

Schroder Real Estate Investment Trust Limited

Annual Report and Consolidated Financial Statements

For the Year Ended

31 March 2016



Schroders



OVERVIEW

Company Summary	2
Highlights	3
Property Performance	4
Investment Approach	5
Performance Summary	6

STRATEGIC REPORT

Chairman's Statement	7
Investment Manager's Report	9
Transactions and Asset Management	15
Business Model and Strategy	26

GOVERNANCE

Board of Directors	32
Report of the Directors	34
Statement of Directors' Responsibilities	38
Responsibility Statement of the Directors in respect of the Consolidated Annual Report	39
Remuneration Report	42
Corporate Governance	44
Report of the Audit Committee	49

FINANCIAL STATEMENTS

Independent Auditor's Report	52
Consolidated Statement of Comprehensive Income	55
Consolidated Statement of Financial Position	56
Consolidated Statement of Changes in Equity	57
Consolidated Statement of Cash Flows	58
Notes to the Financial Statements	59
EPRA Performance Measures	75
Report of the Depositary to the Shareholders	78

GLOSSARY	79
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NOTICE OF ANNUAL GENERAL MEETING	80
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OVERVIEW

Company Summary

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.

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).

On 1 May 2015 the Company converted to a real estate investment trust ('REIT') in order to benefit from the various tax advantages offered by the

UK REIT regime as well as the potential for improved liquidity as a result of being able to access a wider shareholder base. The Company continues to be declared as an authorised closed-ended investment scheme by the Guernsey Financial Services Commission under section 8 of the Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended and the Authorised Closed-ended Collective Investment Schemes Rules 2008.

Objective

The Company aims to provide shareholders with an attractive level of income 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 current annualised level of dividend is 2.48 pence per share ('pps') and it is intended that successful execution of the investment strategy will enable a progressive dividend policy to be adopted over time.

The portfolio is principally invested in the three main UK commercial real estate sectors of office, industrial and retail, and may also invest in other sectors

including, but not limited to, residential, leisure, healthcare and student accommodation. Over the property market cycle the portfolio aims to generate an above average income return with a diverse spread of lease 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. The current target gearing level reflects a net loan-to-value ('LTV') ratio of between 25% and 35%.

Investment strategy

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

Our objective is to own a portfolio of larger properties in cities and towns with 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.

OVERVIEW

Highlights over the year to 31 March 2016

Net asset value ('NAV') total return of

12.3%

7.8%

Increase in NAV per share

Dividend cover of

106%

Loan to value, net of all cash, of

30%

Underlying property portfolio
total return of

12.8%

compared with 11.1% for the
MSCI (formerly IPD) Benchmark Index

Declared and paid dividends
amounting to

2.48pps

Converted to UK REIT in

May 2015

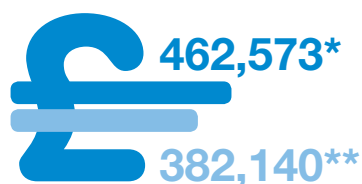
Two acquisitions consistent with the
strategy completed, totalling

£54.5m

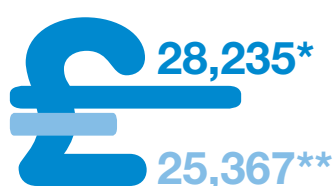
offering an above average net
initial yield of 6.8%

OVERVIEW

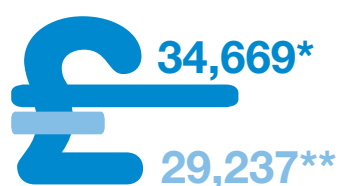
Property Performance



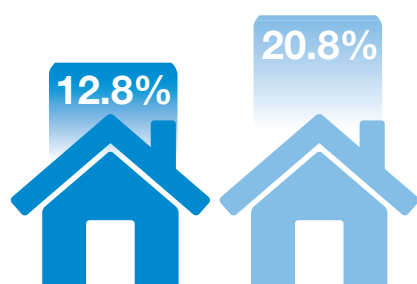
Value of property assets and Joint Ventures (£'000)



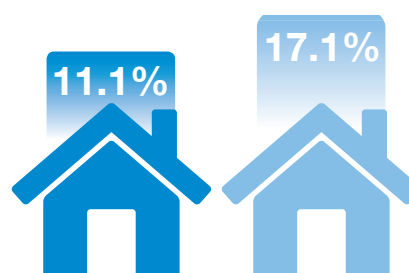
Annualised rental income (£'000)



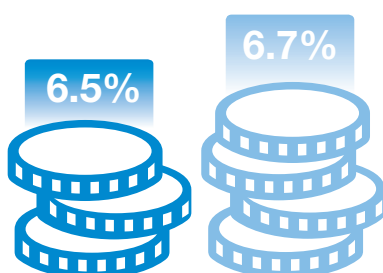
Estimated open market rental value £'000



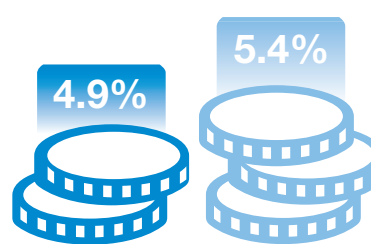
Underlying portfolio total return**



MSCI Benchmark total return***



Underlying portfolio income return



MSCI Benchmark income return

* Includes St George's Court, New Malden which unconditionally exchanged prior to 31 March 2016, valued at £4.0 million

** Includes Spectrum House, Woking which unconditionally exchanged prior to 31 March 2015, valued at £2.3 million

*** Source: MSCI Quarterly Version of Balanced Monthly Index Funds including joint venture investments on a like-for-like basis as at 31 March 2016

OVERVIEW

Investment Approach



Core income

Through the cycle approximately 50% of the portfolio will be invested in property offering secure income characteristics by having an above average lease length and tenant credit quality. The core portfolio will comprise property offering strong fundamentals in locations where rental growth is expected to be realised at rent review, or have contracted rental

increases throughout the lease term. Properties offering these characteristics are likely to be where asset business plans have been completed but where the forecast future returns remain attractive. These core properties balance portfolio risk and support the Company's long term financing arrangements.



Asset management

Up to 50% of the portfolio will be invested in properties offering enhanced potential returns from more comprehensive asset management initiatives. These properties will generally be acquired with an above average income return, a diverse spread of lease

expiries and where an attractive return can be generated by delivering specific initiatives. Examples of this would include lease extensions with tenants, repositioning assets through refurbishment or partial redevelopment and securing change of planning use.



Research led approach

Research is used to inform strategy and identify areas of mis-pricing across the market. Cities and towns are analysed to identify differentiated factors that could support growth. These include factors such as the local economy benefiting from being globally facing; a wealth effect from higher value businesses, industries

or housing; population and jobs growth; regeneration, infrastructural investment or tourism and amenities such as a Russell Group university. The acquisition strategy then focuses on complementary property-types in locations that have all, or a blend of, these characteristics.

OVERVIEW

Performance Summary

Financial summary

	31 March 2016	31 March 2015
NAV	£322.6m	£299.2m
NAV per Ordinary Share (pence)	62.2	57.7
EPRA ¹ NAV	£322.6m	£299.2m
Profit for the year	£36.3m	£54.8m
EPRA ¹ earnings	£13.1m	£12.1m
Equity raised	–	£67.2m
Dividend cover	106%	106%

¹ EPRA calculations are included in the EPRA Performance measures section on pages 75 to 77.

Capital values

	31 March 2016	31 March 2015
Share price (pence)	60.8	62.3
Share price (discount)/premium to NAV	(2.3%)	8.0%
NAV total return ¹	12.3%	24.4%
FTSE All Share Index	3,408.90	3,663.6
FTSE EPRA/NAREIT UK Real Estate Index	1,788.52	1,942.5

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

Earnings and dividends

	31 March 2016	31 March 2015
Earnings (pps)	7.0	11.3
EPRA earnings (pps)	2.5	2.5
Dividends paid (pps)	2.48	2.48
Annualised dividend yield on 31 March share price	4.1%	4.0%

Bank borrowings

	31 March 2016	31 March 2015
On-balance sheet borrowings (£000s) ²	150,085	129,585
Loan to value ratio, net of all cash ³	30.0%	22.4%

² On balance sheet borrowings reflects the loan facility with Canada Life and RBS, without deduction of finance costs.

³ Cash excludes rent deposits and floats held with managing agents.

Ongoing charges⁴

	31 March 2016	31 March 2015
Ongoing charges (including fund only expenses ⁵)	1.2%	1.3%
Ongoing charges (including fund and property expenses ⁴)	2.6%	2.8%

⁴ Ongoing charges calculated in accordance with AIC recommended methodology, as a percentage of average NAV during the year.

⁵ Fund only expenses excludes all property operating expenses, valuers' and professional fees in relation to properties.

STRATEGIC REPORT

Chairman's Statement

Overview

Our growth strategy over the last three years has enabled investment into larger assets offering good fundamentals and value enhancing asset management opportunities in those parts of the UK with strong economies. During the year to 31 March 2016, approximately £60 million of capital has been invested into growth markets alongside the disposal of smaller secondary assets. Together with high levels of asset management, this has contributed to a Net Asset Value ('NAV') total return of 12.3% over the year and sustained out-performance compared with the MSCI Benchmark Index.

This strategy has led to 70% of the portfolio now being located in cities and towns that are ranked in the top quartile for forecast UK Gross Domestic Product ('GDP') growth (Source: Oxford Economics). This has

resulted in a higher level of rental growth across the portfolio and a growing pipeline of asset management initiatives where capital expenditure can be invested to generate attractive income and total returns.

As anticipated, capital growth from UK commercial real estate is now slowing with moderating investor demand. There are a number of factors causing this slowdown including the forthcoming referendum on membership of the European Union. A vote to leave the EU could negatively impact the real estate market and wider economy due to weaker consumer confidence and reduced domestic and foreign direct investment. The risks of a slowdown to the Company are mitigated, however, by its diversified portfolio, a stable balance sheet and good quality assets.

REIT conversion

On 28 April 2015 shareholders voted in favour of converting to a Real Estate Investment Trust ('REIT'), leading to the Company entering the UK REIT regime on 1 May 2015. The Board recommended conversion to REIT status in order to reduce the overall potential

burden of UK taxation and to increase net income and profitability. Following REIT conversion, the Company has attracted a wider investor base.

Strategy

Larger cities and towns with strong economies, developed infrastructure and an attractive environment are expected to capture increasing demand from growing companies and populations, generating more attractive long-term returns. Therefore, in the future, the Company is likely to own fewer but larger properties in higher growth locations. These will typically offer an above average income return with potential to add value through asset management.

The assets purchased during the year are consistent with this strategy and comprised an industrial estate in Leeds and a retail park in Bedford. The combined price of £54.5 million reflected an average net initial income yield of 6.8% and the Investment Manager's

report provides further detail. The acquisitions were funded by a combination of equity raised at the end of the last financial year and a £20.5 million revolving credit facility which was secured at an all-in cost of 2.3%.

During the year and since the year end the Company completed the sale of five properties for a combined price of £15.2 million reflecting an average net initial yield of 3.4% and an uplift of £2 million or 15.3% compared with the previous year-end valuation.

Proceeds will be reinvested in a programme of capital expenditure initiatives, where higher income and total returns are expected.

Chairman's Statement continued

Whilst there was a high level of leasing activity during the year, a combination of the disposals and securing vacant possession to facilitate refurbishments led to the portfolio void rate being broadly unchanged over the year at 9%. Reducing the void rate is a priority and it is expected to reduce to approximately 8% assuming conditional lease agreements such as the Premier Inn letting at the Arndale Centre in Leeds complete as planned. This activity should also improve the portfolio's defensive characteristics.

With continued growth in London and stronger regional economies, value-enhancing asset management opportunities have been identified which may require capital expenditure of up to £30 million. This compares with current cash of approximately £23 million, of which £13 million is available for investment assuming a £10 million allowance for operational flexibility. We expect these initiatives to generate a higher return on capital compared with the alternative option of investing into new acquisitions. Asset management opportunities within the portfolio could be funded from disposals or, alternatively, by raising equity to fund the initiatives to accelerate the growth of net income.

Debt

As at 31 March 2016, the Company had a loan to value, net of cash, of 30%, within the long term target range of 25% to 35%. Putting in place the £20.5 million revolving credit facility to fund the

acquisition of Millshaw Industrial Estate Leeds resulted in the Company having total debt of £150.1 million with an average duration of 10 years and an average interest cost of 4.4%.

Outlook

The UK commercial real estate sector should continue to offer attractive returns. The Company's portfolio is expected to perform well through a combination of factors including the stable income yield and growth from targeted asset management initiatives.

As income becomes a larger component of total returns we expect greater polarisation across the market because winning centres and locations will benefit most. From this perspective, we believe the Company's portfolio is well positioned due to an above

average income return, a low weighting to parts of the retail sector that are expected to underperform and a pipeline of potentially significant income and value enhancing asset management initiatives.

Successful execution of this strategy would deliver enhanced income and enable the Board to review the dividend pay-out level, although intense focus will be given to the sustainability of this alongside prevailing market conditions.

Lorraine Baldry
Chairman, Schroder Real Estate Investment Trust Limited,
10 June 2016

STRATEGIC REPORT

Investment Manager's Report

The Net Asset Value ('NAV') increased to £322.6 million or 62.2 pps over the year to 31 March 2016, compared with £299.2 million or 57.7 pps as at 31 March 2015. This reflects an increase of 7.8% and

a total NAV return, including dividends, of 12.3%. The table below provides a breakdown of the movement in NAV during the year:

	Pence per share
NAV as at 31 March 2015	57.7
Unrealised change in valuation of direct investment property portfolio	4.7
Capital expenditure during the year	(0.8)
Acquisition costs during the year	(0.3)
Unrealised profit on joint ventures	0.9
Realised gains on disposals	0.2
Post tax net revenue	2.5
Dividends paid	(2.5)
Others	(0.2)
NAV as at 31 March 2016	62.2

Performance was driven by a 5.7% increase in the value of the held portfolio which, adjusting for capital expenditure, contributed 3.9 pps to the NAV. This included strong performance from properties acquired as part of the growth strategy such as Stacey Bushes Industrial Estate in Milton Keynes and City Tower in Manchester that generated capital growth of 24.7% and 11.2% respectively. The increase in Stamp Duty Land Tax ('SDLT') in March 2016 reduced the underlying portfolio valuation by £3.6 million and diluted the NAV by 0.7 pps.

Acquisition costs of £1.6 million were incurred over the year, reducing the NAV by 0.3 pps, which represented 3% of the combined price of £54.5 million paid for the two assets in Leeds and Bedford. These have been revalued to £58.8 million as at 31 March 2016. Separately, £4.3 million of capital expenditure was invested in refurbishment projects during the year.

Dividends of £12.8 million or 2.48 pps were paid during the year which, based on post tax revenue, resulted in dividend cover of 100%. Dividend cover excluding exceptional items, principally relating to REIT conversion costs, increased to 106%.

Market overview

According to the MSCI (formerly IPD) Benchmark Index, average UK commercial real estate produced a total return of 11.1% over the year to 31 March 2016, compared like for like with the Company's ungeared portfolio return of 12.8%. The UK index's returns comprised an income return of 4.9% and capital growth of 6.0%. Increasing occupational demand led to rental value growth contributing 4.0% to capital growth, compared with 3.5% over the previous financial year. Conversely, moderating investor demand means that the positive impact of falling yields on capital growth slowed to 3.7% compared with 9.8% over the previous year. Between the sectors, an above average income return and increasing rental growth led the industrial and office sectors to produce the

strongest total returns over the year at 14.5% and 14.4% respectively, with retail lagging at 7%.

Central London office markets produced a total return of 16% over the year, with rental growth of 11% compensating for a low income return of 3.3%. The demand for offices in stronger regional cities also remains healthy, evidenced by a higher level of leasing activity across the portfolio, notably at City Tower in Manchester. In addition to low levels of new development, changes to the planning system to facilitate residential conversions have resulted in a significant loss of older office space. For example, in Bristol, where the Company is undertaking a refurbishment project, 10% of secondary stock has

Investment Manager's Report continued

recently been converted to residential, reducing the supply of office accommodation.

The growth in on-line retail sales is leading to reduced demand for stores and some high profile business failures. This led to low levels of rental growth outside of south east retail locations. Changing social, demographic and technological behaviours mean that retailers must increasingly provide the consumer with a retail and leisure 'experience' or, alternatively, offer convenience in terms of location. This is leading to polarised returns from the retail market and we expect dominant shopping centres and convenience retail in densely populated urban centres to out-perform.

The industrial sector is benefiting from the growth of on-line retail, with increased take up of large logistics warehouses. Demand for smaller industrial estates around big cities is also increasing as on-line parcel volumes grow and internet retailers offer same day delivery. We favour multi-let industrial estates in higher growth areas benefiting from limited new development

and the cyclical recovery in small and medium sized enterprises. Recent acquisitions of industrial estates in Leeds and Milton Keynes have sought to capitalise on these trends and the returns have already proven to be good since acquisition.

Assuming a vote to remain in the EU in the forthcoming referendum, we are positive about the long term prospects for UK commercial real estate. There are however reasons for caution in the short term. Although yields in parts of the market are below 2007 levels, loose monetary policy means that the sector continues to offer a 3.5% premium above the ten year Government bond yield which compares with the long run average of approximately 2%. The investment market is also less dependent on bank finance, with leveraged transactions making up 45% of the total compared with 72% in 2007. Finally, constrained development funding means that there is a relatively low supply of speculative development in most markets compared with comparable points in previous real estate cycles.

Strategy

The strategy has continued to focus on generating sustainable net income growth and total returns. Having raised and deployed equity earlier in the cycle, a disciplined approach has been taken to new acquisitions during the year, with only two assets acquired for £54.5 million.

The investment themes underpinning the strategy continue to focus on winning centres with a competitive advantage in terms of:

- Higher levels of GDP, employment and population growth
- Well developed infrastructure
- Being places where people want to live as well as work

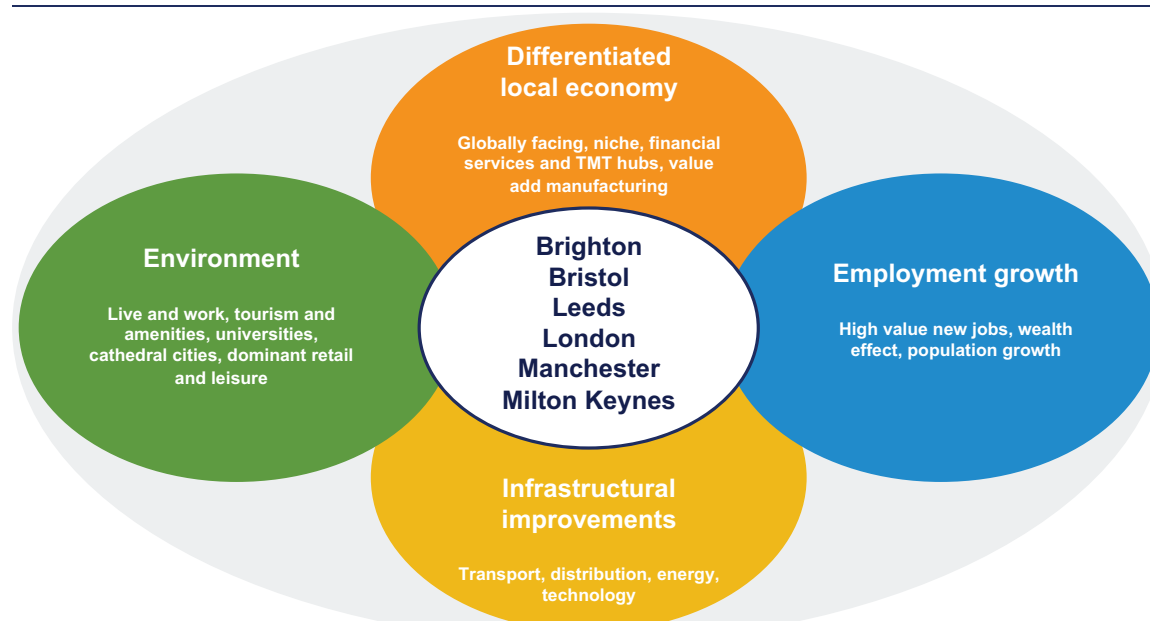
The assets acquired offered a net income yield of 6.8% and were consistent with the strategy of targeting assets with strong fundamentals in higher growth locations. The strategy to sell smaller, lower yielding assets that are forecast to underperform has also continued with five disposals totalling £15.2 million, which includes three disposals post year-end,

reflecting an average net initial yield of 3.4% and a 15.3% premium compared with the apportioned value at 31 March 2015. This activity, combined with a high level of asset management, has delivered the following benefits:

- Rental value of £34 million per annum compared with £29.2 million per annum at as March 2015, reflecting a reversionary yield of 7.0% compared with the MSCI Index of 5.9%
- Income return of 6.5% over the year compared to the MSCI Index of 4.9%
- Rental value growth of 4.8% over the year, compared with 4% for the MSCI Index
- Increased exposure to larger assets in higher growth locations offering opportunities to invest capital expenditure into asset management opportunities to enhance returns
- Improvement in the portfolio's underlying defensive qualities with significant new lease agreements that should, on completion, increase the average unexpired lease term from 7 years as at 31 March 2016 to 7.3 years

Winning centres

Core characteristics to drive performance



Source: Schroders, for illustration. For illustrative purposes only and should not be viewed as a recommendation to buy or sell

The increase in recurring income supported a robust dividend cover of 106%. Where leases have expired there is now potential to refurbish and re-let at higher rents. For example, at Augustine's Courtyard in Bristol and Haston House in Edinburgh, where leases with a total rent of £1.2 million per annum expired during the year, the current rental value assuming completion of the ongoing refurbishments is approximately 50% higher.

Successful execution of these and other asset management initiatives have the potential to increase net income and generate a higher return on the capital invested compared with acquiring new investments in the market. Capital expenditure initiatives totalling £16.2 million are therefore being progressed, with potential projects requiring an additional £14 million over the next 12 to 24 months.

Recent disposals resulted in current cash of approximately £23 million which, after retaining £10 million of cash for operational flexibility, enables the Company to fund the active projects over the next 12 months. In order to accelerate the future pipeline, disposals will be progressed to minimise the delay between selling income producing assets and redeploying proceeds. Another benefit of these initiatives is that they enhance the defensive qualities of the portfolio. For example, the pre-letting to Premier Inn in Leeds, described in detail below, converts a vacant office building incurring a non-recoverable cost of £150,000 per annum into a new hotel let at £412,800 per annum on a long lease with inflation-linked rental uplifts.

Property portfolio

As at 31 March 2016, the property portfolio comprised 53 properties independently valued at £462.6 million. This includes the share of joint venture properties, City Tower in Manchester and the University of Law Campus in Bloomsbury. Since the year end three disposals completed totalling £10.7 million. Adjusting for these transactions, the portfolio produced a rent of

£27.8 million per annum, reflecting a net initial yield of 5.8%. The independent valuers estimate that the current rental value of the portfolio is £34 million per annum, reflecting a reversionary yield of 7%. The portfolio also benefits from additional fixed rental uplifts of £3.1 million per annum by March 2018.

Investment Manager's Report continued

The data below summarises the portfolio information as at 31 March 2016, adjusted for the post year-end transactions:

Sector weightings by value	Weighting (%)	
	SREIT	MSCI Index
Retail	32.7	37.8
Offices	39.4	32.5
Industrial	22.8	20.3
Other	5.1	9.4

Regional weightings by value	Weighting (%)	
	SREIT	MSCI Index
Central London	7.8	15.9
South East excluding Central London	28.8	37.9
Rest of the South	8.7	13.5
Midlands and Wales	26.8	14.2
North and Scotland	27.9	18.5

The top ten properties set out below comprise 56.7% of the portfolio value:

Top ten properties	Value (£m)	(%)
1 Manchester, City Tower	42.2	9.3
2 London, Bloomsbury, University of Law	35.3	7.8
3 Bedford, St. John's Retail Park	34.8	7.7
4 Brighton, Victory House	31.1	6.9
5 Leeds, Millshaw Industrial Estate	24.0	5.3
6 Leeds, Headingley, The Arndale Centre	20.8	4.6
7 Milton Keynes, Stacey Bushes Industrial Estate	19.9	4.4
8 Uxbridge, 106 Oxford Road	18.5	4.1
9 Salisbury, Churchill Way West	15.7	3.5
10 Luton, The Galaxy	13.9	3.1
Total as at 31 March 2016	256.2	56.7

Investment Manager's Report continued

The table below sets out the top ten tenants that generally comprise large businesses and represent 33.2% of the portfolio:

Top ten tenants	Rent p.a. (£000)	% of portfolio
1 University of Law Limited	1,583	5.7
2 Wickes Building Supplies Limited	1,092	3.9
3 Norwich Union Life and Pensions Limited	1,039	3.7
4 The Buckinghamshire New University	1,018	3.7
5 BUPA Insurance Services Limited	961	3.5
6 Mott MacDonald Limited	790	2.8
7 Recticel SA	731	2.6
8 Secretary of State	684	2.5
9 Matalan Retail Limited	676	2.4
10 Sports Direct.com Retail Limited	657	2.4
Total as at 31 March 2016	9,231	33.2

A combination of selling income producing assets on completion of business plans results in a portfolio vacancy rate of 9%, calculated as a percentage of rental value. This vacancy level should fall to 8% on completion of new lettings that have exchanged but are conditional on planning consent or the completion of refurbishments, such as the Premier Inn letting in Leeds.

The average unexpired lease term, assuming all tenants break at the earliest opportunity, reduced from 7.4 to 7 years during the year. This was largely a result of acquiring higher yielding investments with shorter leases although this was partly off-set by longer term lease extensions. Over the same period the MSCI Index decreased from 8.1 years to 7.9 years. The table below shows the portfolio lease expiry profile in five year increments compared with the MSCI Index.

	% of rent passing	
	SREIT earliest termination/ MSCI Index earliest termination	SREIT assuming no tenant breaks/ MSCI Index assuming no tenant breaks
Up to five years	53.2 / 44.2	40.9 / 32.9
Five to 10 years	27.1 / 30.9	29.8 / 37.5
10 to 15 years	12.7 / 12.8	19.8 / 15.5
15 to 20 years	3.9 / 6.1	6.3 / 6.6
Over 20 years	3.1 / 6.0	3.2 / 7.6

Investment Manager's Report continued

Portfolio performance

The performance of the underlying property portfolio compared with the MSCI (formerly IPD) Index to 31 March 2016 is shown below:

Period	SREIT total return p.a. (%)			MSCI Index total return p.a. (%)			Relative p.a. (%)		
	One year	Three years	Since inception*	One year	Three years	Since inception*	One year	Three years	Since inception*
Retail	8.6	11.1	5.9	7.0	9.4	4.7	1.5	1.6	1.2
Office	12.6	18.6	8.3	14.4	17.3	7.3	(1.6)	1.2	0.9
Industrial	16.8	16.3	7.5	14.5	17.3	7.2	2.0	(0.9)	0.2
Other	29.6	14.0	3.3	9.1	11.0	6.1	18.7	2.7	(2.7)
Total	12.8	15.7	7.4	11.1	13.5	6.1	1.5	1.9	1.2

* Inception was July 2004

In addition to producing a higher total return over one year, three years and since inception, the underlying property portfolio has consistently produced a higher income return compared with its MSCI Index.

Since inception the performance of the underlying portfolio is ranked on the 15th percentile of the MSCI Index.

STRATEGIC REPORT

Transactions and Asset Management



Bedford, St. John's Retail Park

St. John's Retail Park is a well located 130,000 sq ft retail warehouse park acquired in May 2015 for £31.8 million, reflecting a net initial yield of 6.5%. The rent at acquisition was £2 million per annum or £16 per sq ft compared with a market rental value of £17.50 per sq ft. The strategy was to let the vacant unit at a higher rental tone and improve tenant mix by pro-actively managing and reconfiguring the park. Since acquisition the following progress has been made:

- New letting to carpet retailer Tapi at £25.00 per sq ft;
- The lease to Maplin, at a rent of £81,576 per annum until March 2018, has been extended by five years in return for 6 months rent free;
- Discussions are on-going to downsize tenants and bring new retailers on to the park at higher rents.

This activity has contributed to strong performance with the property valued at £34.8 million as at 31 March 2016 and an annualised total return of 15.0% since acquisition.



Transactions and Asset Management continued

Leeds, Millshaw Industrial Estate

Millshaw Industrial Estate is strategically located two miles south of Leeds city centre close to the M62 and M621 motorways. The 463,400 sq ft estate was acquired in July 2015 for £22.7 million, reflecting a net initial yield of 7.3%. The acquisition rent was £1.73 million per annum or £3.77 per sq ft, compared with a rental value of £4.80 per sq ft. With a restricted supply of new development, the strategy was to refurbish units as leases expire in order to achieve higher rents. Since acquisition the following progress has been made:

A prominent frontage to Leeds' arterial ring road and close proximity to the White Rose Office Park and Shopping Centre, creates longer term potential for higher value alternative uses. This activity has contributed to good performance with the property valued at £24 million as at 31 March 2016 and an annualised total return of 10.4% since acquisition.

- Refurbished four vacant units at a total cost of £297,000 or £22 per sq ft;
- Completed five lettings totalling £422,700 per annum reflecting a 9.0% uplift compared the apportioned acquisition rental values;
- Latest letting of 49,000 sq ft unit at £6.00 per sq ft compared with independent rental value as at 31 March 2016 of £4.60 per sq ft;
- Contracted rent now £1,920,000 per annum, an uplift of 11% since acquisition.

Transactions and Asset Management continued



Leeds, Headingley Arndale Centre

The Arndale Centre has multiple uses including retail, leisure and offices in a densely populated part of Leeds. It was acquired in January 2014 for £16.2 million, reflecting a net income yield of 9.2%. The strategy was to actively manage the asset to increase rents whilst considering alternative uses for the partly vacant office accommodation. Since acquisition the following progress has been made:

Completion of the Sainsbury's and Premier Inn lettings are expected to increase income to £1.9 million per annum and the average unexpired lease term, assuming all tenant breaks are exercised, to 9.1 years compared with 5.9 years at acquisition. This activity has contributed to strong performance with the property valued at £20.75 million as at 31 March 2016 and an annualised total return of 14.0% since acquisition.

- Completed four retail lettings and restructuring of leases with a further two new leases agreed and awaiting completion;
- Increased the average retail unit rental value to £60 per sq ft Zone A compared with a rental value on acquisition of £46 per sq ft Zone A;
- Sainsbury's lease extended from five to 15 years at £207,500 per annum in return for nine months rent free;
- Premier Inn Hotels agreed to take a new lease at Arndale House for a 96 bedroom hotel on a 20 year lease at £412,800 per annum. The agreement is conditional on planning consent and then converting the existing office building into the hotel, at a cost of £6.7 million.

Transactions and Asset Management continued

Manchester, Piccadilly Gardens, City Tower

City Tower is a 615,429 sq ft office, retail, leisure and hotel investment on a three acre island site in Manchester city centre. A 25% interest was acquired alongside two other Schroder managed funds in June 2014 for £132 million. The apportioned price of £33 million reflecting a net income yield of 7%. The strategy was to refurbish the reception, and central mall area, common parts and vacant offices in order to capitalise on a shortage of good quality refurbished office accommodation in Manchester city centre. Since acquisition the following progress has been made, with the statistics reflecting the Company's 25% ownership:

- Refurbishment works completed in May 2016 at a total cost of £800,000;
- Latest office letting at £22.50 per sq ft compares with independent rental value as at 31 March 2016 of £21.50 per sq ft, providing scope for further income and capital growth;
- Lease expiry of two lower floors in June creates an opportunity to refurbish and re-let above the current rental value of £26.00 per sq ft;
- Re-positioning retail to improve the tenant mix and support the 3,000 people working in City Tower.

This activity has contributed to strong performance with the property valued at £42.2 million as at 31 March 2016 and an annualised total return of 18.5% since acquisition.



CITY TOWER





Transactions and Asset Management continued

Luton, The Galaxy

The Galaxy is a 145,000 sq ft leisure scheme anchored by a Cineworld cinema. The strategy for 2015 was to let the vacant units to tenants that would complement the scheme in order to increase footfall. During the year the following progress has been made:

- Largest vacant unit let to Jump Arena, a trampoline-based concept, on a 20 year lease at £355,750 per annum or £10 per sq ft, with five yearly inflation linked reviews;
- Kidd 'n' Play Limited, a children's soft play operator, has taken a 4,680 sq ft unit on a seven year lease at £50,000 per annum or £10.70 per sq ft;
- Nando's lease varied to incorporate a rental increase from £57,250 to £80,000 per annum in return for a capital contribution of £80,000 and consent for a new mezzanine trading area;
- Scheme now fully let with contracted net income of £1.27 million per annum compared with £660,000 at the start of the year.

This activity has increased year-on-year footfall by 13% and contributed to strong performance with the property valued at £13.9 million as at 31 March 2016 and a total return of 29.6% over the year.

Transactions and Asset Management continued



Milton Keynes, Stacey Bushes Industrial Estate

Stacey Bushes is a 317,000 sq ft multi-let estate acquired in two transactions during 2014 for £14.3 million, providing a combined income of 7.7%. The rent at acquisition was £1.17 million per annum or £3.70 per sq ft compared with an estimated open market rental value of £4.00 per sq ft. The strategy was to combine the two estates with consistent branding and reduce the vacancy rate from 23% by undertaking a phased refurbishment against the backdrop of reducing supply in Milton Keynes. Since acquisition the following progress has been made:

This activity has contributed to out-performance with the property valued at £19.9 million as at 31 March 2016 and an annualised total return of 24.3% since acquisition.

- Refurbished 16 units at a total cost of £350,000 or £5.00 per sq ft;
- Completed 20 lettings, renewals and lease re-gears at a combined rent of £560,000 per annum, representing an average uplift on the rental values assumed on acquisition of 16%;
- Reduced vacancy rate to 1%;
- Latest letting at £7.50 per sq ft compared with independent rental value as at 31 March 2016 of £6.50 per sq ft;
- Contracted income now £1,490,000 per annum. An increase since acquisition of 28%;
- Preparing a planning application for a new development of six units totalling 17,000 sq ft on a cleared part of the site with no apportioned value at the time of acquisition.

**Bristol, Augustine's Courtyard
(formerly Orchard Court)**

Augustine's Courtyard is a 31,785 sq ft office building in Bristol's central business district. There is demand from a variety of uses in this location which is close to Harbourside and Queen Square.

The reduced supply of older office buildings suitable for refurbishment, together with increased take-up from the TMT and professional services sectors has created the opportunity to pursue a major refurbishment. The cost is approximately £2.5 million. The specification incorporates a contemporary fit-out. Completion is scheduled for September 2016 and the early stages of marketing has commenced.



Transactions and Asset Management continued

Finance

As at 31 March 2016, adjusting for post year-end transactions, the Company has an overall net LTV of 28.2%. This remains inside the long term strategic range of 25% to 35%.

In July 2015, a £20.5 million revolving credit facility ('RCF') was put in place with Royal Bank of Scotland ('RBS') to fund the acquisition of Millshaw Industrial Estate. The RCF is a low cost and flexible source of funding with a margin of 1.6% above three month LIBOR and the ability to be repaid and redrawn as

often as required without additional cost. The RCF is economically hedged via two interest rate caps at 1.5% at a cost of £324,500.

The RCF is fully drawn down resulting in a total debt of £150.1 million at an average total cost of 4.4% with a weighted duration of 10.0 years. Details of the loan and compliance with the principal covenants as at 31 March 2016, adjusted for disposals since the year end, are set out below:

Lender	Loan (£m)	Maturity	Interest rate (%)	Loan to Value ('LTV') ratio* (%)	LTV ratio covenant (%)*	Interest cover ratio (%)**	ICR ratio covenant (%)**	Forward looking ICR ratio (%)***	Forward looking ICR ratio covenant (%)***
Canada Life	103.7	16/04/2028	4.77\$	38.6	65	327	185	288	185
	25.9	16/04/2023							
RBS	20.5	17/07/2019	2.19#	52.8	65	591	185	523	250

* Loan balance divided by property value as at 31 March 2016.

** For the quarter preceding the Interest Payment Date ('IPD'), ((rental income received – void rates, void service charge and void insurance)/interest paid).

*** For the quarter following the interest payment date, ((rental income received – void rates, void service charge and void insurance)/interest paid)

Total interest rate as at 31 March 2016 comprising 3 months LIBOR of 0.59% and the margin of 1.6% at an LTV below 60% and a margin of 1.85% above 60% LTV.

\$ Fixed total interest rate for the loan term.

The Canada Life facility allows voluntary prepayments with fixed rate break costs payable on any prepayment. No break costs are payable on maturity of the smaller loan in 2023.

In addition to the secured property, the joint venture properties City Tower in Manchester and Store Street in London are uncharged with a combined value of £77.5 million.

The Company has significant headroom against its loan covenants and could, on a consolidated basis, withstand a 51% decline in property values before reaching 65% loan-to-value.

Transactions and Asset Management continued

Outlook

Successful implementation of the growth strategy since 2014 has resulted in strong performance. Active management to realise the opportunities in the assets, a diversified portfolio and a robust balance sheet, means the Company is well positioned to manage both future shocks arising from events such as Brexit as well as to capture rental growth.

Although there are some market risks which require careful management, we remain positive about the long term outlook for real estate due to the relatively

attractive income yield and potential for further rental growth in strong centres. The strategy to focus investment on higher growth locations has increased the portfolio's reversionary potential which can be enhanced even further through successful execution of the asset management programme.

Further growth could still be considered in a disciplined and accretive manner when equity can be efficiently deployed in specific situations to accelerate value enhancing active management or new investment.

Duncan Owen
Schroder Real Estate Investment Management Limited,
10 June 2016

STRATEGIC REPORT

Business Model and Strategy

Company's Business

The Company is a real estate investment company with a premium listing on the Official List of the UK Listing Authority and is traded on the London Stock Exchange's main market for listed securities. On 1 May 2015, the Company converted to a Real Estate Investment Trust ('REIT') which means that it is able to

benefit from exemptions from UK tax on profits and gains in respect of certain qualifying property rental business activities. The Company continues to be an authorised closed-ended investment scheme registered in Guernsey.

The Board

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

The Company has no executive Directors or employees.

Investment Objective

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

The portfolio is principally invested in the three main UK commercial real estate sectors of office, industrial and retail, and may also invest in other sectors including, but not limited to, residential, leisure, healthcare and student accommodation. Over the real

estate market cycle the portfolio aims to generate an above income return with a diverse spread of lease expiries.

Relatively low levels of debt are used to enhance returns for shareholders with the level dependent on the real estate cycle and the outlook for future returns. The current target borrowing level reflects a net loan to value ('LTV') ratio of between 25% and 35%.

Investment Strategy

The current investment strategy is to grow income and enhance shareholder returns through selective acquisitions, pro-active 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 cities and towns with 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.

Business Model and Strategy continued

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, since conversion to a UK REIT on 1 May 2015, the Company will ensure compliance with the UK REIT regime requirements.

Business Model and Strategy continued

Performance

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

1. NAV total return

For the year to 31 March 2016 the Company produced a NAV total return of 12.3% (24.4% for the year to 31 March 2015).

Total return for 12 months to 31 March 2016		Total return for 12 months to 31 March 2015	
SREIT (%)	MSCI Index (%)	SREIT (%)	MSCI Index (%)
12.8	11.1	20.8	17.1

The analysis above 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 2016, the NAV of 62.2 pps reflects a discount to the share price of 2.3%. Where appropriate on investment grounds, the

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 Quarterly Version of Balanced Monthly Index Funds (the 'Index'). As at 31 March 2016 the Benchmark Index comprised 48 member funds.

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 it focuses its efforts principally on addressing sources of risk and return as the most effective way of producing long term value for shareholders.

Investment Manager performance

The Board reviews the Investment Manager's performance at its quarterly Board meetings. In addition, the Board made its annual visit to the Investment Manager's office in April 2016 to review portfolio strategy and the Investment Manager's capabilities in more depth. Subsequently, Directors formally discussed the performance of the Investment Manager and its fees at a private session. On the basis

of this review, and the extensive selection process undertaken prior to appointing the Investment Manager, the Board remains satisfied that the Investment Manager has the appropriate capabilities required to support the Company, and believes that the continuing appointment of the Investment Manager is in the interest of shareholders.

Principal Risks and Uncertainties

The Board is responsible for the Company's system of risk management and internal control and for reviewing its effectiveness. The Board has identified a matrix of key risks which affect its business and a robust framework of internal control which is designed to monitor and manage those risks. The internal control framework provides a system to enable the Directors to mitigate these risks as far as possible and which assists in determining the nature and extent of the

significant risks the Board is willing to take in achieving its strategic objectives. A description of the Company's system of internal control is set out further below in the Corporate Governance statement.

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.

Business Model and Strategy continued

A summary of the principal risks are considered to be as follows:

Investment 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 values would be amplified by the Company's external borrowings. The Board seeks to mitigate these risks by diversification of its property portfolio through its investment restrictions and guidelines which are monitored and reported on by the Investment Manager. The Board determines borrowing policy and the Investment Manager operates within borrowing restrictions and guidelines. The Investment Manager provides the Directors with timely and accurate management information including performance data, attributions analysis, property level business plans and financial projections. The Board monitors the implementation and results of the investment process with the Investment Manager with a separate meeting devoted to strategy each year.

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 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. A specific risk faced in 2016 is "Brexit" – an abbreviation of 'British exit', referring to the possibility that Britain will withdraw from the European Union – which has created uncertainty in the real estate market for both occupiers and owners.

Valuation risk: Property valuations are inherently subjective and uncertain. All of the Company's property assets are independently valued quarterly by Knight Frank LLP, a specialist property valuation firm who are provided with regular updates on portfolio activity by the Investment Manager. The Company's two joint venture assets are independently valued quarterly by BNP Paribas Real Estate UK. Members of the Audit Committee meet with the external valuers to discuss the basis of their valuations and their quality control processes.

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 upon request. 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 Company has appointed the Investment Manager as Alternative Investment Fund Manager (AIFM) in accordance with the AIFMD.

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 advisors when transacting and managing the Company's assets. All contracts entered into by the Company are reviewed by the Company's legal and other advisors.

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 advisors 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.

Financial: Note 19 to the financial statements includes a description of risks relating to financial risk, market price risk, credit risk, liquidity risk and interest rate risk. Cashflow is actively managed to ensure sufficient liquidity is available for day to day use. As described earlier under Investment Policy, the Board establishes gearing guidelines, and ensures that the Investment Manager operates within the defined guidelines.

Hedging: The floating rate debt with RBS has been economically hedged with an interest rate cap. The main debt facility with Canada Life has a fixed interest rate.

Business Model and Strategy continued

Alternative Investment Fund Managers Directive (“AIFMD”)

In accordance with the AIFMD, the Company has, with effect from 22 July 2014, become an Alternative Investment Fund (‘AIF’) and has appointed the Investment Manager, which has AIFMD regulatory permissions, as its Alternative Investment Fund Manager (the ‘Manager’ or ‘AIFM’).

In addition, also in accordance with the requirements of the AIFMD, the Company has appointed Northern

Trust (Guernsey) Limited as depositary with effect from 22 July 2014. A fee of £40,000 per annum is paid for this service.

In complying with its new regulatory obligations, the Board takes this opportunity to reassure shareholders that it continues to act independently of the Manager and the management fees payable to the Manager remain unchanged.

Leverage

Leverage is any method by which the Company increases its exposure to the market by borrowing or through transactions in other financial instruments such as derivatives.

The “Leverage Ratio” represents the leverage generated through its debt facility, as calculated in accordance with the detailed requirements of the AIFMD, divided by the Company’s net asset value. Details on how the amount of leverage is calculated may be found by referring to the AIFMD or to the detailed guidance published by the Association of

Investment Companies in September 2014. The AIFMD requires that ratios are calculated in accordance with two methodologies, the “Gross Method” and the “Commitment Method”.

The Manager has set a maximum limit of 1.95 for the Gross Method and 2.20 for the Commitment Method. As at 31 March 2016, the Company’s Gross ratio and its Commitment ratio were 1.45 and 1.49 respectively.

The Manager may change the maximum limits from time to time. Any changes will be disclosed to shareholders in accordance with the AIFMD.

Remuneration

The AIFMD requires the Manager to comply with certain disclosure, reporting and transparency obligations in respect of each AIF that it manages and markets in the EU. This includes the Company. The Manager does not have any employees but is a wholly owned subsidiary of Schroders plc (“Schroders”).

Alternative Investment Fund Managers (AIFM) Remuneration Disclosures for the AIFM as at 31 December 2015

The following disclosures are required under the AIFMD.

These disclosures should be read in conjunction with the Schroders Remuneration Report on pages 42 to 43 of the 2015 Schroders Annual Report & Accounts (available on the Schroders Group's website – www.schroders.com/ir), which provides more information on the activities of Schroders' Remuneration Committee and Schroders' remuneration principles and policies.

Details of the AIFM Remuneration Code can be found at www.fca.org.uk, in the Senior Management Arrangements, Systems and Controls Sourcebook (SYSC 19B).

The Remuneration Committee of Schroders plc has established an AIFM Remuneration Policy to ensure the requirements of the AIFM Remuneration Code are met proportionately for all AIFM Remuneration Code Staff. You can get details of the latest remuneration policy at www.schroders.com/Remuneration-disclosures.

The total amount of remuneration paid by the AIFM to its staff is nil as the AIFM has no employees. AIFM Remuneration Code Staff of the AIFM are employed and paid by other Schroders group companies. Those who serve as Directors of the AIFM receive no additional fees in respect of their role on the Board of the AIFM.

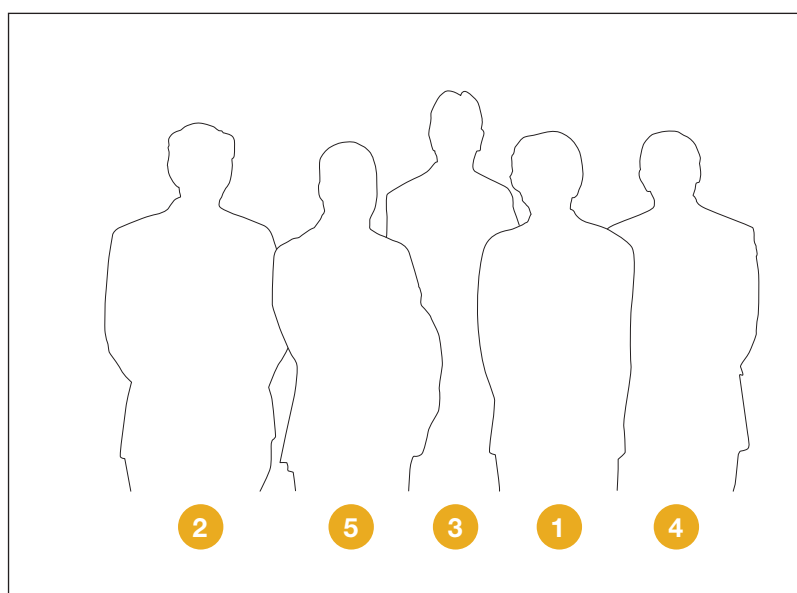
The AIFM manages a total of £3,670 million assets under management, £520 million of which are in Alternative Investment Funds (AIFs).

The AIFM's Code Staff are individuals in roles which can materially affect the risk of the AIFM or any AIF it manages. These individuals are employed by and provide services to other companies in, and clients of, the Schroders Group. As a result, only a portion of remuneration for those individuals is included in the aggregate remuneration figures that follow, based on an objective apportionment to reflect the balance of each. The aggregate total remuneration paid to the 33 AIFM Remuneration Code Staff of the AIFM in respect of the financial year ending 31 December 2015, and attributed to the AIFM and the AIFs it manages, is £832,524, of which £148,593 is paid to Senior Management and £683,931 is paid to other AIFM Remuneration Code Staff.

This report includes statements that are, or may be deemed to be, "forward-looking statements". Forward-looking statements are not guarantees of future performance. The Company's actual investment performance, results of operations, financial condition, dividend policy and the development of its financing strategies may differ materially from the impression created by the forward-looking statements contained in this document.

GOVERNANCE

Board of Directors



Board of Directors continued

1. Lorraine Baldry (Chairman)

Appointed on 13 January 2014

Aged 67, is Chairman of London & Continental Railways, Inventa Partners Ltd, Tri-Air Developments Ltd and is also independent Director of Circle Holdings plc and 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 a former Chairman of London Thames Gateway Development Corporation and Central London Partnership and non-executive director of St Ives plc and DTZ Holdings plc. She is also an Honorary Member of the Royal Institution of Chartered Surveyors and a Past President of the British Property Federation.

2. Keith Goulborn

Appointed on 27 May 2004

Aged 71, was head of Unilever's UK Property Department for 17 years. In this capacity he was responsible for the property investment activities of the Unilever Pension Fund in the UK and operational property advice to the UK group and its implementation. Prior to that, he was a partner in Debenham, Nightingale Chancellors. He is a Fellow of the Royal Institution of Chartered Surveyors.

3. Stephen Bligh

Appointed on 28 April 2015

Aged 59, is a non-executive Board Member of the Department of Business, Innovation & Skills. 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.

4. John Frederiksen

Appointed on 27 May 2004

Aged 68, is chairman of the Danish Property Federation and several major Danish property and other companies as well as President of the European Property Federation. He established and was Managing Director of Bastionen A/S, one of the largest Danish property investment companies from 1986 to 2001. He was also Chairman of ASC, the largest property management company in Denmark, from 1990 to 1998.

5. Graham Basham

Appointed on 11 September 2015

Aged 58, is a director of Julius Baer Capital (Guernsey) 1 Limited, U.S. Bancorp Fund Services (Guernsey), Limited, Computershare Investor Services (Guernsey) Limited and a number of Fiduciary companies in Guernsey. He sits on the majority of the boards of the SREIT subsidiaries, a position he has held for the last 9 years. He has 40 years' experience in fiduciary and fund work, 33 of these spent in several offshore locations. He is currently Deputy Managing Director of the Active Group Ltd, holds a Trustee Diploma as an Associate of Chartered Institute of Banks and is a member of the Society of Trust & Estate Practitioners and Institute of Directors.

GOVERNANCE

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 2016. 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.

shareholders in accordance with the solvency test (contained in the Companies Law):

During the year the Company has declared and paid the following interim dividends to its ordinary

Dividend For Quarter	Date Paid	Rate
31 March 2015	28 May 2015	0.62 pence per share
30 June 2015	28 August 2015	0.62 pence per share
30 September 2015	30 November 2015	0.62 pence per share
31 December 2015	29 February 2016	0.62 pence per share

Subject to the solvency test provided for in the Companies Law being satisfied, all dividends are declared and paid as interim dividends. The Directors do not therefore recommend a final dividend. A dividend for the quarter ended 31 March 2016 of 0.62 pence per share ('pps') was declared on 27 April 2016 and paid on 31 May 2016.

The split of dividend between Property Income Distribution (PID) and Ordinary dividend for the year ending 31 March 2016 is 1.47pps and 1.01pps respectively.

REIT Conversion

During the year, the Board considered the proposal for the Company to apply to join the UK REIT regime which the Board recommended as in the best interest of the Company and its Shareholders as a whole.

On 28 April 2015 shareholders voted in favour of converting to a REIT, leading to the Company entering the UK REIT regime on 1 May 2015.

Share Capital

As at 31st March 2016 and the date of this Report, the Company has 565,664,749 (2014: 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 (2015: 47,151,340). The total number of voting rights of the

Company is 518,513,409 (2015: 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 and Transparency Rules.

Report of the Directors continued

Investment Manager

During the year under review, the Board considered the services provided by the Investment Manager. The Board continues to consider that the Investment Manager provides the Company with considerable investment management resource and experience, thereby enhancing the ability of the Company to achieve its investment objective. The Board therefore considers that the Investment Manager's continued appointment under the terms of the current investment management agreement, further details are set out below, is in the interest of shareholders.

The Investment Manager receives a fee of 1.1% per annum of the Company's NAV for providing investment management and accounting services. The fee is payable monthly in arrears. There is no performance

fee. The investment management agreement can be terminated by either party on not less than nine months' written notice or on immediate notice in the event of certain breaches of its terms or the insolvency of either party.

With effect from 22 July 2014, the Company has appointed the Investment Manager as the AIFM under the AIFMD. There is no additional fee paid to the Investment Manager for this service.

During the year ended 31 March 2016, the Investment Manager was paid an additional fee of £200,000 for works performed in converting the Company to a UK REIT.

Administration

The Board appointed Northern Trust International Fund Administration Services (Guernsey) Limited as the administrator to the Company (the 'Administrator') with effect from 25 July 2007. The Administrator is entitled to an annual fee equal to £120,000.

Northern Trust (Guernsey) Limited has been appointed by the Board to provide depositary services, as required under the AIFMD. A fee of £40,000 per annum is paid for the service.

Going Concern and Viability

Going concern

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

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

Viability statement

The 2014 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 Manager prepares five year total return forecasts for the UK commercial real estate market. The Manager uses these forecasts as part of analysing acquisition opportunities as well as for its annual asset level business planning process. At the annual Manager Visit the Board receives an overview of the asset level business plans which the 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 ten years and the average unexpired lease term, assuming all tenants vacate at the earliest opportunity, is seven years.

Report of the Directors continued

Viability statement

The Board's assessment of viability considers the principal risks and uncertainties faced by the Company, as detailed on pages 28 to 29 of the Strategic Report, which could negatively impact its ability to deliver the investment objective, strategy, liquidity and solvency. This includes considering a cash flow model prepared by the Manager that analyse the sustainability of the Company's cash flows, dividend cover, compliance with bank covenants, REIT compliance and general liquidity requirements for a five year period. These metrics are subject to a sensitivity

analysis which involves flexing a number of the main assumptions including macro economic scenarios, delivery of specific asset management initiatives, rental growth and void/ reletting assumptions. The Board also review assumptions regarding capital recycling and the Company's ability to refinance or extend financing facilities.

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

Creditor Payment Policy

It is the Group's policy to ensure settlement of supplier invoices in accordance with stated terms.

Anti-Bribery Policy

The Board notes the implementation of the Bribery Act 2010 ('Bribery Act') in the United Kingdom. The Company continues to be committed to carrying out its business fairly, honestly and openly. To this end, it has undertaken a risk assessment of its internal

procedures and the policies of the Company's main service providers which aim to prevent bribery being committed by Directors and persons associated with the Company on the Company's behalf and to ensure compliance with the Bribery Act.

Directors

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

Director	Number of Ordinary Shares	Percentage (%)
Lorraine Baldry	–	–
Graham Basham	–	–
Stephen Bligh	–	–
Keith Goulborn	34,880	Less than 0.1
John Frederiksen	50,000	Less than 0.1

Report of the Directors continued

Substantial Shareholdings

As at 31 March 2016 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 and Investment	103,068,038	19.88
Schroder Investment Management Limited	82,001,323	15.81
Alliance Trust Savings Limited	32,793,958	6.32
Premier Fund Managers Limited	22,381,650	4.32
BlackRock Inc	17,460,264	3.36

Independent Auditors

KPMG Channel Islands Limited ('KPMG') have expressed their willingness to continue as auditors to the Company (the 'Auditors') and resolutions proposing their reappointment and authorising the Directors to determine their remuneration for the

coming year will be put to shareholders at the annual general meeting ('AGM') of the Company.

The Audit Committee's evaluation is described in the Report of the Audit Committee on page 50.

Disclosure of Information to Auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware and each

Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Status for Taxation

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

During the year, the Company's properties have been held in various subsidiaries and associates, the majority of which are subject to UK Income Tax.

In each instance any tax due is computed after deduction of debt financing costs and other allowances as appropriate.

Following 96.5% of shareholders voting in favour of the special resolution to convert to a Real Estate Investment Trust ('REIT'), the Company entered the UK REIT regime on 1 May 2015.

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

GOVERNANCE

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as issued by the IASB 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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 (Guernsey) Law, 2008. 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.

GOVERNANCE

Responsibility Statement of the Directors in respect of the Consolidated Annual Report

We confirm to the best of our knowledge:

The financial statements, prepared in accordance with International Financial Reporting Standards as issued by the IASB, give a true and fair view of the assets, liabilities, financial position and profit of the Group and the undertakings included in the consolidation taken as a whole and comply with The Companies (Guernsey) Law, 2008;

The Strategic Report on pages 9 to 31 and Governance Report on pages 32 to 51 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 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.

Responsibility Statement of the Directors in respect of the Consolidated Annual Report continued

THIS SECTION IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt about the contents of this section of the document or the action you should take, you are recommended to seek immediately your own personal financial advice from an appropriately qualified independent adviser authorised pursuant to the Financial Services and Markets Act 2000.

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

The Notice of the Annual General Meeting of Shareholders is set out on pages 80 to 82. The following paragraphs explain the resolutions to be put to the AGM.

Ordinary Resolutions 1 – 9

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 2016; (ii) re-elect the Directors; and (iii) re-appoint the Auditors and to authorise the Directors to determine the Auditor's remuneration.

Ordinary Resolution 10 Approval of the Company's Dividend Policy

The Company's dividend policy is to announce and pay a stable level of quarterly dividends to shareholders (in arrears). During the year to 31 March 2016 the Company paid four dividends of 0.62 pence per share ('pps') per quarter, totalling 2.48 pps.

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. It is intended that successful execution of the strategy will enable a progressive dividend policy to be adopted over time. 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.

Following the Company's qualification as 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 2016. 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. 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

Responsibility Statement of the Directors in respect of the Consolidated Annual Report continued

also only be made in accordance with the Listing Rules which provide that the price to be paid must not be more than 5 per cent. above the average market value for the ordinary shares for the five business days before the ordinary shares are purchased. Any ordinary shares purchased under this authority will be cancelled or may be held in treasury.

This authority will expire at the annual general meeting of the Company in 2017.

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 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 shares at the time of issue.

This authority will expire on the earlier of the conclusion of the AGM of the Company in 2017 or on the expiry of 15 months from the passing of Special Resolution 2.

Special Resolution 3 Authority to adopt new articles of incorporation

The Directors propose to amend the Company's Articles of Incorporation in order to reflect recent changes to the Companies (Guernsey) Law, 2008 (the "Law") as a result of the Companies (Guernsey) Law, 2008 (Amendment) Ordinance, 2015. The changes to the Law implemented in 2015 were largely introduced to assist with matters of practicalities, deal with inconsistencies and increase operational efficiency and flexibility for Guernsey companies.

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.

Lorraine Baldry
Chairman,
10 June 2016

Stephen Bligh
Director,
10 June 2016

GOVERNANCE

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 the year, which led to the recommendation adopted and current level of fees taking effect from 1 October 2015. The Transaction Committee members each received an additional fee of £5,000 reflecting their additional responsibilities and workload. Following the UK REIT conversion on 1 May 2015, the Transaction Committee was dissolved as its duties are now fulfilled by board members of the subsidiary companies. The Directors in office on 1 April 2015 were each paid a supplement of £3,000 for their work on the REIT conversion.

No Director past or present has any entitlement to pensions, and the Company has not awarded any share options or long-term performance incentives to

any of them. No element of Directors' remuneration is performance-related. There were no payments to former directors for loss of office.

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

No Director has a service contract with the Company, however, Directors have 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.

Remuneration Report continued

Performance

The performance of the Company is described on page 28 in the Business Model and Strategy Report.

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

Director	31 March 2016	31 March 2015
Lorraine Baldry (Chairman)	48,000	40,000
Keith Goulborn**	33,000	25,000
John Frederiksen	30,500	25,000
Stephen Bligh#	28,186	–
Graham Basham	16,370	–
Alison Ozanne*	5,500	30,000
Harry Dick-Cleland**	18,795	35,000
David Warr*	16,538	30,000
Total	196,889	185,000

* Member of the Transaction Committee (see page 46). Post year-end, following the UK REIT conversion on 1 May 2015, the Transaction Committee was dissolved. Alison Ozanne retired on 28 April 2015.

**Senior Independent Director.

Chairman of the Audit Committee (Harry Dick-Cleland retired 11 September 2015 and Stephen Bligh was appointed).

Lorraine Baldry
Chairman,
10 June 2016

Stephen Bligh
Director,
10 June 2016

GOVERNANCE

Corporate Governance

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

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

The Board has considered the principles and recommendations of the AIC Code by reference to the

AIC Corporate Governance Guide for investment companies (the 'AIC Guide'). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Corporate Governance Code), will provide better information to shareholders. Copies of the AIC Code and the AIC Guide can be found at www.theaic.co.uk.

It is the Board's intention to continue to comply with the AIC Code.

Statement of Compliance

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

The UK Corporate Governance Code includes provisions relating to:

- the role of the chief executive;
- executive directors' remuneration; and
- internal audit function.

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

Role of the Board

The Board has determined that its role is to consider and determine the following principal matters which it considers are of strategic importance to the Company:

- The overall objectives of the Company as described under the paragraph above headed 'Investment Policy and Strategy' and the strategy for fulfilling those objectives within an appropriate risk framework in light of market conditions prevailing from time to time.
- The capital structure of the Company including consideration of an appropriate policy for the use of borrowings both for the Company and in any joint ventures in which the Company may invest from time to time.
- The appointment of the Investment Manager, Administrator and other appropriately skilled service providers and to monitor their effectiveness through regular reports and meetings; 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.

Board performance evaluation

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

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

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

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

service. Independent non-executive Directors who have served for nine years will only be asked to stand for re-election if the Board remains satisfied both with the Director's performance and that nine years' continuous service does not compromise the Director's continuing independence.

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

Board composition, changes and diversity

The Board currently consists of five non-executive Directors. The Chairman is Lorraine Baldry. The biography of each of these Directors is set out on page 33 of the report. The Board considers each of the Directors to be independent. The independence of each Director is considered on a continuing basis.

Following shareholder approval to convert to Real Estate Investment Trust ('REIT') status, Alison Ozanne retired from the Board on 28 April 2015, being replaced by Stephen Bligh, in order to reflect the move in central management and control from Guernsey to the United Kingdom. Mr Dick-Cleland and Mr Warr retired from the Board with effect from the conclusion

of last year's annual general meeting on 11 September 2015 ("2015 AGM"). The Board appointed Graham Basham as a new non-executive Director to replace the retiring Directors with effect from the 2015 AGM.

The Board is satisfied that following these changes, 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.

Corporate Governance continued

Board Committees

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 Keith Goulborn, 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.

The Nomination Committee considered the appointment of two new non-executive directors during the year under review. The Chairman of the Nomination Committee is primarily responsible for interviewing suitable candidates and a recommendation is made to the Board for final approval.

To discharge its duties, the members of the Nomination Committee met on two occasions to consider the composition and balance of the Board, Board succession planning and the selection of suitable candidates as Directors, subsequent to which the appointments of Mr Stephen Bligh and Mr Graham Basham were recommended to the Board for approval.

Remuneration Committee

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

Transaction Committee

Following the UK REIT conversion on 1 May 2015, the Transaction Committee was dissolved as its duties are now fulfilled by Board members of the subsidiary companies. The members of the Transaction Committee up until its dissolution were Alison Ozanne, Harry Dick-Cleland and David Warr, with the Chairman elected at each meeting.

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 meeting and other advisers also attend when requested to do so by the Board.

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

Corporate Governance continued

	Board	Audit Committee
Lorraine Baldry (Chairman)	4/4	2/2
Keith Goulborn	4/4	2/2
John Frederiksen	4/4	2/2
Graham Basham*	2/2	1/1
Stephen Bligh*	4/4	2/2
Harry Dick-Cleland*	2/2	1/1
David Warr*	2/2	1/1
Alison Ozanne*	1/1	0/0
No. of meetings during the year	4	2

*appointed/retired during the year

In addition to its regular quarterly meetings, the Board met on five other occasions during the year, although it was not possible for all Directors to attend all such additional meetings.

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.

Directors' and Officers' Liability Insurance

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

Relations with Shareholders

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

The Board believes that the Annual General Meeting provides an appropriate forum for investors to communicate with the Board, and encourages participation. The Notice of Annual General Meeting on pages 80 to 82 sets out the business of the Annual General Meeting to be held on 9 September 2016.

Corporate Social Responsibility – benefits, risks and controls

The Board agrees with the Investment Manager that corporate social responsibility remains key to long term future business success.

The Investment Manager states in its Responsible Real Estate Investment Report:

“The changes in markets as a consequence of environmental and social issues are simply investment risks that Schroders must understand to protect our clients’ assets from depreciation.

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 well-being, and contribute to the prosperity of a location through building design and management. If we ignored such issues when considering asset management and investments, we 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 property industry with profound implications for both owners and occupiers.

A good investment strategy must incorporate environmental and social issues alongside traditional economic considerations. At Schroders we believe a complete approach should be rewarded by improved investment decisions and performance.”

During the year the Investment Manager has developed its Environmental Management System and is working with the Company’s principal managing agent, MJ Mapp, to improve the monitoring of energy usage and efficiency as well as water and waste, with analysis and reporting on a quarterly and annual basis. The Investment Manager has introduced an energy reduction target for the portfolio of 6% over two years (i.e. 3% per annum) with effect from 31 March 2016. This applies to the properties where the Investment Manager is responsible for the supply.

The status of Energy Performance Certificates (‘EPC’) across the portfolio is under regular review and consideration in light of the 2015 Minimum Energy Efficiency Standards (England and Wales) legislation which takes effect for non-domestic buildings in 2018. The legislation brings in a minimum EPC standard of an ‘E’ for new leases from 2018 and applies to all leases from 2023.

The Investment Manager intends to complete the Global Real Estate Sustainability Benchmark (‘GRESB’) survey for the Company in 2016.

The Company’s portfolio was too small to require registration for Phase II of the CRC Scheme and the purchase of allowances. It was announced in the March 2016 Budget that the CRC Scheme will not continue beyond Phase II.

The Company did not qualify for participation in the Energy Savings Opportunity Scheme.

The Company does not fall within the requirements for mandatory reporting of greenhouse gas emissions for UK quoted companies which came into effect from 1 October 2013. The Board and its advisors will continue to monitor requirements and guidance in relation to managing and reporting environmental matters and developments in legislation.

GOVERNANCE

Report of the Audit Committee

Composition

The Audit Committee is chaired by Stephen Bligh with Lorraine Baldry, Keith Goulborn, John Frederiksen and Graham Basham as members. During the year, Stephen Bligh replaced Harry Dick-Cleland as chair of the Audit Committee. The Board considers that Stephen Bligh's professional experience makes him suitably qualified to chair the Audit Committee.

Responsibilities

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

Work of the Audit Committee

The Audit Committee meets no less than twice a year and, if required, meetings are also attended by the Investment Manager, the Administrator and the Auditor. During the year under review, the Audit Committee met on two occasions to consider:

- The contents of the interim and annual financial statements and to consider whether, taken as a whole, they were fair, balanced and understandable and provided the information necessary for shareholders to assess the Company's performance, business model and strategy;
- The effectiveness of the Company's system of internal control;
- The external Auditor's terms of appointment, audit plan, half year review findings and year-end report;
- The management representation letter;
- The effectiveness of the audit process;
- The independence, effectiveness and objectivity of the external Auditor;
- The risk assessment of the Company; and
- Compliance with UK REIT regime.

Report of the Audit Committee continued

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

Matter

Property Valuation

Property valuation is central to the business and is a significant area of judgement. Although valued by an independent firm of valuers, Knight Frank LLP and BNP Paribas Real Estate UK for the joint ventures, the valuation is inherently subjective.

Errors in valuation could have a material impact on the Company's net asset value.

Action

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.

The chair of the Audit Committee with Keith Goulborn, met with Knight Frank LLP and BNP Paribas Real Estate UK outside the formal meeting to discuss the process, assumptions, independence and communication with the Investment Manager.

Furthermore, as this is the main area of audit focus, the auditors contact the valuers directly and independently of the Investment Manager. The Audit Committee receives detailed verbal and written reports from KPMG on this matter as part of their interim and year end reporting to the Audit Committee.

On the basis of the above, the Audit Committee concluded that the valuations were suitable for inclusion in the financial statements.

Internal Control

The UK Corporate Governance Code requires the Board to conduct, at least annually, a review of the adequacy of the Company's systems of internal control, and to report to shareholders that it has done so. The Board has approved a detailed 'Risk Map' identifying significant strategic, investment-related, operational and service provider related risks and has in place a monitoring system to ensure that risk management and all aspects of internal control are considered on an ongoing basis. The monitoring system assists in determining the nature and extent of the significant risks the Board is willing to take in achieving its strategic objectives.

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

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

Internal audit

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

In addition, the Investment Manager prepares an ISAE 3402 / AAF 01/06 Internal Controls Report which includes the Company within the scope of the review. This report is reviewed by PricewaterhouseCoopers LLP which issued an unqualified opinion for the year ended December 2015.

Report of the Audit Committee continued

External Auditor remuneration, independence and effectiveness

Annually, the Audit Committee considers the remuneration and independence of the external auditor. The Committee recommends the remuneration of the external auditor to the Board and keeps under

review the ratio of audit to non-audit fees to ensure that the independence and objectivity of the external auditor are safeguarded.

Effectiveness of the independent audit process

The Audit Committee evaluated the effectiveness of the independent audit firm and process prior to making a recommendation on its re-appointment at the forthcoming Annual General Meeting. As part of the evaluation, the Committee considered feedback from the Investment Manager on the audit process and the half year and year end report from the Auditor, which details the auditor's compliance with regulatory requirements, on safeguards that have been established and their own internal quality control procedures. The Audit Committee had discussions with the audit partner on audit planning, accounting policies and audit findings, and met the audit partner

both with and without representatives of the Investment Manager present. The Chairman of the Audit Committee also had informal discussions with the audit partner during the course of the year. The Committee is satisfied with the effectiveness of the audit.

During the year, the Audit Quality Review Team of the Financial Reporting Council performed a review of the audit of the Company for the year ended 31 March 2015 and in the opinion of the Audit Committee the outcome was satisfactory, which provides further comfort on the effectiveness of KPMG.

Review of auditor appointment

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

The Company aims to review its external auditors in accordance with the EU Directive and Regulation on Audit Reform although this does not apply to a non-EU Company. The aim is for the next audit tender to take place by 2024 whereby a change in auditor will be required under current rules.

Non-audit services

In order to help safeguard the independence and objectivity of the auditor, the Audit Committee maintains a policy on the engagement of the external auditor to provide non-audit services. The Audit Committee's policy for the use of the external auditor for non-audit services recognises that there are certain circumstances where, due to KPMG's expertise and knowledge of the Company, it will often be in the best position to perform non audit services. Under the policy, the use of the external auditor for non-audit services is subject to pre-clearance by the Audit Committee. Clearance will not be granted if it is

believed it would impair the external auditor's independence or where provision of such services by the Company's auditor is prohibited. Prior to undertaking any non-audit service, KPMG also completes its own independence confirmation processes which are approved by the Audit Partner.

During the year, the non-audit services fees paid to KPMG totalled £96,000 in relation to the interim review and transaction due diligence performed on a property acquisition.

FINANCIAL STATEMENTS

Independent Auditor's Report to the Members of Schroder Real Estate Investment Trust Limited

Opinions and conclusions arising from our audit

Opinion on financial statements

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 2016 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB"). In our opinion, the financial statements:

give a true and fair view of the state of the Group's affairs as at 31 March 2016 and of its total comprehensive income for the year then ended;

have been properly prepared in accordance with International Financial Reporting Standards as issued by the IASB; and

comply with the Companies (Guernsey) Law, 2008.

Our assessment of risks of material misstatement

The risks of material misstatement detailed in this section of this report are those risks that we have deemed, in our professional judgement, to have had the greatest effect on: the overall audit strategy; the allocation of resources in our audit; and directing the efforts of the engagement team. Our audit procedures relating to these risks were designed in the context of our audit of the financial statements as a whole. Our opinion on the financial statements is not modified with respect to any of these risks, and we do not express an opinion on these individual risks.

In arriving at our audit opinion above on the financial statements, the risk of material misstatement that had the greatest effect on our audit was as follows:

Valuation of investment property held directly by the Group (£371,224,000) and indirectly through investment in joint ventures (£77,959,000)

Refer to page 50 of the Report of the Audit Committee, Note 1 accounting policies and Notes 11 (investment property) and 12 (joint ventures).

– **The risk** – The Group's direct property portfolio accounted for 77.4% of the Group's total assets as at 31 March 2016 and the investment in joint ventures accounted for a further 16.3% of total assets. The fair value of the direct and indirect investment properties at 31 March 2016 was assessed by the Board of Directors based on independent valuations prepared by the Group's and joint ventures' external property valuers. As highlighted in the Report of the Audit Committee, the valuation of the combined property portfolio, given it represents the majority of the total assets of the Group and requires the use of significant judgment and subjective assumptions, is a significant area of our audit.

– **Our response** – Our audit procedures with respect to both the directly and indirectly owned investment properties included, but were not limited to, testing the design, implementation and operating effectiveness of certain relevant controls over the information contained in the lease database, critically assessed the valuation prepared by the external property valuers and evaluated the appropriateness of the valuation methodologies and assumptions used, including undertaking discussions on key findings with the external valuers and challenging the assumptions used, with the assistance of our own real estate specialist. We compared a sample of key inputs to the valuation such as yields, occupancy and tenancy contracts for consistency with other audit findings and observable market evidence.

We also considered the Group's investment property valuation policies and their application as described in the notes to the financial statements for compliance with International Financial Reporting Standards as issued by the IASB in addition to the adequacy of disclosures in Notes 1, 11 and 12 in relation to the fair value of the investment properties and investment in joint ventures.

Our application of materiality and an overview of the scope of our audit

Materiality is a term used to describe the acceptable level of precision in financial statements. Auditing standards describe a misstatement or an omission as "material" if it could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The auditor has to apply judgement in identifying whether a misstatement or omission is material and to do so the auditor

Independent Auditor's Report to the Members of Schroder Real Estate Investment Trust Limited continued

identifies a monetary amount as “materiality for the financial statements as a whole”.

The materiality for the financial statements as a whole was set at £3.7 million. This has been calculated using a benchmark of the Group's total assets (of which it represents approximately 0.8%) which we believe is the most appropriate benchmark as investment property values are considered as the prime driver of returns to the members of the Company.

We agreed with the audit committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £185,000, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

The Group audit team performed the audit of the Group as if it was a single operating entity based on the aggregated set of financial information for the Group. The audit was performed using the materiality levels set out above and covered 100% of total Group rental income, Group profit before taxation and total Group assets. Our assessment of materiality has informed our identification of significant risks of material misstatement and the associated audit procedures performed in those areas as detailed above.

Whilst the audit process is designed to provide reasonable assurance of identifying material misstatements or omissions it is not guaranteed to do so. Rather we plan the audit to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements does not exceed materiality for the financial statements as a whole. This testing requires us to conduct significant depth of work on a broad range of assets, liabilities, income and expense as well as devoting significant time of the most experienced members of the audit team, in particular the Responsible Individual, to subjective areas of the accounting and reporting process.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial

information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

the directors' viability statement on pages 35 to 36, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the Company's continuing in operation over the 5 years to 31 March 2021; or

the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

Matters on which we are required to report by exception

Under International Standards on Auditing (UK and Ireland) (“ISAs”) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the Annual Report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy; or

the Report of the Audit Committee does not appropriately address matters communicated by us to the audit committee.

Under the Companies (Guernsey) Law, 2008, we are required to report to you if, in our opinion:

the Company has not kept proper accounting records; or

the financial statements are not in agreement with the accounting records; or

Independent Auditor's Report to the Members of Schroder Real Estate Investment Trust Limited continued

we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement on pages 45 to 48 relating to the Company's compliance with the eleven provisions of the UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope of report and responsibilities

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

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 38, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and ISAs (UK and Ireland). Those standards require us to comply with the UK Ethical Standards for Auditors.

Deborah J Smith For and on behalf of KPMG Channel Islands Limited

Chartered Accountants and Recognised Auditors
Glategny Court, Glategny Esplanade, St Peter Port,
Guernsey, GY1 1WR
10 June 2016

FINANCIAL STATEMENTS

Consolidated Statement of Comprehensive Income

	Notes	31/03/2016 £000	31/03/2015 £000
Rental income		24,740	22,124
Other income	4	383	2,067
Property operating expenses	5	(2,952)	(2,812)
Net rental and related income, excluding joint ventures		22,171	21,379
<i>Share of net rental income in joint ventures</i>		<i>3,257</i>	<i>2,273</i>
<i>Net rental and related income, including joint ventures</i>		<i>25,428</i>	<i>23,652</i>
Profit on disposal of investment property	11	1,295	20,696
Net valuation gain on investment property	11	17,375	20,144
Expenses			
Investment management fee	3	(3,227)	(2,752)
Valuers' and other professional fees		(1,247)	(1,277)
Administrators and accounting fee	3	(120)	(120)
Auditor's remuneration	6	(119)	(112)
Directors' fees	7	(197)	(185)
Other expenses	7	(594)	(388)
Total expenses		(5,504)	(4,834)
Net operating profit before net finance costs		35,337	57,385
Interest receivable		–	21
Finance costs payable		(7,045)	(6,344)
Net finance costs		(7,045)	(6,323)
Share of net rental income in joint ventures	12	3,257	2,273
Share of valuation gain in joint ventures	12	4,777	1,792
Profit before taxation		36,326	55,127
Taxation	8	(74)	(353)
Total comprehensive income for the year attributable to the equity holders of the parent		36,252	54,774
Basic and diluted earnings per share	9	7.0p	11.3p

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.

FINANCIAL STATEMENTS

Consolidated Statement of Financial Position

	Notes	31/03/2016 £000	31/03/2015 £000
Investment property	11	371,224	298,684
Investment in joint ventures	12	77,959	72,792
Non-current assets		449,183	371,476
Trade and other receivables	13	17,700	16,187
Cash and cash equivalents	14	12,763	46,591
Current assets		30,463	62,778
Total assets		479,646	434,254
Issued capital and reserves	15	349,058	325,666
Treasury shares	15	(26,452)	(26,452)
Equity		322,606	299,214
Interest-bearing loans and borrowings	16	147,994	127,562
Non-current liabilities		147,994	127,562
Trade and other payables	17	9,013	7,266
Taxation payable		33	212
Current liabilities		9,046	7,478
Total liabilities		157,040	135,040
Total equity and liabilities		479,646	434,254
Net Asset Value per Ordinary Share	18	62.2p	57.7p

The financial statements on pages 55 to 77 were approved at a meeting of the Board of Directors held on 10 June 2016 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.

FINANCIAL STATEMENTS

Consolidated Statement of Changes in Equity

	Notes	Share premium £000	Treasure share reserve £000	Revenue reserve £000	Total £000
Balance as at 31 March 2014		127,152	–	63,291	190,443
Total comprehensive income for the year		–	–	54,774	54,774
New Equity Issuance		91,938	(26,452)	–	65,486
Dividends paid	10	–	–	(11,489)	(11,489)
Balance as at 31 March 2015		219,090	(26,452)	106,576	299,214
Total comprehensive income for the year		–	–	36,252	36,252
Dividends paid	10	–	–	(12,860)	(12,860)
Balance as at 31 March 2016		219,090	(26,452)	129,968	322,606

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

FINANCIAL STATEMENTS

Consolidated Statement of Cash Flows

	31/03/2016 £000	31/03/2015 £000
Operating activities		
Profit for the year	36,252	54,774
Adjustments for:		
Profit on disposal of investment property	(1,295)	(20,696)
Net valuation gain on investment property	(17,375)	(20,144)
Share of profit of joint ventures	(8,034)	(4,065)
Net finance cost	7,045	6,323
Taxation	74	353
Operating cash generated before changes in working capital	16,667	16,545
Decrease/(increase) in trade and other receivables	2,487	(4,157)
Increase in trade and other payables	1,747	112
Cash generated from operations	20,901	12,500
Finance costs paid	(6,826)	(6,188)
Interest received	–	21
Tax paid	(253)	(211)
Cash flows from operating activities	13,822	6,122
Investing Activities		
Proceeds from sale of investment property	2,200	86,548
Acquisition of investment property	(55,613)	(45,470)
Additions to investment property	(4,457)	(848)
Addition/acquisition of joint ventures	(390)	(71,000)
Net income distributed from joint ventures	3,257	2,273
Cash flows from investing activities	(55,003)	(28,497)
Financing Activities		
New loan drawdown	20,500	–
Loan arrangement fees	(287)	–
Share issue net proceeds	–	65,486
Dividends paid	(12,860)	(11,489)
Cash flows from financing activities	7,353	53,997
Net (decrease)/increase in cash and cash equivalents for the year	(33,828)	31,622
Opening cash and cash equivalents	46,591	14,969
Closing cash and cash equivalents	12,763	46,591

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

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 2016 comprise the Company, its subsidiaries and its interests in joint ventures (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, or adopted 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, rounded to the nearest thousand. They are prepared on the historical cost basis except that investment property and derivative financial instruments are stated at their fair value.

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

Going concern

The Directors have examined significant areas of possible financial risk including cash and cash requirements and the debt covenants, in particular the loan to value covenants and interest cover ratios on the loans with Canada Life and Royal Bank of Scotland. 80% of the Canada Life loan matures on 15 April 2028 and 20% matures on 15 April 2023. The Royal Bank of Scotland loan matures on 17 July 2019. The Directors have not identified any material uncertainties which would cast significant doubt on the Group's ability to continue as a going concern for a period of not less than twelve months from the date of the approval of the financial statements. The Directors have satisfied themselves that the Group has adequate resources to continue in operational existence for the foreseeable future.

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

Use of estimates and judgements

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

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

Basis of consolidation

Subsidiaries

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

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 recognised gains and losses of jointly controlled entities on an equity accounted basis. When the Group's share of losses

Notes to the Financial Statements continued

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

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

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

Financial instruments

Non-derivative financial instruments

Assets

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

Cash and cash equivalents

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

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 cost.

Share capital

Ordinary shares including treasury shares are classified as equity.

Dividends

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

Impairment

Financial assets

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

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognised in the profit and loss.

Notes to the Financial Statements continued

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in the profit and loss.

Non-financial assets

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

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

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

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

Provisions

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

Rental income

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

Finance income and expenses

Finance income comprises interest income on funds invested that are recognised in the profit and loss. Interest income is recognised on an accruals basis.

Finance expenses 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 expenses are accounted for on an effective interest basis.

Expenses

All expenses are accounted for on an accruals basis.

Taxation

The Company and its subsidiaries are subject to UK income tax on any income arising on investment properties, after deduction of debt financing costs and other allowable expenses.

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

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. The chief operating decision maker is considered to be the Board of Directors who are provided with consolidated IFRS information on a quarterly basis.

2. New standards and interpretations

Standards, interpretations and amendments to published standards that are effective for the first time in 2016

The following new standards, interpretations or amendments, which are relevant to the company's operations, became effective during the year:

- Annual improvements to IFRSs 2010-2012 Cycle (effective for accounting periods beginning on or after 1 July 2014)
- Annual improvements to IFRSs 2011-2013 Cycle (effective for accounting periods beginning on or after 1 July 2014)

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

The following new standards, interpretations and amendments have been published and are mandatory for the company's accounting periods beginning on or after 1 April 2016 or later periods and have not been early adopted by the company:

- Annual improvements to IFRSs 2012-2014 Cycle (effective for accounting periods beginning on or after 1 January 2016)

Notes to the Financial Statements continued

- Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture: Bearer Plants (early adopted) (effective 1 January 2016)
- Amendments to IAS 16 and IAS 38 – Acceptable Methods of Depreciation and Amortisation (effective 1 January 2016)
- Amendments to IAS 1 Presentation of Financial Statements – Disclosure Initiative (effective for accounting periods beginning on or after 1 January 2016)
- Amendments to IFRS 10, IFRS 11, IFRS 12 and IAS 28 – Investment Entities (effective for accounting periods beginning on or after 1 January 2016)
- Amendments to IAS 27 Consolidated and Separate Financial Statements – Equity Method in Separate Financial Statements (effective for accounting periods beginning on or after 1 January 2016)
- Amendment to IAS 7 – Cash Flow Statements (effective for accounting periods beginning on or after 1 January 2017)
- IFRS 15 Revenue from Contracts with Customers (effective for accounting periods beginning on or after 1 January 2018)
- IFRS 9 Financial Instruments (effective for accounting periods beginning on or after 1 January 2018)
- IFRS 16 – Leases (effective for accounting periods beginning on or after 1 January 2019)

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 £3,227,000 (2015: £2,752,000). At the year end £619,000 (2015: £471,000) was outstanding.

During the year, Schroder Real Estate Investment Management Limited was paid £200,000 for additional services in relation to the Company's conversion to a REIT in May 2015.

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 (2015: £120,000) of which £30,000 (2015: £30,000) was outstanding at the year end.

4. Other income

	31/03/2016 £000	31/03/2015 £000
Dilapidations	413	637
Surrender premium	(38)	1,378
Miscellaneous income	8	52
	383	2,067

Notes to the Financial Statements continued

5. Property operating expenses

	31/03/2016 £000	31/03/2015 £000
Agents' fees	174	132
Repairs and maintenance	145	138
Advertising	31	33
Rates – vacant	1,075	792
Security	39	132
Service charge, insurance and utilities on vacant units	1,355	1,345
Ground rent	108	108
Bad debt provision	21	127
Other	4	5
	2,952	2,812

6. Auditor's remuneration

The total expected audit fees for the year are £106,000 (2015: £99,000) and £13,000 (2015: £13,000) for the half year review of the financial statements. The auditors were also paid £83,000 for transaction services work during the year in relation to the Group's acquisition of St John's Centre (Bedford) Limited, which has been capitalised in the property acquisition costs (2015: £90,000 for transaction services work in relation to the Group's equity raising).

7. Other expenses

	31/03/2016 £000	31/03/2015 £000
Directors' and officers' insurance premium	13	21
Regulatory costs	22	60
Marketing	–	15
Professional fees	99	79
Other expenses	460	213
	594	388

One off REIT conversion costs of £413,000 were incurred during the year, which are included within other expenses in the note above.

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 £197,000 (2015: £185,000), as set out in the Remuneration Report on page 43. This includes a supplement of £3,000 paid to each Director in office on 1 April 2015 for their work on the REIT conversion.

Notes to the Financial Statements continued

8. Taxation

	31/03/2016 £000	31/03/2015 £000
Tax expense in year	74	353
Reconciliation of effective tax rate		
Profit before tax	36,326	55,127
Effect of:		
Income tax using UK income tax rate of 20%	7,265	11,025
Revaluation gain not taxable	(3,475)	(4,029)
Share of profit of associates and joint ventures not taxable	(1,607)	(813)
Profit on disposal of investment property not taxable	(259)	(4,139)
Adjustment in respect to prior years	–	152
Utilisation of capital allowance, effect of different tax rates in subsidiaries and other adjustments	(1,850)	(1,843)
Current tax expense in the year	74	353

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

The Group converted to UK REIT status on 1 May 2015.

9. Basic and diluted earnings per share

Earnings per share

The basic and diluted earnings per share for the Group is based on the net profit for the year of £36,252,000 (2015: £54,774,000) and the weighted average number of Ordinary Shares in issue during the year of 518,513,409 (2015: 485,661,354).

Notes to the Financial Statements continued

10. Dividends paid

In respect of	Ordinary Shares	Rate (pence)	31/03/2016 £000
Quarter 31 March 2015 dividend paid 28 May 2015	518.51 million	0.62	3,215
Quarter 30 June 2015 dividend paid 28 August 2015	518.51 million	0.62	3,215
Quarter 30 September 2015 dividend paid 30 November 2015	518.51 million	0.62	3,215
Quarter 31 December 2015 dividend paid 29 February 2016	518.51 million	0.62	3,215
		2.48	12,860

In respect of	Ordinary Shares	Rate (pence)	31/03/2015 £000
Quarter 31 March 2014 dividend paid 25 April 2014	391.51 million	0.62	2,427
Quarter 30 June 2014 dividend paid 15 August 2014	471.51 million	0.62	2,923
Quarter 30 September 2014 dividend paid 28 November 2014	471.51 million	0.62	2,923
Quarter 31 December 2014 dividend paid 27 February 2015	518.51 million	0.62	3,216
		2.48	11,489

A dividend for the quarter ended 31 March 2016 of 0.62 pence (£3.2 million) was declared on 27 April 2016 and paid on 31 May 2016.

11. Investment property

	Leasehold £000	Freehold £000	Total £000
Fair value as at 31 March 2014	39,361	258,713	298,074
Additions	232	46,086	46,318
Gross proceeds on disposals	(2,295)	(84,253)	(86,548)
Realised (loss)/gain on disposals	(1,209)	21,905	20,696
Net valuation gain on investment property	3,138	17,006	20,144
Fair value as at 31 March 2015	39,227	259,457	298,684
Additions	256	59,814	60,070
Gross proceeds on disposals	–	(6,200)	(6,200)
Realised gain on disposals	–	1,295	1,295
Net valuation gain on investment property	2,582	14,793	17,375
Fair value as at 31 March 2016	42,065	329,159	371,224

Fair value of investment properties as determined by the valuer totals £385,085,000 (2015: £310,205,000). Of this amount £4,000,000 in relation to the unconditional exchange of contracts for the sale of New Malden and £9,861,000 (2015: £9,216,000) in connection with lease incentives is included within trade and other receivables.

The net valuation gain on investment property consists of unrealised gains of £20,548,000 net of unrealised losses of £3,173,000.

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

Notes to the Financial Statements continued

RICS Valuation – Professional Standards January 2014 Global and UK Edition, 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(1.5) Fair Value and VPGA1 Valuations for Inclusion in Financial Statements which adopt the definition of Fair Value used by the International Accounting Standards Board.

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

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

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 2016

31 March 2016		Industrial	Retail (incl retail warehouse)	Office	Leisure	Total
Fair value (£000)		103,120	150,750	117,355	13,860	385,085
Area (000 sq ft)		1,711	626	637	145	3,119
Net passing rent per sq ft per annum	Range	£0 – £8.82	£0 – £38.50	£0 – £25.72	£7.64	£0 – £38.50
	Weighted average	£3.85	£14.65	£11.95	N/A	£7.85
Gross ERV per sq ft per annum	Range	£3.50 – £10.00	£7.40 – £49.50	£9.00 – £27.50	£9.64	£3.50 – £49.50
	Weighted average	£4.94	£16.66	£14.96	N/A	£9.55
Net initial yield ⁽¹⁾	Range	0% – 7.51%	0% – 8.04%	0.00% – 15.89%	7.49%	0% – 15.89%
	Weighted average	5.99%	5.70%	6.08%	N/A	5.96%
Equivalent yield	Range	5.65% – 8.57%	4.35% – 9.79%	5.49% – 9.68%	8.68%	4.35% – 9.68%
	Weighted average	7.29%	6.03%	6.99%	N/A	6.75%

Quantitative information about fair value measurement using unobservable inputs (Level 3) as at 31 March 2015

31 March 2015		Industrial	Retail (incl retail warehouse)	Office	Leisure	Total
Fair value (£000)		70,850	113,105	114,550	11,700	310,205
Area (000 sq ft)		1,248	505	657	145	2,555
Net passing rent per sq ft per annum	Range	£0 – £8.82	£0 – £38.50	£0 – £25.72	£6.97	£0 – £38.50
	Weighted average	£4.03	£13.44	£12.92	N/A	£8.34
Gross ERV per sq ft per annum	Range	£3.00 – £9.25	£7.40 – £49.50	£9.00 – £26.00	£8.72	£3.00 – £49.50
	Weighted average	£4.59	£16.31	£14.26	N/A	£9.62
Net initial yield ⁽¹⁾	Range	0% – 8.31%	0% – 9.20%	1.00% – 13.99%	8.17%	0% – 13.99%
	Weighted average	6.71%	5.67%	7.00%	N/A	6.49%
Equivalent yield	Range	5.74% – 8.53%	4.50% – 9.84%	5.39% – 9.67%	8.49%	4.50% – 9.84%
	Weighted average	7.43%	6.45%	7.24%	N/A	7.04%

Notes:

(1) Yields based on rents receivable after deduction of head rents, but gross of non-recoverables

Notes to the Financial Statements continued

Sensitivity of measurement to variations in the significant unobservable inputs

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

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

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

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 2016	Industrial £000	Retail £000	Office £000	Other £000	Total £000
Increase in ERV by 5%	4,330	6,617	4,126	240	15,313
Decrease in ERV by 5%	(4,265)	(5,880)	(3,830)	(190)	(14,165)
Increase in net initial yield by 0.25%	(4,134)	(6,336)	(4,636)	(448)	(15,554)
Decrease in net initial yield by 0.25%	4,494	6,918	5,033	479	16,924

Estimated movement in fair value of investment properties at 31 March 2015	Industrial £000	Retail £000	Office £000	Other £000	Total £000
Increase in ERV by 5%	3,050	4,300	4,150	300	11,800
Decrease in ERV by 5%	(2,750)	(4,300)	(3,655)	(200)	(10,905)
Increase in net initial yield by 0.25%	(2,550)	(4,850)	(3,900)	(350)	(11,650)
Decrease in net initial yield by 0.25%	2,750	5,150	4,300	400	12,600

Notes to the Financial Statements continued

12. Investment in joint ventures

	£000
Closing balance as at 31 March 2014	1,800
Sale of Crendon*	(1,800)
Purchase of interest in City Tower Unit Trust	35,000
Purchase of interest in Store Unit Trust	36,000
Share of profit for the year	4,065
Distribution received	(2,273)
Closing balance as at 31 March 2015	72,792
Purchase of interest in City Tower Unit Trust	390
Share of profit for the year	8,034
Distribution received	(3,257)
Closing balance as at 31 March 2016	77,959

* Crendon Industrial Partnership sold Crendon Industrial Park during the year ended 31 March 2014 giving rise to net proceeds to SREIT of £1.8m, which were received in April 2014.

Summarised joint venture financial information not adjusted for the Group's share	31/03/2016 £000	31/03/2015 £000
Total assets	241,757	223,222
Total liabilities ¹	1,135	692
Revenues for year	10,726	7,396
Total comprehensive income	27,062	10,530
Net asset value attributable to Group	77,958	72,792
Total comprehensive income attributable to the Group	8,034	4,065

¹ Liabilities that are non-recourse to the Group.

13. Trade and other receivables

	31/03/2016 £000	31/03/2015 £000
Rent receivable	1,699	1,353
Other debtors and prepayments	16,001	14,834
	17,700	16,187

Other debtors and prepayments includes £9,861,000 (2015: £9,216,000) in respect of lease incentives. A further £4,000,000 relates to New Malden (2015: £4,567,500 relating to Woking and Hinckley), that had unconditionally exchanged but had not completed prior to the year end.

Notes to the Financial Statements continued

14. Cash and cash equivalents

As at 31 March 2016, the group had £12.8 million (2015: £46.6 million) in cash of which £2.1 million is proceeds from sales held within the Canada Life security pool. £861,000 is held in respect of tenant deposits (see note 17).

15. Issued capital and reserves

Share capital

The share capital of the Company is represented by an unlimited number of Ordinary Shares of no par value.

As at the date of this Report, the Company has 565,664,749 ordinary shares in issue of which 47,151,340 ordinary shares (representing 8.3% of the Company's total issued share capital) are held in treasury. The total number of voting rights of the Company is 518,513,409.

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).

	31/03/2016		31/03/2015	
	£000	£000	£000	£000
Non-current liabilities				
Loan facility		150,085		129,585
Less: Finance costs incurred	(2,311)		(2,212)	
Add: Amortised finance costs	220	(2,091)	189	(2,023)
		147,994		127,562

The Group entered into a £129.6 million loan facility with Canada Life on 16 April 2013 that has 20% of the loan maturing on 15 April 2023 and with the balance of 80% maturing on 15 April 2028, with a fixed interest rate of 4.77%.

On 17 July 2015 the Company entered into a four year, £20.5 million revolving credit facility with the Royal Bank of Scotland ("RBS") for the purpose of acquiring, Millshaw Park Industrial Estate. The interest rate is based on the loan to value ratio as below:

- LIBOR + 1.60% if loan to value is less than or equal to 60%
- LIBOR + 1.85% if loan to value is greater than 60%

During the year ended the loan to value has remained less than 60%. Since this loan has variable interest, an interest rate cap for 100% of the loan was entered into, which comes into effect if GBP 3 month LIBOR reaches 1.5%.

As at 31 March 2016 the group has a loan balance of £150.1 million and £2.1 million of unamortised arrangement fees. (31 March 2015: £129.6 million and £2.0 million of unamortised arrangement fees).

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 2016 contained properties valued at £342 million together with £2.1 million cash. 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 2016 contained properties valued at £38.8 million.

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

Notes to the Financial Statements continued

As at the Interest Payment Date, the Canada Life interest cover calculated in accordance with the ICR covenant was 327% (2015: 334%) and the forward looking interest cover was 297% (2015: 284%), with the Loan to value ratio of 38.1% (33.0% net of all cash) (2015: 43.8%, 29.0% net of all cash). The RBS interest cover calculated in accordance with the ICR covenant was 591% and the forward looking interest cover was 523% with the Loan to value ratio of 52.8%.

17. Trade and other payables

	31/03/2016 £000	31/03/2015 £000
Rent received in advance	5,035	4,553
Rental deposits	861	229
Interest payable	1,391	1,305
Other trade payables and accruals	1,726	1,179
	9,013	7,266

18. NAV per Ordinary Share

The NAV per Ordinary Share is based on the net assets of £322,606,000 (2015: £299,214,000) and 518,513,409 (2015: 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 is only directly exposed to sterling and hence is not exposed to currency risks. 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.

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

Notes to the Financial Statements continued

credit quality of the Group's tenants and aims to ensure there is no excessive concentration of risk and that the impact of any default by a tenant is minimised.

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

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

	31 March 2016 Carrying amount £000	31 March 2015 Carrying amount £000
Office	358	349
Industrial	1,085	646
Retail	256	358
	1,699	1,353

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

	31 March 2016 Carrying amount £000	31 March 2015 Carrying amount £000
0-30 days	1,245	1,192
31-60 days	21	18
61-90 days	2	4
91 days plus	431	139
	1,699*	1,353*

*Net of bad debt provisions of £124,000 (2015: £71,000).

Liquidity risk

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

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

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

Notes to the Financial Statements continued

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

As at 31 March 2016	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	149,385	225,724	3,316	9,947	39,607	172,854
Trade and other payables	2,587	2,587	2,587	–	–	–
Total financial liabilities	151,972	228,311	5,903	9,947	39,607	172,854
As at 31 March 2016	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	128,867	209,941	3,090	9,272	18,544	179,035
Trade and other payables	1,408	1,408	1,408	–	–	–
Total financial liabilities	130,275	211,349	4,498	9,272	18,544	179,035

Interest rate risk

Exposure to market risk for changes in interest rates relates primarily to the Group's long-term debt obligations and to interest earned on cash balances. As interest on the Group's long-term debt obligations is payable on a fixed-rate basis the Group is not exposed to interest rate risk, but is exposed to changes in fair value of long-term debt obligations driven by interest rate movements. As at 31 March 2016 the fair value of the Group's £129.6 million loan with Canada Life was £140.2 million (2015: £138.1 million). The RBS revolving credit facility is a low margin flexible source of funding with a margin of 1.6% above 3 month LIBOR therefore it has not been fair valued.

A 1% increase or decrease in short-term interest rates would increase or decrease the annual income and equity by £127,600 based on the cash balance as at 31 March 2016.

Fair values

The fair values of financial assets and liabilities are not materially different from their carrying values 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 (2015: 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.

Notes to the Financial Statements continued

Interest bearing loans and borrowings – level 2

Fair values are based on the present value of future cash flows discounted at a market rate of interest. Issue costs are amortised over the period of the borrowings. As at 31 March 2016 the fair value of the Group's £129.6 million loan with Canada Life was £140.2 million.

Trade and other receivables/payables – level 2

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

Capital management

The Board's policy is to maintain a strong capital base so as 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 return to its equity shareholders through appropriate level of gearing.

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

	31/03/2016 £000	31/03/2015 £000
Debt		
Fixed rate loan facility	150,085	129,585
Equity		
Called-up share capital	192,638	192,638
Reserves	129,968	106,576
	322,606	299,214
Total debt and equity	472,691	428,799

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 2016 the future minimum lease receipts under non-cancellable leases are as follows:

	31/03/2016 £000	31/03/2015 £000
Less than one year	23,531	20,436
Between one and five years	80,483	67,845
More than five years	91,136	85,866
	195,150	174,147

The total above comprises the total contracted rent receivable as at 31 March 2016.

Notes to the Financial Statements continued

21. List of Subsidiary and Joint Venture Undertakings

The companies listed below are those which were part of the group at 31 March 2016:

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%
St John's Centre (Bedford) Ltd**	Subsidiary	UK	100%
Lunar Partnership (Brentford) Ltd	Subsidiary	Guernsey	100%
LP (Brentford) Ltd	Subsidiary	Guernsey	100%
City Tower Unit Trust	Joint Venture	Jersey	25%
Store Unit Trust	Joint Venture	Jersey	50%

*SREIT Holdings No 2 Limited and SREIT (Bedford) Limited were incorporated during the year to March 2016

**St Johns Centre (Bedford) Limited was acquired during the year to March 2016

22. Related party transactions

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

23. Capital commitments

At 31 March 2016 the Group had no capital commitments.

24. Post balance sheet events

Since the year end, the Group has completed the sale of three properties for a combined price of £10.7 million. The disposals are summarised as follows:

- Clumber Street, Nottingham – sold on 1 April 2016 for £2 million
- 3 – 6 Abbeygate Street, Bath – sold on 10 May 2016 for £4.7 million
- St. Georges Court, New Malden – sold on 4 April 2016 for £4 million (included in the March 2016 financial statements as contracts unconditionally exchanged in April 2015).

FINANCIAL STATEMENTS

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

	31/03/2016 Total £000	31/03/2015 Total £000
EPRA earnings	13,130	12,142
EPRA earnings per share	2.5	2.5
EPRA NAV	322,606	299,214
EPRA NAV per share	62.2	57.7
EPRA NNNAV	313,600	288,676
EPRA NNNAV per share	60.5	55.7
EPRA Net Initial Yield	5.2%	5.6%
EPRA topped-up Net Initial Yield	5.3%	5.7%
EPRA Vacancy Rate	8.89%	9.60%
EPRA Cost Ratios – including direct vacancy costs	31.9%	32.3%
EPRA Cost Ratios – excluding direct vacancy costs	25.3%	24.8%

a. EPRA earnings and EPS

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

	31/03/2016 £000	31/03/2015 £000
IFRS profit after tax	36,252	54,774
Adjustments to calculate EPRA Earnings:		
Profit on disposal of investment property	(1,295)	(20,696)
Net valuation gain on investment property	(17,375)	(20,144)
Finance costs: interest rate cap	325	–
Share of valuation gain in associates and joint ventures	(4,777)	(1,792)
EPRA earnings	13,130	12,142
Weighted average number of Ordinary shares	518,513,409	485,661,354
IFRS earnings per share (pence per share)	7.0	11.3
EPRA earnings per share (pence per share)	2.5	2.5

EPRA Performance Measures (unaudited) continued

b. EPRA NAV per share

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

	31/03/2016 £000	31/03/2015 £000
IFRS NAV per financial statements	322,606	299,214
EPRA NAV	322,606	299,214
Shares in issue at end of year	518,513,409	518,513,409
IFRS NAV per share	62.2	57.7
EPRA NAV per share	62.2	57.7

c. EPRA NNNAV per share

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

	31/03/2016 £000	31/03/2015 £000
EPRA NAV	322,606	299,214
Adjustments to calculate EPRA NNNAV:		
Fair value of debt	(12,706)	(10,538)
EPRA NNNAV	309,900	288,676
EPRA NNNAV per share	59.8	55.7

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.

	31/03/2016 £000	31/03/2015 £000
Investment property – wholly owned	385,085	310,205
Investment property – share of joint ventures and funds	77,488	71,938
Complete property portfolio	462,573	382,143
Allowance for estimated purchasers’ costs	26,829	22,164
Gross up completed property portfolio valuation	489,402	404,307
Annualised cash passing rental income	28,235	25,367
Property outgoings	(2,952)	(2,812)
Annualised net rents	25,283	22,555
Notional rent expiration of rent free periods ¹	812	599
Topped-up net annualised rent	26,095	23,154
EPRA NIY	5.2%	5.6%
EPRA “topped-up” NIY	5.3%	5.7%

¹ The period over which rent free periods expire is 1 year (2015: 2 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.

	31/03/2016 £000	31/03/2015 £000
Administrative/property operating expense line per IFRS income statement	8,456	7,646
Share of joint venture expenses	552	305
Ground rent costs	(108)	(108)
EPRA Costs (including direct vacancy costs)	8,900	7,843
Direct vacancy costs	(1,843)	(1,825)
EPRA Costs (excluding direct vacancy costs)	7,057	6,018
Gross Rental Income less ground rent costs	24,632	22,016
Share of Joint Ventures income less ground rent costs	3,257	2,273
Gross Rental Income	27,889	24,289
EPRA Cost Ratio (including direct vacancy costs)	31.9%	32.3%
EPRA Cost Ratio (excluding direct vacancy costs)	25.3%	24.8%
EPRA Vacancy Rate	8.89%	9.60%

FINANCIAL STATEMENTS

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 31st March 2016, 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 page 33 of this document and "Director" means any one of them.

Disclosure and Transparency Rules means the disclosure and transparency rules made by the FCA under Part VII of the UK Financial Services and Markets Act 2000, as amended.

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 per share 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.

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.

MSCI (formerly Investment Property Databank or 'IPD') is a Company that produces an independent benchmark of property returns.

Listing Rules means the listing rules made by the FCA under Part VII of the UK Financial Services and Markets Act 2000, as amended.

Net asset value ("NAV") is shareholders' funds divided by the number of shares in issue at the period end.

NAV total return is calculated on a daily basis taking into account the timing of dividends, share buy backs and issuance.

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 100 Wood Street, London, EC2V 7ER on 9 September 2016 at 11.00 am.

Agenda

1. To elect a Chairman of the Meeting.

Resolution on Form of Proxy

To consider and, if thought fit, pass the following Ordinary Resolutions:

- | | |
|------------------------|---|
| Ordinary Resolution 1 | 2. To consider and approve the Consolidated Annual Report and Financial Statements of the Company for the year ended 31 March 2016. |
| Ordinary Resolution 2 | 3. To approve the Remuneration Report for the year ended 31 March 2016. |
| 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 John Frederiksen as a Director of the Company. |
| Ordinary Resolution 6 | 7. To re-elect Mr Keith Goulborn as a Director of the Company. |
| Ordinary Resolution 7 | 8. To re-elect Mr Graham Basham as a Director of the Company. |
| Ordinary Resolution 8 | 9. To re-appoint KPMG Channel Islands Limited as Auditor of the Company until the conclusion of the next Annual General Meeting. |
| Ordinary Resolution 9 | 10. To authorise the Board of Directors to determine the Auditor's remuneration. |
| Ordinary Resolution 10 | 11. To receive and approve the Company's Dividend Policy which appears on page 40 of the Annual Report. |

To consider and, if thought fit, pass the following Special Resolutions:

- | | |
|-----------------------|---|
| Special Resolution 11 | <p>12. 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:</p> <p>(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;</p> <p>(b) the minimum price which may be paid for an ordinary share shall be 0.01p;</p> <p>(c) the maximum price (exclusive of expenses) which may be paid for an ordinary share shall be 105% of the average of the middle market quotations on the relevant market where the repurchase is carried out for the ordinary shares for the five business days immediately preceding the date of a purchase;</p> <p>(d) such authority shall expire at the Annual General Meeting of the Company in 2017 unless such authority is varied, revoked or renewed prior to such date by ordinary resolution of the Company in general meeting; and</p> <p>(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.</p> |
|-----------------------|---|

Notice of Annual General Meeting continued

Special Resolution 12 13. 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 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 Annual General Meeting of the Company in 2016 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.

Special Resolution 13 14. That the Articles of Incorporation produced to the meeting and initialled by the chairman of the meeting for the purpose of identification be adopted as the Company's Articles of Incorporation in substitution for and to the exclusion of the existing Articles of Incorporation.

15. Close of Meeting.

By Order of the Board
For and on behalf of

**Northern Trust International Fund Administration
Services (Guernsey) Limited**

Secretary

10 June 2016

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 and, on a poll, speak or vote instead of him or her. A proxy need not be a member of the Company. More than one proxy may be appointed provided that each proxy is appointed to exercise the rights attached to different shares held by the member.
4. A form of proxy is enclosed for use at the meeting. The form of proxy should be completed and sent, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, so as to reach the Company's Registrars, Computershare Investor Services (Guernsey) Limited, at The Pavilions, Bridgwater Road, Bristol, BS99 6ZY at least 48 hours before the time of the AGM.
5. Completing and returning a form of proxy will not prevent a member from attending in person at the meeting and voting should he or she so wish.
6. To have the right to attend and vote at the meeting (and also for the purpose of calculating how many votes a member may cast on a poll) a member must have his or her name entered on the register of members not later than 48 hours before the time of the AGM.
7. Changes to entries in the register after that time shall be disregarded in determining the rights of any member to attend and vote at such meeting.

CORPORATE INFORMATION

Registered Address

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

Directors (all Non-executive)

Lorraine Baldry (Chairman)
Keith Goulborn
Stephen Bligh
John Frederiksen
Graham Basham

**Investment Manager and Accounting Agent
Schroder Real Estate Investment Management
Limited**

31, Gresham Street
London
EC2V 7QA

**Secretary and Administrator
Northern Trust International Fund
Administration Services (Guernsey) Limited**

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

**Depository
Northern Trust (Guernsey) Limited**

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

Solicitors to the Company

as to English Law:

Stephenson Harwood LLP

1 Finsbury Circus
London EC2M 7SH

as to Guernsey Law:

Mourant Ozannes

1 Le Marchant Street
St. Peter Port
Guernsey GY1 4HP

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**Independent Auditor
KPMG Channel Islands Limited**

Glategny Court
Glategny Esplanade
St. Peter Port
Guernsey GY1 1WR

**Property Valuer
Knight Frank LLP**

55 Baker Street
London W1U 8AN

Joint Sponsor and Brokers**J.P. Morgan Securities plc**

25 Bank Street
Canary Wharf
London E14 5JP

Numis Securities Limited

10 Paternoster Square
London EC4M 7LT

Tax Advisers**Deloitte LLP**

2 New Street Square
London EC4A 3BZ

**Receiving Agent and UK Transfer/Paying Agent
Computershare Investor Services (Guernsey)
Limited**

Queensway House
Hilgrove Street
St Helier
Jersey JE1 1ES

