' GHG emissions). Lastly, we are investigating where financial measures of climate-related risks and opportunities may support better decision-making within the investment process.

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 and purpose
The investment objective and purpose 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. Corporate social responsibility is deemed to be key to long-term business success together with overseeing positive stakeholder relationships.

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 expiries.

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 smaller, 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 Board 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 2020 the Company delivered a NAV total return of -1.5%[1] (4.5% for the year to 31 March 2019).

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 2020 the Benchmark Index comprised 187 member funds.

Underlying property portfolio performance

Total return for 12 months to 31 March 2020		Total return for 12 months to 31 March 2019	
SREIT (%)	MSCI/IPD Benchmark (%)	SREIT (%)	MSCI/IPD Benchmark (%)
1.9%	0.2%	7.2%	5.2%

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

3. Share price performance

The Board monitors the level of the share price compared to the NAV. As at 31 March 2020, the share price was at a 34.8% discount to the NAV of 59.7 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.

1 Excludes refinancing costs of £27.4 million.

Our Stakeholders

Section 172 statement
Section 172 of the Companies Act 2006 requires a Director of a company to act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. In doing this, section 172 requires a Director to have regard, among other matters, to: the likely consequences of any decision in the long term; the interests of the company's employees; the need to foster the company's business relationships with suppliers, customers and others; the impact of the company's operations on the community and the environment; the desirability of the company maintaining a reputation for high standards of business conduct; and the need to act fairly with members of the company. The Directors give careful consideration to the factors set out above in discharging their duties under section 172.

The Board is focused on ensuring that the Company delivers on its strategic objectives, while taking into account the impact on its stakeholders as a whole. It is our firm belief that prioritising positive stakeholder relationships is central to delivering long-term, sustainable returns. The Board is focused on ensuring that it understands its stakeholders' needs.

Occupiers
The Company has a diverse range of tenants occupying space across the portfolio. This includes a wide range of businesses who operate out of our office or industrial space and the retailers and shoppers who work at or visit our retail and leisure properties. Active and constant engagement with these groups, either directly or through property managers or agents, is required to gather intelligence as to what is important to them. Understanding changing needs, both at an individual company level, as well as on a sectoral and broader economic level, is a key tenet informing both our individual asset management investment decisions as well as the longer-term strategic direction of the Company.

Communities
Our assets are located across the UK in a range of urban environments. The buildings and their occupiers are part of the fabric of local communities. The Company works hard to ensure that it is engaging with local communities, councils and individuals and that our asset strategies are sensitive to the unique heritage of each location.

Service providers
As an externally managed investment trust, the Board is reliant on a range of service providers who have a direct working or contractual relationship or share a mutual interest with the Company. This includes, but is not limited to, the Manager, property managers, company secretary and administrator, depositary, auditor, tax advisers, solicitors, property valuers and banks. The Company regularly reviews these relationships as part of its commitment to transparency and corporate best practice.

Environment
The built environment is generally accepted to be responsible for 40% of global carbon emissions, which places great responsibility on those companies that are direct or indirect contributors. The Board is sensitive to the Company's role and is committed to continually improve and protect the environment by using resources such as energy, water and materials in a sustainable manner for the prevention of greenhouse gas emissions and climate change mitigation. Environmental, Social and Governance ('ESG') considerations are integrated into the Company's investment processes and each individual asset benefits from specific ESG-related objectives. The Board constantly reviews its approach to sustainable investing and believes that this is integral in delivering better long-term returns for our investors and for safeguarding the future of the environment that we live and work in.

Shareholders
The Board is committed to maintaining high standards of corporate governance in order to protect shareholder interests. The Manager undertakes an active investor relations schedule in London and the regions throughout the year, which includes one-on-one and group meetings with shareholders, site visits to key assets as well as regular presentations to the sell side analyst community. Shareholder feedback is encouraged either through the broker or directly to the Manager or Board.

Decision making
The Board makes decisions on, among other things, the principal matters set out under the paragraph headed 'Role of the Board' on page 43.

Risk 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 and emerging 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, many of which have remained unchanged throughout the year ended 31 March 2020, 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 under performance 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 value 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 a 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 it needs updating.
Covid-19 and emerging risks The global pandemic has accentuated the economic and property market risks, highlighted above.	The Investment Manager is in close contact with all the property managers and tenants with an immediate focus on rent collection, reducing risk and implementing new property management procedures to ensure tenants can return safely to our buildings.
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.

Risk and Uncertainties continued

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 have 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 Ernst & Young 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. This uncertainty is heightened due to the Covid-19 pandemic.	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 our benefit from their impact. 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.

Key risks	Mitigation of risk
Service providers 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 are 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 71, is Chair of Sellafield Ltd, Hydroxyl Technologies 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 62, 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 ten years. He has more than 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 Aspida 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 63, 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 54, Alastair has over 25 years of experience in real estate markets and 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' letters of appointment, which set out the terms of their appointments, 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 2020. 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 2019	7 June 2019	0.65 pence per share
30 June 2019	16 August 2019	0.65 pence per share
30 September 2019	18 December 2019	0.65 pence per share
31 December 2019	11 March 2020	0.7715 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.

Further to a market announcement made on 6 April 2020, the Board intends to postpone the dividend for the quarter ended 31 March 2020 which would have been paid in June 2020 in light of ongoing developments regarding the Covid-19 pandemic.

The split of dividends paid between Property Income Distributions (PIDs) and Ordinary dividends for the year ended 31 March 2020 was 1.4 pence per share and 1.3215 pence per share respectively.

Share capital

As at 31 March 2020, and the date of this Report, the Company has 565,664,749 (2019: 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 (2019: 47,151,340). The total number of voting rights of the Company is 518,513,409 (2019: 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 conducted its annual strategic review with the Investment Manager in May 2020 to consider the 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, 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, the details of which 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 AIFM Directive. 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 of £120,000.

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

Going concern

On 11 March 2020 the World Health Organization declared the outbreak of the Novel Coronavirus (Covid-19) a global pandemic.

Subsequently, the Directors have examined significant areas of possible financial risk, including the non-collection of rent and service charges, as a result of the Covid-19 pandemic and potential resulting falls in property valuations; have reviewed cash flow forecasts; and have analysed forward-looking compliance with third party debt covenants, in particular the Loan to Value covenant and interest cover ratios.

Overall, after utilising available cash, excluding the cash held against the RBS facility, and uncharged properties and units in joint ventures, and based on the reporting period to 31 March 2020, property valuations would have to fall by 51% before the relevant Canada Life Loan to Value covenants were breached, and actual net rental income would need to fall by 69% before the interest cover covenants were breached.

The Board and Investment Manager are closely monitoring the potential impact the Covid-19 pandemic may have on the Company's rental collection and the requirement to distribute dividends in accordance with the REIT regulations. In March 2020 the Company announced no dividend would be paid in June 2020 and future dividends would be kept under constant review to ensure the Company's liquid resources will be sufficient to cover any working capital requirements.

The Directors have not identified any matters 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. In addition to the matters described above, in arriving at their conclusion, the Directors have also considered:

- The current cash balance at 2 June 2020 of £84.6 million;
- The nature and timing of the Company's income and expenses; and
- That the Investment Manager and Administrator have invoked their business continuity plans to help ensure the safety and well-being of their staff, thereby retaining the ability to maintain the Company's business operations.

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 2020 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 12 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 Strategic Review 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 16.5 years and the average unexpired lease term, assuming all tenants vacate at the earliest opportunity, is six years.

The Board's assessment of viability considers the principal risks and uncertainties faced by the Company and, in the current period specifically, the additional risks arising as a result of Covid-19, as detailed on page 33 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 macroeconomic scenarios, delivery of specific asset management initiatives, rental growth and void/re-letting assumptions.

The Board has considered the downside risks arising from the current Covid-19 pandemic, and expects to remain compliant with all banking covenants throughout the viability period, assuming rental collection returns to more normal levels from 2021.

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. Appropriate policies are considered to be in place 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	100,000	Less than 0.1
Graham Basham	–	–
Stephen Bligh	100,000	Less than 0.1
Alastair Hughes	100,000	Less than 0.1

Substantial shareholdings

As at 31 March 2020, 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)	78,426,304	15.1
Schroders PLC	68,156,986	13.1
Interactive Investor Services Limited (UK)	41,590,691	8.0
Premier Fund Managers Ltd (UK)	38,835,377	7.5
Witan Investment Trust (UK)	32,250,000	6.2
BlackRock Inc	26,052,288	5.0
The Vanguard Group Inc	24,049,299	4.6

Independent Auditors

As noted in the Audit Committee Report, following a formal and competitive tender process, Ernst & Young LLP were selected in November 2019 to replace KPMG Channel Islands as the Auditor of the Company with immediate effect.

KPMG Channel Islands, on their resignation, confirmed that there were no matters that they wished to bring to the attention of either the Board of Directors or the shareholders of the Company.

Resolutions to reappoint Ernst & Young LLP, and to give the Directors authority to determine the Auditor's 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 47.

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 they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

Report of the Directors continued

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').

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

Key information document

A Key Information Document ('KID') for the Company is published on at least an annual basis, in accordance with the Packaged Retail and Insurance-Based Investment Products Regulations ('PRIIPS'), and made available on the Company's website. 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 has been 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 2019

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-disclosure

Statement of Directors' Responsibilities

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

The Companies (Guernsey) Law 2008 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 loss 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 24 and Governance Report on pages 36 to 46 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 2020 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 advisor 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 91 to 92. 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 2020; (ii) re-elect the Directors; and (iii) 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 2020. 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.

Report of the Directors continued

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 2021 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

8 June 2020

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 Association of Investment Companies Code of Corporate Governance published in February 2019 (the 'AIC Code'), which applies to accounting periods beginning on or after 1 January 2019. 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. A copy of the AIC Code can be found at www.theaic.co.uk.

It is the Board's intention to continue to comply with the AIC Code and we will continue to report the Company's compliance with the principles and recommendations of the AIC Code, which has been endorsed by the Financial Reporting Council ('FRC').

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 on page 33 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; and
- 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.

Evaluation of the Board and Audit Committee

In January 2020 the Board appointed Stogdale St James Limited to independently oversee an external performance evaluation of the Board; there were no conflicts of interest identified.

The process itself was primarily completed during February and March 2020 and involved the sharing of key Company information, the attendance of the evaluator at a quarterly Board meeting and interviews with the Chairman, all Non-Executive Directors, representatives of the Investment Manager and the Company Secretary.

The report findings were presented and discussed with the Board. The composition of the Board, its dynamics, its oversight of strategy and the management of the Board meetings were all highly regarded.

Ongoing consideration continues to be given towards succession planning, possible further recruitment of new and complementary skills to the Board and any further enhancements which can be made as to how the Board operates.

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 36 and 37 of the report. The Board considers each of the Directors to be independent.

Corporate Governance continued

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 with regard to any adjustments that may be appropriate, including in connection with the 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-executive, 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 three Audit Committee meetings during the year under review are set out in the table below.

	Board	Audit Committee
Lorraine Baldry (Chairman)	4/4	3/3
Alastair Hughes	4/4	3/3
Graham Basham	4/4	3/3
Stephen Bligh	4/4	3/3
Number of meetings during the year	4	3

In addition to its regular quarterly meetings, the Board met on eight 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') in 2018 to ensure that the Company is compliant with the requirements of the GDPR. As part of that process the Board took 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 a robust information security and data protection environment in place. This is reviewed with the Investment Manager at the annual Manager's 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 page 91 sets out the business of the Annual General Meeting to be held on 25 September 2020.

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.

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 30 in the Business Model Report.

The following amounts were paid by the Company for services as Non-Executive Directors:

Director	**31 March 2020 (£)**	31 March 2019 (£)
Lorraine Baldry (Chairman)	50,000	50,000
Stephen Bligh[1]	35,000	35,000
Graham Basham[2]	30,000	30,000
Alastair Hughes[3]	35,000	35,000
Total	**150,000**	**150,000**

1 Chairman of the Audit Committee.
2 Graham Basham was a director of a majority of the subsidiary companies, for which an additional £21,000 was paid to his employer, Aspida Group Limited, during the year for his service. Mr Basham owns 15% of Aspida Group Limited.
3 Senior Independent Director.

Information to be disclosed in accordance with Listing Rule 9.8.4R

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

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

Lorraine Baldry
Chairman

8 June 2020

Report of the Audit Committee

Composition
The Audit Committee is chaired by Stephen Bligh with Graham Basham and Alastair Hughes as members. The Board considers that Stephen Bligh's professional experience makes him suitably qualified to chair the Audit Committee. The Company's Chairman is invited to attend all meetings.

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 three 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.

As noted in the Corporate Governance report, an evaluation of the Audit Committee was completed by Stogdale St James, in which "the overall performance of the Audit Committee was very highly rated".

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 to discuss the process, assumptions, independence and communication with the Investment Manager. We also discussed their approach to the 31 March 2020 valuations in light of the current Covid-19 pandemic and were satisfied that both firms had taken a considered approach to the current 'material valuation uncertainty', to which both firms refer in their reports, as disclosed in notes 11 and 12 to the financial statements.
Loan refinancing In October 2019 SREIT completed a significant refinancing with Canada Life which involved the payment of a £25.8 million break fee to the lender. The loan principal of £129.6 million remained unchanged. When considering the appropriate accounting treatment, qualitative and quantitative factors were considered in line with IFRS 9.	The Board's view is that the new terms of the loan meet the qualitative test of a significant change in the terms and conditions and therefore the original loan was de-recognised and a new loan recognised at fair value. As a consequence, the break fee of £25.8 million, together with previously unamortised loan costs of £1.6 million, have been expensed to the Income Statement, which has consequently reduced the NAV of the Fund.

Matter	Action
Impact of Covid-19 on rent collection and going concern There is a risk that this Covid-19 pandemic may impact Company liquidity and investment returns in the short to medium term which could impact the going concern assumption and the viability of the Group.	The Audit Committee has been closely monitoring the collection of the March rent demands, which amount to some 74% of the amounts demanded. The Investment Manager and property agents are taking a proactive approach to tenants who may have cash flow difficulties and are agreeing amended terms where possible. The Investment Manager estimates that some £320,000 of March rent demands will be eventually written off, for which provision has been made in accordance with IFRS 9, even though none of this rent has yet been recognised. The Audit Committee has also considered the potential reduction in 2021 rentals and its impact on the Company's liquidity, and the prospects for the next five years. As disclosed in the Going Concern and Viability Statements on pages 38 and 39, the Audit Committee has considered various stress tests and sensitivities to the normal cash flow forecasts, and is confident 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.

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 the 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 2019. The Audit Committee has considered both the Investment Manager's internal controls report and the review by EY.

Auditor appointment
Early in the financial year, the Company was advised that the current KPMG audit partner would be leaving the firm. The stated intention in the Company's 2019 Annual Report was that a tender would take place no later than at the end of the tenure of the current KPMG audit partner. The Company therefore initiated a formal competitive process in which three firms were invited to tender for the audit of the Company; KPMG were not invited to tender.

Following presentations in November 2019 by two firms to a tender panel consisting of Audit Committee members and a representative of the Manager, at which the firms were assessed on their audit quality, their real estate experience, the quality of the team and the lead partner and the proposed audit fee, Ernst & Young LLP were selected to replace KPMG as the Auditor of the Company with immediate effect.

On their resignation, KPMG Channel Islands confirmed that there were no matters that they wished to bring to the attention of either the Board of Directors or the shareholders of the Company. The Audit Committee would like to thank KPMG for its professional service to the Company throughout its tenure in office.

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 Ernst & Young prior to making a recommendation on its 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.

The Audit Committee recognises that, in addition to being Ernst & Young's first year audit, the audit was conducted entirely remotely, which was a unique challenge. The Audit Committee would like to express its thanks to both the Schroder Real Estate finance team and Ernst & Young for their hard work, commitment and innovation in completing the audit in a satisfactory manner.

Report of the Audit Committee continued

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 Ernst & Young'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, Ernst & Young also completes its own independence confirmation processes which are approved by the audit partner.

During the year, the non-audit services fees paid to Ernst & Young were £16,250 in relation to the interim review.

Stephen Bligh
Director

8 June 2020

Independent Auditor’s Report

to the members of Schroder Real Estate Investment Trust Limited

Opinion

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’) for the year ended 31 March 2020 which comprise the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes 1 to 24, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (‘IFRS’).

In our opinion, the financial statements:
- give a true and fair view of the state of the Group’s affairs as at 31 March 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards; and
- have been properly prepared in accordance with the requirements of 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 under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report below. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements, including the FRC’s Ethical Standard as applied to listed entities in the UK, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:
- the disclosures in the annual report set out on pages 33 to 35 that describe the principal risks and explain how they are being managed or mitigated;
- the directors’ confirmation set out on page 33 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors’ statement set out on pages 38 to 39 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity’s ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors’ statement in relation to going concern required under the Listing Rules is materially inconsistent with our knowledge obtained in the audit; or
- the directors’ explanation set out on page 39 in the annual report as to how they have assessed the prospects of the entity, 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 entity 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.

Overview of our audit approach

Key audit matters	– Risk of incomplete or inaccurate rental revenue recognition and related year-end receivables – Risk of misstatement in the fair value of directly and indirectly held investment property portfolios – Impact of COVID-19 on Going Concern
Audit scope	– We have audited the financial statements of the Group for the year ended 31 March 2020
Materiality	– Overall Group materiality of £3.1m which represents 1% of net assets.

First year audit considerations

In preparation for our first year audit of the 31 March 2020 financial statements, we prepared a detailed transition plan. Our audit planning and transition commenced in September 2019 after we had confirmed our independence of the Group to the Audit Committee. Our transition activities included:
- the review of the predecessor auditor’s 2019 audit work papers and gained an understanding of their risk assessment, key judgements and audit approach to address the risks identified;
- held meetings with the Investment Manager and the Audit Committee of the Group agreeing the audit approach for the first year;
- held an audit planning meeting with the senior members of our team in order to agree our first year audit approach;
- obtained a specific understanding of the Group’s business, culture and operations through review, enquiry and observations; and
- obtained a detailed understanding of the financial statement close process of the Group.

This transition activity allowed us to gain an understanding of the Group’s key processes and controls over financial reporting. We then established our audit base and formalised our audit strategy for the 2020 audit.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included 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 our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor’s Report continued

to the members of Schroder Real Estate Investment Trust Limited

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Risk of incomplete or inaccurate rental revenue recognition and related year-end receivables Refer to the Significant accounting policies (page 60) in the Consolidated Financial Statements. Revenue is earned in the form of rental income from the investment properties and is recognised on an accrual basis. During the year, the Group recognised £22.1 million of rental income (2019: £25.2 million). There is a risk of incomplete or inaccurate rental revenue recognition and related year-end receivables through failure to recognise proper income entitlements or to apply the appropriate accounting treatment. In addition, the recoverability of year-end receivables is based on a number of assumptions.	**We have performed the following procedures:** We obtained an understanding of the process and controls surrounding revenue recognition by performing our walkthrough procedures and evaluating the implementation and design effectiveness of controls. We have performed substantive analytical review procedures over rental revenue for each property. We formed an expectation of the rental income for each property, and compared this expectation to the actual revenue recognised during the year. We have agreed a sample of rental rates to tenancy agreements and recalculated rental revenue earned by the property for the period. We have agreed a sample of revenue recorded as received to bank statements. We have recalculated lease incentives based on the terms within the lease agreement to assess the appropriateness of the amount recorded. We have audited management’s assessment of the recoverability of the overdue rent receivables and challenged the judgements involved. In order to test the risk of management override of controls, we tested a sample of rental revenue journals to identify unauthorised or inappropriate journals. We enquired as to the nature of each transaction sampled and obtained corroborating evidence to conclude on whether the journals were easonable and in line with our expectations. We selected journals by applying criteria and thresholds based on our professional judgement.	**The results of our procedures are:** Based on our procedures performed over the risk of incomplete or inaccurate rental revenue recognition and related year-end receivables, we concluded that revenue and related year-end receivables are fairly stated.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Risk of misstatement in the fair value of directly and indirectly held investment property portfolios Refer to the Report of the Audit Committee (pages 46 to 48); Significant accounting policies (page 59); and Notes 11 and 12 of the Consolidated Financial Statements (page 63 to 67). The Group's investment property portfolio consists of UK properties held directly and through joint ventures, with a combined fair value of £397 million (2019: £451.3 million). There is a risk of incorrect valuation of the property portfolio which could result in the Consolidated Statement of Financial Position and the Consolidated Statement of Comprehensive Income being materially misstated. The uncertainties over the current economic environment caused by COVID-19 had an impact on the valuation of the Group's properties. As disclosed in note 11, Knight Frank and BNP (the 'independent valuers') have highlighted in their assessment of the fair value of the property portfolio that there is limited transactional evidence and less certainty with regard to valuations and that market values can change rapidly in the context of current market conditions. Accordingly, Knight Frank and BNP have stated that it has been necessary to make more judgements than usually required and the Group has reported the valuation of the property portfolio at 31 March 2020 on the basis of a 'material valuation uncertainty'.	**We have performed the following procedures:** We obtained an understanding of the process and controls surrounding property valuation by performing our walkthrough procedures and evaluating the implementation and design effectiveness of controls. We have assessed the independence and competence of the independent valuers as required by auditing standards. We have read the valuation report provided by the Group's independent valuers to agree the appropriateness and suitability of the reported values and the changes in value from the previous accounting period. We have engaged our property valuation specialists to perform a review of a judgmentally selected sample of property valuations to assess whether the reported value fell within a range of reasonable outcomes, which included: – validating the assumptions used by the independent valuers in undertaking their valuation and assessment of the valuation methodologies adopted; – challenging the key inputs and assumptions relating to equivalent yield and rental rates with reference to published market data; – assessing the appropriateness of market related inputs by comparing against our own market data and understanding of the property market; and – assessing the assumptions applied by the external valuers as a result of COVID-19 in respect of tenant voids and rent collections, the impact on the property valuations and investigating any contrary evidence to the assumptions adopted. We performed analytical review procedures across the portfolio of investments, focusing on correlations with market data and any significant movements. With respect to key objective inputs to the valuation, comprising rental income and length of lease, we agreed the inputs to lease agreements or rent review schedules on a sample basis. We performed testing on 100% of disposals in the period and a sample of the capital expenditure. We checked that the fair values derived by the Independent Valuer for the entire portfolio were correctly included in the consolidated financial statements. We assessed the adequacy of the additional disclosures of estimates and valuation assumptions as disclosed in the notes were made in accordance with IFRS 13 – Fair Value Measurement due to COVID-19.	**The results of our procedures are:** Based on our procedures performed over the risk of misstatement in the fair value of directly and indirectly held investment property portfolios, we concluded that the methodology applied was appropriate and that the external valuations were a reasonable assessment of the fair value of the directly and indirectly held investment properties at 31 March 2020. We concluded that the disclosures in the consolidated financial statements relating to the material valuation uncertainty paragraph included by the independent valuers in their valuation report and consider the disclosure appropriate. The disclosure set out in the notes to the financial statements are fundamental to users' understanding of this matter. We conclude that the balances and disclosures in the financial statements and notes appropriately reflect the risk factors identified. In relation to the specific properties that were selected for testing by our property valuation specialists, we have concluded that the assessment of fair values performed by the valuers are within an acceptable range.

Independent Auditor's Report continued

to the members of Schroder Real Estate Investment Trust Limited

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Impact of COVID-19 on Going Concern The global COVID-19 pandemic continues to affect all businesses across the world in different ways. The governments of the countries affected have designed measures to mitigate the resulting adverse economic impact of this pandemic. There is a risk that the COVID-19 pandemic may impact Company liquidity, investment returns, and covenant compliance which could impact the Going Concern of the Group. There is also a risk that management has not appropriately disclosed the impact of COVID-19 in the annual report.	**We have performed the following procedures:** We obtained an understanding of the process followed by the directors to make its going concern assessment as a result of the impact of COVID-19. We assessed the completeness of the cash flow forecast to ensure there are no unidentified or undisclosed events that could have an impact on going concern. We challenged the directors and Investment Manager on the appropriateness of the key assumptions including the forecast rental income, expenditure and investment property valuations and considered their reasonableness in the context of other supporting evidence gained from our audit work. We evaluated the appropriateness of stress test scenarios including considering the actions that could be taken, and their impact on the cash flow, liquidity position and debt covenants. We performed our own stress and reverse tests to assess the reasonableness of the Company's assessment. We reviewed minutes of board meetings with a view to identifying any matters which may impact the going concern assessment. We reviewed the disclosures in the annual report in relation to COVID-19 and ensured these adequately disclose the risk, impact on the Company and mitigation actions adopted.	**The results of our procedures are:** Based on the procedures performed, we are satisfied that the Directors have appropriately considered the impact of COVID-19 and that adequate disclosures have been presented in the consolidated financial statements.

In the prior year, the predecessor auditor, KPMG, disclosed *'Valuation of investment property held directly and indirectly through investment in joint ventures'* as the Key Audit Matter.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Group. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £3.10 million, which is 1% of net assets. We believe that net assets provide us with a materiality aligned to the key measurement of the Group's performance.

During the course of our audit, we reassessed initial materiality based on the decrease in the net asset value as at 31 March 2020.

In the prior year overall materiality was set by the predecessor auditor at 0.7% of Group total assets.

Performance materiality

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

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% of our planning materiality, namely £1.55 million. We have set performance materiality at this percentage based on our considerations for a first year audit.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.16 million, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

The other information comprises the information included in the annual report set out on pages 1 to 48 and 74 to 93, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

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

- **Fair, balanced and understandable set out on page 40 –** the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting set out on page 46 –** the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 40 –** the parts of the directors' statement required under the Listing Rules relating to the Group's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the Group, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the Group's accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 40, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the Group'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 Group'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 Group and the Group's members as a body, for our audit work, for this report, or for the opinions we have formed.

Richard Le Tissier
for and on behalf of Ernst & Young LLP
Guernsey, Channel Islands

9 June 2020

Notes:
The maintenance and integrity of the Schroder Real Estate Investment Trust Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2020

	Notes	31/03/2020 £000	31/03/2019 £000
Rental income		22,160	25,278
Other income	4	1,333	1,339
Property operating expenses	5	(2,248)	(2,375)
Net rental and related income, excluding joint ventures		**21,245**	**24,242**
Share of net rental income in joint ventures		2,567	3,311
Net rental and related income, including joint ventures		23,812	27,553
Profit on disposal of investment property	11	**1,897**	**2,156**
Net unrealised valuation (loss)/gain on investment property	11	**(17,364)**	**1,556**
Expenses			
Investment management fee	3	(3,470)	(3,363)
Valuers' and other professional fees		(1,629)	(1,633)
Administrators' fee	3	(120)	(120)
Auditor's remuneration	6	(140)	(128)
Directors' fees	7	(150)	(150)
Other expenses	7	(303)	(202)
Total expenses		**(5,812)**	**(5,596)**
Net operating (loss)/profit before net finance costs		**(34)**	**22,358**
Refinancing costs	16	(27,364)	(3,128)
Finance costs		(5,271)	(6,807)
Net finance costs		**(32,635)**	**(9,935)**
Share of net rental income in joint ventures	12	2,567	3,311
Share of valuation (loss)/gain in joint ventures	12	(2,357)	167
(Loss)/profit before taxation		**(32,459)**	**15,901**
Taxation	8	–	–
(Loss)/profit and total comprehensive income for the year attributable to the equity holders of the parent		**(32,459)**	**15,901**
Basic and diluted (loss)/earnings per share	9	**(6.3p)**	**3.1p**

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 2020

	Notes	31/03/2020 £000	Restated 31/03/2019 £000
Investment property[1]	11	321,382	352,186
Investment in joint ventures	12	77,985	80,165
Non-current assets		**399,367**	**432,351**
Trade and other receivables	13	15,115	49,689
Cash and cash equivalents	14	33,051	21,042
Investment properties held for sale[2]	11	–	18,911
Current assets		**48,166**	**89,642**
Total assets		**447,533**	**521,993**
Issued capital and reserves	15	336,258	382,828
Treasury shares	15	(26,452)	(26,452)
Equity		**309,806**	**356,376**
Interest-bearing loans and borrowings	16	128,667	156,230
Lease liability	11	2,416	–
Non-current liabilities		**131,083**	**156,230**
Trade and other payables	17	6,644	9,387
Current liabilities		**6,644**	**9,387**
Total liabilities		**137,727**	**165,617**
Total equity and liabilities		**447,533**	**521,993**
Net asset value per ordinary share	18	59.7p	68.7p

1 Please see note 11 for the details of the reclassification made to the 31 March 2019 figures.
2 Please see note 11 for the details of the reclassification made to the 31 March 2019 figures.

The financial statements on pages 54 to 73 were approved at a meeting of the Board of Directors held on 8 June 2020 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

As at 31 March 2020

	Notes	Share premium £000	Treasury share reserve £000	Revenue reserve £000	Total £000
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**
Profit for the year		–	–	(32,459)	(32,459)
Dividends paid	10	–	–	(14,111)	(14,111)
Balance as at 31 March 2020		**219,090**	**(26,452)**	**117,168**	**309,806**

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 2020

	31/03/2020 £000	31/03/2019 £000
Operating activities		
(Loss)/profit for the year	(32,459)	15,901
Adjustments for:		
Profit on disposal of investment property	(1,897)	(2,156)
Net valuation loss/(gain) on investment property	17,364	(1,556)
Share of profit of joint ventures	(210)	(3,478)
Net finance cost	32,635	9,935
Operating cash generated before changes in working capital	**15,433**	**18,646**
Increase in trade and other receivables	(1,645)	(179)
(Decrease)/increase in trade and other payables	(2,743)	1,105
Cash generated from operations	**11,045**	**19,572**
Finance costs paid	(5,698)	(6,541)
Cash flows from operating activities	**5,347**	**13,031**
Investing activities		
Proceeds from sale of investment property	80,034	12,447
Acquisition of investment property	–	(23,191)
Additions to investment property	(6,504)	(2,761)
Addition to joint ventures	(496)	(2,250)
Capital redemptions in joint ventures	319	–
Net income distributed from joint ventures	2,567	3,311
Cash flows from investing activities	**75,920**	**(12,444)**
Financing activities		
(Repayments)/additions to debt	(29,000)	8,500
Refinancing fees paid	(26,147)	(4,168)
Dividends paid	(14,111)	(13,095)
Cash flows used in financing activities	**(69,258)**	**(8,763)**
Net increase/(decrease) in cash and cash equivalents for the year	**12,009**	**(8,176)**
Opening cash and cash equivalents	**21,042**	**29,218**
Closing cash and cash equivalents	**33,051**	**21,042**

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 2020 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 the non-collection of rent and service charges as a result of the COVID-19 pandemic and potential resulting falls in property valuations; have reviewed cash flow forecasts; and have analysed forward-looking compliance with third party debt covenants, in particular the Loan to Value covenant and interest cover ratios.

Overall, after utilising available cash, excluding the cash held against the RBS facility, and uncharged properties and units in Joint Ventures, and based on the reporting period to 31 March 2020, property valuations would have to fall by 51% before the relevant Canada Life Loan to Value covenants were breached, and actual net rental income would need to fall by 69% before the interest cover covenants were breached.

Furthermore, as at the financial year end the undrawn capacity of the RBS facility was £52.5 million. This facility is an efficient and flexible source of funding due to the margin of 1.6% and its ability to be repaid and redrawn as often as required. In October 2019 the Group completed a refinancing activity relating to the facility held with Canada Life. This £129.6 million fixed rate loan now attracts a total interest rate of 2.49% per annum, compared to a previous 4.4%, resulting in an immediate cash interest saving of £2.5 million per annum.

The Board and Investment Manager are closely monitoring the potential impact the COVID-19 pandemic may have on the Company's rental collection and the requirement to distribute dividends in accordance with the REIT regulations. In March 2020 the Company announced no dividend would be paid in June 2020 and future dividends would be kept under constant review to ensure the Company's liquid resources will be sufficient to cover any working capital requirements.

The Directors have not identified any matters which would cast significant doubt on the Group's ability to continue as a going concern for a period of not less than twelve months from the date of the approval of the financial statements. In addition to the matters described above, in arriving at their conclusion the Directors have also considered:

- The current cash balance at 2 June 2020 of £84.6 million;
- The nature and timing of the Company's income and expenses; and
- That the Investment Manager and Administrator have invoked their business continuity plans to help ensure the safety and well-being of their staff, thereby retaining the ability to maintain the Company's business operations.

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.

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.

1. Significant accounting policies continued

Another significant estimate is the amount of expected credit losses from rent demanded at the end of March 2020 relating to April and the quarter to June 2020, for which IFRS 9 requires a provision to be made even though none of this rent was recognised in the Income Statement for the year ended 31 March 2020. A provision of £320k has been made for such expected credit losses.

One significant judgement by the Board was the recognition in the Income Statement for the year ended 31 March 2020 of the break costs of £25.8 million, along with the associated unamortised loans costs of £1.6 million, incurred on the refinancing of the Canada Life debt. The Board considered that the reduction in the interest rate from 4.43% to 2.49%, less onerous covenants from the lender and the extension of the term of 50% of the loan by four years and 50% by 11 years represented a substantial modification of the terms of the loan, such that the old loan should be derecognised and the associated costs recognised in the Income Statement.

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 controlled by the Company. Control exists where the investor has the following:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the entity to affect the amount of the investor's returns.

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.

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.

Leases

For any material leases for which the Group is a lessee, the leasehold interest is measured at fair value and included in investment properties with the corresponding liability being shown as a non-current liability. The fair value is calculated as the present value of the future lease payments.

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.

Notes to the Financial Statements continued

1. Significant accounting policies continued

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.

Impairment

Financial assets

Financial assets at amortised cost are subject to impairment.

The Group's significant financial assets that are subject to IFRS 9's expected credit loss model are trade receivables from the leasing of investment properties. The credit risk associated with unpaid rent has increased due to COVID-19 and management have done a detailed analysis over the recoverability of expected rents. Rents received in advance have been closely monitored and any rents deemed irrecoverable discussed by management. Note 19 provides further details on the measurement of the loss allowance and amount recognised at 31 March 2020.

Non-financial assets

The carrying amounts of the Group's non-financial assets, being the investment in 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.

1. Significant accounting policies continued

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 advisor 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 2020 year end:

IFRS 16 Leases (effective from 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 twelve months or less or the underlying asset has a low enough 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. Management's assessment of IFRS 16 has resulted in an adjustment in the recognition of the fair value of a head lease relating to The Galaxy, Luton which can be seen in note 11.

Standards, interpretations and amendments to published standards that are not yet effective

Annual Improvements cycle – Effective date of 2018–2020

On 14 May 2020, the IASB issued 'Annual Improvements to IFRS Standards 2018–2020'. The pronouncement contains amendments to four International Financial Reporting Standards ('IFRS') as a result of the IASB's annual improvements project. The amendments are effective for annual reporting periods beginning on or after 1 January 2022.

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 £3,470,000 (2019: £3,363,000). At the year end £295,000 (2019: £287,000) 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 (2019: £120,000) of which £nil (2019: £30,000) was outstanding at the year end. In addition to this, £40,000 (2019: £40,000) was paid for depository fees of which £nil (2019: £3,334) was outstanding at year end.

4. Other income

	31/03/2020 £000	31/03/2019 £000
Dilapidations	482	915
Surrender premiums	840	414
Miscellaneous income	11	10
	1,333	**1,339**

Notes to the Financial Statements continued

5. Property operating expenses

	31/03/2020 £000	31/03/2019 £000
Agents' fees	81	56
Repairs and maintenance	130	149
Advertising	97	33
Rates – vacant	342[1]	821
Security	43	19
Service charge, insurance and utilities on vacant units	890	986
Ground rent	137	124
Bad debts	528	156
Other	–	31
	2,248	**2,375**

1 Includes rates rebate of £430k relating to historic overpayment across the fund.

6. Auditor's remuneration

The total expected audit fees for the year are £116,500 (2019: £117,170) and £16,500 (2019: £13,250) for the half-year review of the financial statements. There were no additional fees paid to the auditors during the year.

7. Other expenses

	31/03/2020 £000	31/03/2019 £000
Directors' and officers' insurance premium	10	9
Regulatory costs	21	21
Professional fees	235	135
Other expenses	37	37
	303	**202**

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 (2019: £150,000), as set out in the Remuneration Report on page 45.

8. Taxation

	31/03/2020 £000	31/03/2019 £000
Tax expense in year	–	–
Reconciliation of effective tax rate		
(Loss)/profit before tax	(32,459)	15,901
Effect of:		
Tax using UK corporation tax rate of 19%	(6,167)	3,021
Revaluation loss/(gain) not taxable	3,299	(296)
Share of profit of associates and joint ventures not taxable	(40)	(661)
Profit on disposal of investment property not taxable	(360)	(410)
UK REIT exemption	3,268	(1,654)
Current tax expense in the year	**–**	**–**

8. Taxation continued

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.

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 (loss)/earnings per share for the Group is based on the net loss for the year of (£32,459,000) (2019: profit of £15,901,000) and the weighted average number of ordinary shares in issue during the year of 518,513,409 (2019: 518,513,409).

10. Dividends paid

In respect of	Ordinary shares	**Rate (pence)**	**31/03/2020 £000**
Q/e 31 March 2019 (dividend paid 7 June 2019)	518.51 million	0.65	3,370
Q/e 30 June 2019 (dividend paid 16 August 2019)	518.51 million	0.65	3,370
Q/e 30 September 2019 (dividend paid 18 December 2019)	518.51 million	0.65	3,370
Q/e 31 December 2019 (dividend paid 11 March 2020)	518.51 million	0.77	4,001
		2.72	**14,111**

In respect of	Ordinary shares	Rate (pence)	31/03/2019 £000
Q/e 31 March 2018 (dividend paid 31 May 2018)	518.51 million	0.62	3,215
Q/e 30 June 2018 (dividend paid 31 August 2018)	518.51 million	0.62	3,215
Q/e 30 September 2018 (dividend paid 5 December 2018)	518.51 million	0.64	3,295
Q/e 31 December 2018 (dividend paid 15 March 2019)	518.51 million	0.65	3,370
		2.53	**13,095**

The dividend for the quarter ended 31 March 2020 has been deferred.

11. Investment property

	Leasehold £000	Freehold £000	Total £000
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**
Additions	34	6,470	6,504
Gross proceeds on disposals	–	(43,168)	(43,168)
Realised gain on disposals	–	1,897	1,897
Fair value leasehold adjustment[1]	2,416	–	2,416
Net unrealised valuation loss on investment property	(5,454)	(11,910)	(17,364)
Fair value as at 31 March 2020	**36,818**	**284,564**	**321,382**

1 Further to the new IFRS 16 requirements described in note 2, there has been an adjustment made to include the fair value of the leasehold element of The Galaxy, Luton. The corresponding lease liability is included on the Balance Sheet under non-current liabilities.

Notes to the Financial Statements continued

11. Investment property continued
The balance above includes:

	Leasehold £000	Freehold £000	Total £000
Investment property	34,402	284,564	318,966
Investment property held for sale	–	–	–
Fair value leasehold adjustment	2,416	–	2,416
Fair value as at 31 March 2020	**36,818**	**284,564**	**321,382**

	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**

No investment properties have been determined to meet the criteria of a held for sale asset at the period end (31 March 2019: £18,911,000). The 31 March 2019 held for sale balance has been restated. The held for sale assets were previously included in investment property and therefore the statement of financial position has been restated accordingly.

The fair value of investment properties, as determined by the valuer, totals £328,300,000 (2019: £417,550,000). None of this was in relation to the unconditional exchange of contracts (2019: £36,100,000). In addition to this, £9,334,000 (2019: £10,352,000) relating to lease incentives is included within trade and other receivables.

The realised net valuation gain on disposal of investment property consists of realised gains of £2,490,000 (2019: £2,057,000) net of realised losses of £593,000 (2019: £501,000).

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 2019, 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 VPGA 1 Valuations for Inclusion in Financial Statements which adopt the definition of Fair Value used by the International Accounting Standards Board. The properties have been valued individually and not as part of a portfolio.

The valuation has been undertaken using an appropriate valuation methodology and the Valuer's professional judgement. Consistent with the 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).

In their reports, Knight Frank LLP (and BNP Paribas Real Estate, who value the investment properties owned by the Company's joint ventures – see note 12) have included the following reference to 'material valuation uncertainty', following guidance from RICS on the 'Impact of COVID-19 on valuation':

"The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organization as a global pandemic on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.

Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

Our valuation is therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we recommend that you keep the valuation of these properties under frequent review."

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 2020

31 March 2020		Industrial[1]	Retail (incl. retail warehouse)	Office	Other	Total
Fair value (£000)		116,150	98,400	95,100	18,650	328,300
Area ('000 sq ft)		1,398	527	463	177	2,565
Net passing rent per sq ft per annum	Range	£0 – £10.00	£0 – £38.50	£0 – £29.10	£0 – £13.00	£0 – £38.50
	Weighted average	£4.64	£11.72	£15.02	£8.22	£8.22
Gross ERV per sq ft per annum	Range	£3.75 – £10.00	£4.30 – £31.80	£10.00 – £26.00	£2.10 – £13.00	£2.10 – £31.80
	Weighted average	£5.50	£14.36	£17.05	£8.49	£9.61
Net initial yield[1]	Range	4.75% – 6.52%	0% –11.50%	5.36% – 9.58%	4.85% – 8.31%	0% – 11.50%
	Weighted average	5.23%	5.88%	6.85%	7.33%	6.01%
Equivalent yield	Range	5.30% – 6.75%	5.71% – 9.82%	5.56% – 9.93%	4.85% – 7.99%	4.85% – 9.93%
	Weighted average	6.25%	6.97%	7.48%	6.84%	6.87%

Notes:
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 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	£0 – £10.84	£0 – £38.50	£0 – £25.72	£0 – £13.00	£0 – £38.50
	Weighted average	£4.58	£12.63	£11.50	£7.92	£7.62
Gross ERV per sq ft per annum	Range	£3.75 – £12.77	£7.40 – £38.50	£9.50 – £27.50	£8.18 – £13.00	£3.75 – £38.50
	Weighted average	£5.58	£14.73	£16.46	£9.07	£9.64
Net initial yield[1]	Range	0% – 6.75%	0% – 9.54%	0% – 8.98%	4.73% – 7.68%	0% – 8.98%
	Weighted average	5.09%	5.87%	4.89%	6.49%	5.30%
Equivalent yield	Range	4.44% – 8.05%	5.35% – 10.09%	5.15% – 10.53%	4.73% – 7.83%	4.44% – 10.53%
	Weighted average	5.95%	6.38%	6.75%	6.59%	6.36%

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

Notes to the Financial Statements continued

11. Investment property continued

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

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 2020	Industrial £'000	Retail £'000	Office £'000	Other £'000	All sectors £'000
Increase in ERV by 5%	5,611	4,238	4,520	638	15,007
Decrease in ERV by 5%	(5,589)	(3,894)	(4,221)	(392)	(14,096)
Increase in net initial yield by 0.25%	(5,303)	(4,015)	(3,347)	(615)	(13,107)
Decrease in net initial yield by 0.25%	5,836	4,371	3,600	659	14,245

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

12. Investment in joint ventures

	£000
Closing balance as at 31 March 2018	77,748
Purchase of interest in City Tower Unit Trust	2,250
Valuation gain on JV	167
Closing balance as at 31 March 2019	**80,165**
Purchase of interest in City Tower Unit Trust	496
Capital distribution from Store Unit Trust	(319)
Valuation loss on JV	(2,357)
Closing balance as at 31 March 2020	**77,985**

Summarised joint venture financial information not adjusted for the Group's share – City Tower Unit Trust	**31/03/2020 £000**	31/03/2019 £000
Investment properties	163,750	170,650
Other assets	3,270	5,571
Total liabilities[1]	(2,745)	(2,777)
Revenues for year	8,313	9,318
Total comprehensive income	5,397	8,331
Net asset value attributable to Group	41,069	43,361
Total comprehensive income attributable to the Group	**1,349**	**2,083**

1 Liabilities are non-recourse to the Group.

12. Investment in joint ventures continued

Summarised joint venture financial information not adjusted for the Group's share – Store Street Unit Trust	**31/03/2020 £000**	31/03/2019 £000
Investment properties	73,900	73,000
Other assets	38	701
Total liabilities[1]	(106)	(93)
Revenues for year	2,882	2,869
Total comprehensive income	2,497	2,490
Net asset value attributable to Group	36,916	36,804
Total comprehensive income attributable to the Group	**1,249**	**1,245**

1 Liabilities are non-recourse to the Group.

The Company owns 25% of City Tower Unit Trust and 50% of Store Unit Trust. The remaining units in the City Tower and Store Unit Trusts are owned by other Schroder funds.

The fair value of investment property owned by the two joint ventures has been determined by BNP Paribas Real Estate, who are registered independent appraisers. The two valuations were undertaken on the same basis as that described under note 11, Investment property, above and contained the same reference to 'material valuation uncertainty' as set out in note 11.

13. Trade and other receivables

	31/03/2020 £000	31/03/2019 £000
Rent receivable	2,365	866
Other debtors and prepayments	12,750	12,604
Receivable relating to disposals	–	36,219
	15,115	**49,689**

Other debtors and prepayments includes £9,334,000 (2019: £10,352,000) in respect of lease incentives.

14. Cash and cash equivalents

As at 31 March 2020 the Group had £33.1 million (2019: £21.0 million) in cash; of this amount £22.7 million is held with Canada Life (2019: £12.1 million).

15. Issued capital and reserves

Stated 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 (2019: 565,664,749) of which 47,151,340 ordinary shares are held in treasury (2019: 47,151,340). The total number of voting rights of the Company is 518,513,409 (2019: 518,513,409).

Treasury capital

47,151,340 (2019: 47,151,340) ordinary shares, which represent 8.3% (2019: 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.

Notes to the Financial Statements continued

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.

	31/03/2020 £000	31/03/2019 £000
Non-current liabilities		
Loan facility	129,585	158,585
Unamortised arrangement fees	(918)	(2,355)
	128,667	**156,230**

As at 31 March 2020 the Group had a loan balance of £129.6 million and £0.9 million of unamortised arrangement fees (31 March 2019: £158.6 million and £2.4 million of unamortised arrangement fees).

During the year additional loan costs relating to the refinancing were incurred of £0.3 million which have been capitalised and are being charged to the income statement in line with the Group's amortisation policy. Unamortised finance costs of £1.6 million relating to the former Canada Life loan facility have been written off to the income statement.

The Group has in place a £129.6 million loan facility with Canada Life. This has been in place since 16 April 2013 and has been refinanced several times, most recently in October 2019. As part of this most recent refinancing, a break fee of £25.8 million was paid and all previously unamortised finance costs of £1.6 million were written off as stated above.

The loan is split into two equal tranches of £64.793 million as follows:
- Facility A matures in October 2032 and attracts an interest rate of 2.35%
- Facility B matures in October 2039 and attracts an interest rate of 2.62%

The Company also has in place a revolving credit facility ('RCF') with Royal Bank of Scotland. In January 2019 the RCF limit was increased from £32.5 million to £52.5 million. As at 31 March 2020 the facility was completely undrawn (2019: £29 million was drawn).

The interest rate is based on the Loan to Value ratio as set out below:
- LIBOR + 1.60% if the Loan to Value is less than or equal to 60%; and
- LIBOR + 1.85% if the 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 £32.5 million of the loan was entered into and this 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%.

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 2020 contained properties valued at £262.8 million (2019: £318.2 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 2020 contained properties valued at £105.3 million (2019: £105.9 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.

As at the interest payment date, the Canada Life interest cover calculated in accordance with the ICR covenant was 548% (2019: 333%) and the forward-looking interest cover was 436% (2019: 314%), with the Loan to Value ratio of 49.3% (40.7% net of all cash) (2019: 36.7%, 22.1% net of all cash).

17. Trade and other payables

	31/03/2020 £000	31/03/2019 £000
Deferred income	3,885	4,532
Rental deposits	1,166	1,193
Interest payable	728	1,391
Other trade payables and accruals	865	2,271
	6,644	**9,387**

18. NAV per ordinary share
The NAV per ordinary share is based on the net assets of £309,806,000 (2019: £356,376,000) and 518,513,409 (2019: 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 17. Included in market price risk is interest rate risk which is discussed further below.

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 and Canada Life. Both HSBC and Canada Life have a credit rating of AA negative (provided by Standard and Poor's).

Notes to the Financial Statements continued

19. Financial instruments, properties and associated risks continued

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

	31 March 2020 Carrying amount £000	31 March 2019 Carrying amount £000
Office	436	3
Industrial	935	599
Retail	994	264
	2,365[1]	**866[1]**

1 Net of bad debt provisions of £519k (2019: £156k).

Rent receivables which are past their due date were:

	31 March 2020 Carrying amount £000	31 March 2019 Carrying amount £000
0–30 days	2,170	775
31–60 days	93	21
61–90 days	38	33
91 days plus	64	37
	2,365[1]	**866[1]**

1 Net of bad debt provisions of £519k (2019: £156k).

On initial recognition the Group calculates the expected credit loss for debtors based on lifetime expected credit losses under the IFRS 9 simplified approach. Management consider aged debtors' analyses, the strength of tenant covenants and any rental deposits held when considering this.

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 sale's 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.

19. Financial instruments, properties and associated risks continued

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

As at 31 March 2020	Carrying amount £000	Expected cash flows £000	6 mths or less £000	6 mths – 2 years £000	2–5 years £000	More than 5 years £000
Financial liabilities						
Interest-bearing loans and borrowings and interest	129,395	181,533	1,614	4,840	9,680	165,399
Leasehold liability	2,416	13,442	57	173	346	12,866
Trade and other payables	2,031	2,031	865	–	–	1,166
Total financial liabilities	**133,842**	**197,006**	**2,536**	**5,013**	**10,026**	**179,431**

As at 31 March 2019	Carrying amount £000	Expected cash flows £000	6 mths or less £000	6 mths – 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

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. As at 31 March 2020 the fair value of the Group's £129.6 million loan with Canada Life was £131.1 million (2019: £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 (balance undrawn as at year end).

A 1% increase or decrease in short-term interest rates would increase or decrease the annual income and equity by £331,000 based on the cash balance as at 31 March 2020.

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 (unobservable inputs).

There have been no transfers between Levels 1, 2 and 3 during the year (2019: 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.

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 2020, following a refinancing during the year, the fair value of the Group's £129.6 million loan with Canada Life was £131.1 million (2019: £140.3 million).

Notes to the Financial Statements continued

19. Financial instruments, properties and associated risks continued

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:

	31/03/2020 £000	31/03/2019 £000
Debt		
Fixed rate loan facility	129,585	129,585
Floating rate loan facility[1]	–	29,000
Equity		
Called-up share capital	192,638	192,638
Reserves	117,168	163,738
	309,806	**356,376**
Total debt and equity	**439,391**	**514,961**

1 This amount refers to the amount drawn. The total facility limit as at 31 March 2020 was £52.5 million.

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

20. Operating leases

The Group leases out its investment property under operating leases. At 31 March 2020 the future minimum lease receipts under non-cancellable leases are as follows:

	31/03/2020 £000	31/03/2019 £000
Less than one year	20,916	25,138
Between one and five years	62,642	76,120
More than five years	61,871	75,679
	145,429	**176,937**

The total above comprises the total contracted rent receivable as at 31 March 2020.

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.

21. List of subsidiary and joint venture undertakings

The companies listed below are those which were part of the Group at 31 March 2020 and 31 March 2019:

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 (Bedford) Ltd	Subsidiary	Guernsey	100%
SREIT Holdings No.3 Ltd	Subsidiary	Guernsey	100%
SREIT Finance No.3 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 the Investment Manager are disclosed in note 3. Transactions with joint ventures are disclosed in note 12. Transactions with the Directors are shown in the Directors' Remuneration Report.

23. Capital commitments

As at 31 March 2020 the Group had capital commitments of £6.0 million (2019: £9.4 million).

24. Post balance sheet events

On 14 April 2020 an amount of £52.5 million was drawn down on the RBS RCF and this is being held in a deposit account. This facility is now fully drawn.

Further details with regard to the financial impact of COVID-19 on the Group can be found in note 1 on pages 58 and 59.

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

	31/03/2020 Total £000	31/03/2019 Total £000
EPRA earnings	**12,729**	15,150
EPRA earnings per share	**2.5**	2.9
EPRA NAV	**309,806**	356,376
EPRA NAV per share	**59.7**	68.7
EPRA NNNAV	**308,253**	343,322
EPRA NNNAV per share	**59.4**	66.2
EPRA Net Initial Yield	**5.3%**	5.0%
EPRA topped-up Net Initial Yield	**5.6%**	5.3%
EPRA Vacancy Rate	**7.3%**	8.5%
EPRA Cost Ratios – including direct vacancy costs	**32.2%**	27.6%
Adjusted EPRA Cost Ratios – including direct vacancy costs	**27.2%**	21.2%
EPRA Cost Ratios – excluding direct vacancy costs	**32.2%**	27.6%
Adjusted EPRA Cost Ratios – excluding direct vacancy costs	**27.2%**	21.2%

a. EPRA earnings and EPS

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

	31/03/2020 £000	31/03/2019 £000
IFRS (loss)/profit after tax	(32,459)	15,901
Adjustments to calculate EPRA earnings:		
Profit on disposal of investment property	(1,897)	(2,156)
Net valuation (loss)/gain on investment property	17,364	(1,556)
Share of valuation (loss)/gain in associates and joint ventures	2,357	(167)
Refinancing costs	27,364	3,128
EPRA earnings	**12,729**	**15,150**
Weighted average number of ordinary shares	518,513,409	518,513,409
IFRS (loss)/earnings per share (pence)	**(6.3)**	**3.1**
EPRA earnings per share (pence)	**2.5**	**2.9**

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.

	31/03/2020 £000	31/03/2019 £000
IFRS NAV per financial statements	309,806	356,376
EPRA NAV	309,806	356,376
Shares in issue at end of year	518,513,409	518,513,409
IFRS NAV per share (pence)	**59.7**	**68.7**
EPRA NAV per share (pence)	**59.7**	**68.7**

c. EPRA NNNAV per share

The EPRA NAV adjusted to include the fair value of debt, financial instruments and deferred taxes, where relevant, divided by the number of shares in issue.

	31/03/2020 £000	31/03/2019 £000
EPRA NAV	309,806	356,376
Adjustments to calculate EPRA NNNAV:		
Fair value of debt	(1,553)	(13,054)
EPRA NNNAV	**308,253**	**343,322**
EPRA NNNAV per share (pence)	**59.4**	**66.2**

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.

	31/03/2020 £000	31/03/2019 £000
Investment property – wholly-owned	328,300	381,450
Investment property – share of joint ventures and funds	77,888	79,163
Complete property portfolio	**406,188**	**460,613**
Allowance for estimated purchasers' costs	23,559	26,716
Gross up completed property portfolio valuation	**429,747**	**487,329**
Annualised cash passing rental income	24,878	26,983
Property outgoings	(2,251)	(2,375)
Annualised net rents	**22,627**	**24,608**
Notional rent expiration of rent free periods[1]	1,518	1,029
Topped-up net annualised rent	**24,145**	**25,637**
EPRA NIY	**5.3%**	**5.0%**
EPRA 'topped-up' NIY	**5.6%**	**5.3%**

1 The period over which rent free periods expire is two years (2019: two years).

EPRA Performance Measures (unaudited) continued

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

	31/03/2020 £000	31/03/2019 £000
Administrative/property operating expense line per IFRS income statement	8,059	7,970
Ground rent costs	(138)	(124)
EPRA Costs (including direct vacancy costs)	**7,921**	**7,846**
Direct vacancy costs	(1,232)	(1,769)
EPRA Costs (excluding direct vacancy costs)	**6,689**	**6,077**
Company adjustments	–	–
Adjusted EPRA Costs (including company adjustment costs)	**7,921**	**7,846**
Direct vacancy costs	(1,232)	(1,769)
Adjusted EPRA Costs (excluding direct vacancy costs)	**6,689**	**6,077**
Gross Rental Income less ground rent costs	22,022	25,154
Share of Joint Ventures income less ground rent costs	2,567	3,311
Gross Rental Income	**24,589**	**28,465**
EPRA Cost Ratio (including direct vacancy costs)	32.2%	27.6%
EPRA Cost Ratio (excluding direct vacancy costs)	27.2%	21.2%
EPRA Vacancy Rate	7.3%	8.5%
Adjusted EPRA Cost Ratio (including company adjustment costs)	32.2%	27.6%
Adjusted EPRA Cost Ratio (excluding direct vacancy costs)	27.2%	21.2%

Alternative Performance Measures (unaudited)

The Company uses the following Alternative Performance Measures ('APMs') in its Annual Report, financial statements and notes to the financial statements. The APMs are reconciled to the financial statements through the narrative below. The Board believes that each of the APMs provides additional useful information to the shareholders in order to assess the Company's performance.

Dividend cover – the ratio of EPRA Earnings to dividends paid (note 10) in the period adjusted for one-off refinancing costs of £27.4 million (page 54). Earnings excludes capital items such as revaluation movements on investments and gains on disposal of investment properties.

Gross LTV – the value of the external loans unadjusted for unamortised arrangement costs (note 16) expressed as a percentage of market value of property investments as at the Balance Sheet date. The market value of property investments includes joint venture investments and are as per external valuations and have not been adjusted for IFRS lease incentive debtors or the fair value of the head lease at Luton.

LTV net of cash – the value of the external loans unadjusted for unamortised arrangement costs (note 16) less cash held (note 14) expressed as a percentage of the market value of the property investments as at the Balance Sheet date. The market value of property investments includes joint venture investments and are as per external valuations and have not been adjusted for IFRS lease incentive debtors or the fair value of the head lease at Luton.

Ongoing charges including Fund expenses – all operating costs expected to be regularly incurred and that are payable by the Company expressed as a percentage of the average quarterly NAVs of the Company for the financial year. Note that no capital costs, including capital expenditure or acquisition/disposal fees, are included as costs.

Ongoing charges including Fund and property expenses – all operating costs expected to be regularly incurred and that are payable by the Company expressed as a percentage of the average quarterly NAVs of the Company for the financial year. Any capital costs, including capital expenditure and acquisition/disposal fees, are excluded as costs, as well as interest costs and any other costs considered to be non-recurring. In the current period the material non-recurring costs include non-cash bad debt expenses of £0.5 million (note 5) as well as the one-off refinancing costs of £27.4 million (page 54).

Share discount/premium – the share price of an Investment Trust is derived from buyers and sellers trading their shares on the stock market. This price is not identical to the NAV per share of the underlying assets less liabilities of the Company. If the share price is lower than the NAV per share, the shares are trading at a discount. Shares trading above the NAV per share are said to be at a premium. The discount/premium is calculated as the variance between the share price as at the Balance Sheet date and the NAV per share (page 55) expressed as a percentage.

NAV total return – the return to shareholders calculated on a per share basis by adding dividends paid (note 10) in the period on a time weighted basis to the increase or decrease in the NAV per share (page 55).

NAV total return excluding refinancing costs – the return to shareholders calculated on a per share basis by adding dividends paid (note 10) in the period on a time-weighted basis to the increase or decrease in the NAV per share (page 55) adjusted for the one-off refinancing costs of £27.4 million (page 54).

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 2019 – 31 December 2019, presented with comparison against 2018. 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 2018 and 2019 there were 23 such managed assets within the portfolio.

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)		Energy intensity (kWh/m²)	
Sector	2018	**2019**	2018	**2019**	2018	**2019**
Office	3,592,781	3,149,753	2,190,441	2,257,215	130	122
Coverage	12	12	12	11	12	12
Retail	126,882	126,851	2,509	3,465	38.2	38.5
Coverage	2	2	1	1	2	2
Mixed Use[1]	2,609,116	2,424,786			182	170
Coverage	1	1			1	1
Industrial, Distribution Warehouse	111,217	87,693	244	94	1.0	0.8
Coverage	5	5	2	2	5	5
Retail, Warehouse	22,888	22,844			1.8	1.8
Coverage	1	1			1	1
Leisure	271,648	260,233	163,545	72,697	157	120
Coverage	1	1	1	1	1	1
Sub-Total	**6,734,532**	**6,072,160**	**2,356,739**	**2,333,472**		
Coverage	**22**	**22**	**16**	**15**		
Total (electricity and fuel)	**9,091,271**	**8,405,631**				
Coverage	**22**	**22**				
Renewable electricity %		99.6%				
Coverage		**22**				

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

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

- Consumption data relates to the managed portfolio only:
  - Offices: Common areas, shared services, tenant areas 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: 0.6% of Electricity and 0.1% 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 31st December 2019 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 have 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.
- Intensity: An energy intensity kWh/m² is reported for assets. 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).

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	2018	**2019**	Change	2018	**2019**	Change	2018	**2019**
Office	1,323,619	1,279,504	–3%	1,094,443	1,132,844	4%	119.2	118.9
Coverage			8			8		8
Retail	14,683	17,618	20%				9	11
Coverage			1					1
Mixed Use[1]	2,609,116	2,424,786	–7%				182	170
Coverage			1					1
Retail, Warehouse	22,888	22,844	0%				1.8	1.8
Coverage			1					1
Leisure	271,648	260,233	–4%	163,545	72,697	–56%	157	120
Coverage			1			1		1
Sub-total	**4,241,953**	**4,004,985**	**–6%**	**1,257,988**	**1,205,541**	**–4%**		
Coverage			**12**			**9**		
Total (electricity and fuel)	**5,499,941**	**5,210,526**	**–5%**					
Coverage			**12**					

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, under refurbishment or subject to a significant change in the scope of reported data during the two years reported.
- Consumption data relates to the managed portfolio only:
  - Offices: Common areas, shared services, tenant areas 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: 0.6% of Electricity and 0.1% 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.

Sustainability Performance Measures (Environmental) (unaudited) continued

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

- 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).
- Retail electricity consumption increase of 20% is driven by a caretaker's office within Albion Shopping Centre, Ilkeston and amounts to a small quantity of consumption relative to the whole portfolio.
- Leisure fuel consumption decrease of 56% is driven by The Galaxy, Luton and caused by changes in the data collection methodology (based on invoice estimates in 2018 and actual consumption in 2019).

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)		Absolute intensity ($kg\ CO_2e/m^2$)		Like for like emissions (tCO_2e)		Like for like intensity ($kg\ CO_2e/m^2$)		
Sector	2018	**2019**	2018	**2019**	2018	**2019**	Change	2018	**2019**
Office									
Scope 1	403	415			201	208	4%		
Scope 2	1,017	805	32	27	375	327	–13%	28.4	26.4
Coverage	12	12	12	12					8
Retail									
Scope 1	–	1			–	–	–		
Scope 2	36	32	10.7	9.8	4	5	8%	2.5	2.7
Coverage	2	2	2	2					1
Mixed Use[1]									
Scope 1	–	–			–	–	–		
Scope 2	739	620	51.6	43.3	739	620	–16%	51.6	43.3
Coverage	1	1	1	1					1
Industrial, Distribution Warehouse									
Scope 1	–	–							
Scope 2	31	22	0.3	0.2					
Coverage	5	5	5	5					
Retail, Warehouse									
Scope 1	–	–			–	–	–	0.5	0.5
Scope 2	6	6	0.5	0.5	6	6	–10%		
Coverage	1	1	1	1					1
Leisure									
Scope 1	30	13			30	13	–56%		
Scope 2	77	67	38.6	28.8	77	67	–13%	38.6	28.8
Coverage	1	1	1	1					1
Total									
Scope 1	**433**	**429**			**231**	**222**	**–4%**		
Scope 2	**1,906**	**1,552**			**1,201**	**1,024**	**–15%**		
Scope 1 & 2	**2,340**	**1,981**			**1,432**	**1,245**	**–13%**		
Coverage	**22**	**22**							**12**

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

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

- Like for like excludes assets that were purchased, sold, under refurbishment or subject to a significant change in the scope of reported data during the two years reported.
- Scope 1 GHG emissions relate to the use of onsite natural gas.
- Scope 2 GHG emissions relate to the use of electricity.
- 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 (2018 and 2019).
  - 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) and GHG intensity is presented as kilograms of carbon dioxide equivalent ($kgCO_2e$), where available greenhouse gas emissions conversion factors allow.
- Emissions data relates to the managed portfolio only:
  - Offices: Common areas, shared services, tenant areas 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: 0.6% of Electricity and 0.1% 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 absolute consumption and 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).
- Leisure like for like Scope 1 emissions decrease of 56% is driven by The Galaxy, Luton and caused by changes in the data collection methodology for gas fuel (based on invoice estimates in 2018 and actual consumption in 2019).

Water (Water-Abs; Water-LfL; Water-Int)

The table below sets out water consumption for assets managed by the Company.

	Absolute water (m^3)		Absolute intensity (m^3/m^2)		Like for like water (m^3)		Like for like intensity (m^3/m^2)		
Sector	2018	**2019**	2018	**2019**	2018	**2019**	Change	2018	**2019**
Office	16,282	11,023	0.54	0.36	7,594	8,292	9%	0.53	0.58
Coverage	8	8							6
Retail	2,301	2,310	0.68	0.68	2,251	2,309	3%	1.37	1.4
Coverage	2	2							1
Mixed Use[1]	5,564	5,344	0.39	0.37	5,564	5,344	–4%	0.39	0.37
Coverage	1	1							1
Leisure	235	144	0.08	0.05	235	144	–39%	0.08	0.05
Coverage	1	1							1
Total	**24,382**	**18,821**			**15,643**	**16,090**	**3%**		
Coverage	**12**	**12**							**9**

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, under refurbishment or subject to a significant change in the scope of reported data 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: 0.03% 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.

Sustainability Performance Measures (Environmental) (unaudited) continued

Water (Water-Abs; Water-LfL; Water-Int) continued

- Intensity: An intensity m³/m² is reported for absolute consumption and for assets within the like for like portfolio. The numerator is landlord-managed water consumption and the denominator is net lettable floor area (m²). For Leisure/Retail, common parts water consumption is divided by common parts area (m²).
- All water was procured from a municipal supply. As far as we are aware, no surface, ground, rainwater or wastewater from another organisation was consumed during the reporting period and therefore is not presented here.
- Leisure like for like water consumption decrease of 39% relates to common parts area and amounts to a small volume of consumption relative to the whole portfolio.

Waste (Waste-Abs; Waste-LfL)

The table below sets out waste managed by the Company by reported disposal route and sector.

		Absolute tonnes				Like for like tonnes				
		2018		**2019**		2018		**2019**		
		Tonnes	%	Tonnes	%	Tonnes	%	Tonnes	%	% change
Office	Recycled	124	52%	97	43%	46	38%	47	37%	2%
	Incineration with energy recovery	114	48%	126	57%	75	62%	81	63%	8%
	Direct to landfill	–	0%	–	0%	–	0%	–	0%	0%
	Total		**239**		**223**		**121**		**128**	**6%**
	Coverage		**10**		**12**					**7**
Retail	Recycled	98	69%	84	76%	92	96%	83	97%	–10%
	Incineration with energy recovery	44	31%	27	24%	4	4%	3	3%	–15%
	Direct to landfill	–	0%	–	0%	–	0%	–	0%	0%
	Total		**143**		**111**		**96**		**86**	**–10%**
	Coverage		**3**		**3**					**1**
Mixed Use[1]	Recycled	94	59%	43	36%	94	59%	43	36%	–55%
	Incineration with energy recovery	64	41%	76	64%	64	41%	76	64%	18%
	Direct to landfill	–	0%	–	0%	–	0%	–	0%	0%
	Total		**158**		**119**		**158**		**119**	**–25%**
	Coverage		**1**		**1**					**1**
Leisure	Recycled	182	53%	144	45%	182	53%	144	45%	–21%
	Incineration with energy recovery	158	47%	177	55%	158	47%	177	55%	12%
	Direct to landfill	–	0%	–	0%	–	0%	–	0%	0%
	Total		**340**		**321**		**340**		**321**	**–6%**
	Coverage		**1**		**1**					**1**
Total	Recycled	498	57%	367	47%	414	58%	317	48%	–23%
	Incineration with energy recovery	381	43%	406	53%	301	42%	337	52%	12%
	Direct to landfill	–	0%	–	0%	–	0%	–	0%	0%
	Total		**880**		**773**		**715**		**654**	**–9%**
	Coverage	**15**		**17**						**10**

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

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, under refurbishment or subject to a significant change in the scope of reported data 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

The table below sets out the proportion of the Company's total portfolio with a Green Building Certificate by floor area.

Rating	Portfolio by floor area (%)
Offices (BREEAM In Use)	3%
Mixed Use[1] (BREEAM Fit Out/Refurbishment, BREEAM In Use)	3%
All other sectors	0%
Coverage	**100%**

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

- Green building certificate records for the Company are provided as at 31 March 2020 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 ownership.

Sustainability certification (Cert-Tot): Energy performance certificates

The table below sets out the proportion of the Company's total portfolio with an Energy Performance Certificate by floor area.

Energy performance certificate rating	Portfolio by floor area (%)
A	0%
B	2%
C	34%
D	26%
E	9%
F	2%
G	2%
Exempt	2%
No EPC	22%
Coverage	**100%**

- Energy Performance Certificate ('EPC') records for the Company are provided as at 31 March 2020 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).
- EPCs are available for 76% 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 2019 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 seven units in five assets.

Sustainability Performance Measures (Social)

The following are reported in relation to the assets held in the Company's portfolio over the reporting period to 31 December 2019:

Asset health and safety assessments (H&S-Asset)

The table below sets out the proportion of the Company's total portfolio where health and safety impacts were assessed or reviewed for compliance or improvement.

	Portfolio by floor area (%)	
	2018	**2019**
All sectors	100%	100%

Asset health and safety compliance (H&S-Comp)

The table below sets out the number of incidents of non-compliance with regulations and/or voluntary codes identified.

	Number of incidents	
	2018	**2019**
All sectors	0	0

Community engagement, impact assessments and development programmes (Comty-Eng)

The table below sets out the proportion of the Company's total portfolio that has completed local community engagement, impact assessments and/or development programmes.

	Portfolio by number assets (%)	
	2018	**2019**
Mixed Use	2%	7.6%
Industrial, Distribution Warehouse	2%	5.6%
Total	**4%**	**13.2%**

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 2020.
- The average tenure of the four Directors to 31 March is four years and ten months.
- The number of Directors with competencies relating to environmental and social topics is two 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.

Streamlined Energy and Carbon Reporting

Schroders Real Estate Investment Trust plc (the 'Company') 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.

The Board and Investment Manager in recognition of the importance it places on sustainability has voluntarily included a report for the Company aligned with the UK Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, (the 'Regulations') on its UK energy use, associated Scope 1 and 2 greenhouse gas ('GHG') emissions, an intensity metric and, where applicable, global energy use. This reporting is also referred to as Streamlined Energy and Carbon Reporting ('SECR').

This Energy and Carbon Report applies for the Company's Annual Report for the 12 months to 31 March 2020. The statement has, however, been prepared for the calendar year, the 12 months to 31 December 2019, to report annual figures for emissions and energy use for the available period for which such information is available. In addition, the Regulations advise providing a narrative on energy efficiency actions taken in the previous financial year.

As a property company, energy consumption and emissions result from the operation of buildings. The reporting boundary has been scoped to those held properties where the Company retained operational control: where the Company is responsible for operating the entire building, shared services (e.g. common parts lighting, heating and air conditioning), external lighting and/or void spaces. '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. This incorporates consumption in tenant areas, where the landlord procures energy for the whole building.

At 31 December 2019 the Company held 23 properties with operational control in total, all of which are located in the UK.

The Company is not directly responsible for any GHG emissions/energy usage at single let/FRI assets nor at multi-let assets where the tenant is counterparty to the energy contract. These emissions form part of the wider value chain (i.e. 'Scope 3') emissions, which are not monitored at present. As a real estate company with no direct employees or company owned vehicles as at 31 December 2019, there is no energy consumption or emissions associated with travel or occupation of corporate offices to report. Fugitive emissions associated with refrigerant losses from air conditioning equipment are widely understood by the industry to be de minimis and data are not typically collected. The Company has obtained some data and estimated emissions which has supported the decision to exclude emissions based on reasoning as being de minimis. The Company has not reported these emissions based on this initial materiality review and will, over the next year, look to improve monitoring emissions associated with refrigerant losses.

In addition to reporting absolute energy consumption and GHG emissions, the Company has reported separately on performance within the 'like-for-like' portfolio, as well as providing intensity ratios, where appropriate. The like-for-like portfolio and intensity ratios include buildings where each of the following conditions is met:
- Owned for the full 24-month period (sales/acquisitions are excluded)
- No major renovation or refurbishment has taken place
- At least 24 months' data is available

Note also that voids where utility responsibility may be temporarily met by the Landlord are excluded.

For the intensity ratios, the denominator determined to be relevant to the business is square metres of net lettable area for most sectors, including Offices and Mixed Use. For Retail and Leisure, the most relevant denominator is common parts area. The intensity ratio is expressed as:
- Energy: kilowatt hours per metre square (net lettable area or common parts area) per year, or, kWh/m^2/yr.
- GHG: kilograms carbon dioxide equivalent per metre square (net lettable area or common parts area) per year, or, kgCO_2e/m^2/yr.

Energy consumption and greenhouse gas emissions
The table below sets out the Company's energy consumption.

	Absolute energy (kWh)		Like for like energy (kWh)	
	2018	**2019**	2018	**2019**
Gas	2,356,739	2,333,472	1,257,988	1,205,541
Electricity	6,734,532	6,072,160	4,241,953	4,004,985
Total	**9,091,271**	**8,405,631**	**5,499,941**	**5,210,526**

Energy consumption and greenhouse gas emissions continued

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

	Absolute emissions (tCO_2e)		Like for like emissions (tCO_2e)	
	2018	**2019**	2018	**2019**
Scope 1 (Direct emissions from gas consumption)	433	429	231	222
Scope 2 (Indirect emissions from electricity)	1,906	1,552	1,201	1,024
Total	**2,340**	**1,981**	**1,432**	**1,245**

The like for like energy consumption for the 2019 calendar year for the managed assets held within the Company has decreased by 5%, the greenhouse gas emissions have decreased by 13%. Energy performance improvement initiatives are considered for all directly managed assets; operational initiatives undertaken include audits to assess opportunities, upgrades to automatic meter readers for improved energy monitoring and LED upgrades.

The table below sets out the Company's like for like energy and greenhouse gas emissions intensities by sector.

	Energy intensities (kWh per m^2)		Emissions intensities (tCO_2e per m^2)	
	2018	**2019**	2018	**2019**
Offices	119.2	118.9	28.4	26.4
Retail	9	11	2.5	2.7
Mixed Use	182	170	51.6	43.3
Retail, Warehouse	1.8	1.8	0.5	0.5
Leisure	157	120	38.6	28.8

Methodology

- All energy consumption and GHG emissions reported occurred at the Company's assets, all of which are located in the UK.
- Energy consumption data is reported according to automatic meter reads, manual meter reads or invoice estimates. Historic energy and consumption data have been restated where more complete and/or accurate records have become available. Where required, missing consumption data has been estimated through pro-rata extrapolation. Data has been adjusted to reflect the Company's share of asset ownership, where relevant. Data has not been formally assured to a recognised standard.
- The Company's GHG emissions are calculated according to the principles of the Greenhouse Gas (GHG) Protocol Corporate Standard.
  - The Company's Greenhouse Gas Emissions are reported as tonnes of carbon dioxide equivalent (tCO_2e), which includes the following emissions covered by the GHG Protocol (where relevant and available greenhouse gas emissions factors allow): carbon dioxide (CO_2), methane (CH_4), hydrofluorocarbons ('HFCs'), nitrous oxide (N_20), perfluorocarbons ('PFCs'), sulphur hexafluoride (SF_6) and nitrogen triflouride (NF_3).
  - GHG emissions from electricity (Scope 2) are reported according to the 'location-based' approach.
  - The following greenhouse gas emissions conversion factors and sources have been applied:

Country	Emissions source	GHG emissions factor	Emissions factor data source
United Kingdom	Electricity 2018	0.283kgCO_2e	UK Government's GHG Conversion Factors for Company Reporting (2018)
	Electricity 2019	0.256kgCO_2e	UK Government's GHG Conversion Factors for Company Reporting (2019)
	Gas	0.184kgCO_2e	

Streamlined Energy and Carbon Reporting continued

Energy efficiency actions

Environmental data management system and quarterly reporting

Environmental data for the Company is collated by sustainability consultants Evora Global supported by their proprietary environmental data management system SIERA. Energy, water, waste and greenhouse gas emission data are collected and validated for all assets where the portfolio has operational control on a quarterly basis.

Energy target, audits and improvement programme

The Investment Manager together with sustainability consultants Evora Global and property manager Mapp looks to identify and deliver energy and greenhouse gas emissions reductions on a cost-effective basis. The programme involves reviewing all managed assets within the Company and identifying and implementing improvement initiatives, where viable. The process is of continual review and improvement.

Energy performance improvement initiatives undertaken at several assets include upgrades to automatic meter readers for improved energy monitoring and LED upgrades.

Renewable electricity tariffs and carbon offsets

The Investment Manager has an objective to procure 100% renewable electricity for landlord-controlled supplies. Progress has been made to increase coverage over the 2019 year and at March 2020 99.6% of the Company's landlord-controlled electricity was on renewable tariffs. No carbon offsets were purchased during the reporting period.

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 ending 31 March 2020, 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 36 and 37 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.
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.
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.
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.
Net asset value or NAV	is shareholders' funds divided by the number of shares in issue at the period end.
NAV total return	is calculated taking into account both capital returns and income returns in the form of dividends paid to shareholders.
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 25 September 2020 at 11 a.m.

The Board takes the well-being of its Shareholders and colleagues seriously and has been closely monitoring the evolving COVID-19 pandemic. At present it is the intention of the Board to hold the AGM as in previous years, with Shareholders given the option of attending in person. In the event that the UK Government's guidance on social distancing and public gatherings nearer to the time of the AGM does not permit this, the Board will make such arrangements as it deems necessary to the format of the AGM to comply with Government guidance and regulations.

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 2020.
Ordinary Resolution 2	3. To approve the Remuneration Report for the year ended 31 March 2020.
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 appoint Ernst & Young LLP 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 41 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 2021 unless such authority is varied, revoked or renewed prior to such date of the 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 2021 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

8 June 2020

Notice of Annual General Meeting continued

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, speak and 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 and any adjournment thereof. 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 or any adjournment thereof (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 23 September 2020. 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

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Directors (all non-executive)
Lorraine Baldry (Chairman)
Stephen Bligh
Alastair Hughes
Graham Basham

Investment Manager and Accounting Agent
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Secretary and Administrator
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The Company's privacy notice is available on its webpage.

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