F&C UK Real Estate Investments Limited

2016 Annual Report and Consolidated Accounts

F&C Investments

Contents

Financial Calendar 2016/2017	
Annual General Meeting	30 November 2016
Payment of first interim dividend	December 2016
Announcement of interim results	February 2017
Posting of Interim Report	February 2017
Payment of second interim dividend	March 2017
Payment of third interim dividend	June 2017
Announcement of annual results	September 2017
Posting of Annual Report	September 2017
Payment of fourth interim dividend	September 2017

This document is important and requires your immediate attention. If you are in any doubt as to the action you should take, you are recommended to seek your own independent financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 (as amended) if you are in the United Kingdom or, if not, from another appropriately authorised financial adviser. If you have sold or otherwise transferred all your Ordinary Shares in F&C UK Real Estate Investments Limited, please forward this document together with the accompanying documents immediately to the purchaser or transferee, or to the stockbroker, bank or agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee.

Company Summary

The Company

The Company is an authorised closed-ended Guernsey-registered investment company and its shares have a premium listing on the Official List of the UK Listing Authority and are traded on the Main Market of the London Stock Exchange.

The Annual Report and Accounts of the Company consolidate the results of its subsidiary undertakings, which collectively are referred to throughout this document as 'the Group', details of which are contained in notes 1(b) and 9 to the Accounts.

The Group elected into the UK REIT regime from 1 January 2015.

At 30 June 2016 total assets less current liabilities were £345.6 million and shareholders' funds were £236.7 million.

Objective

The investment objective of the Company is to provide ordinary shareholders with an attractive level of income together with the potential for capital and income growth from investing in a diversified UK commercial property portfolio.

Investment Policy

The Company's investment policy is contained on page 8.

Management

The Board has appointed F&C Investment Business Limited as the Company's investment manager and BMO REP Property Management Limited as the Company's property manager. Both of these companies are part of the BMO Financial group and, collectively, are referred to in this document as 'the Manager'. Further details of the management contract are provided in note 2 to the Accounts.

Capital Structure

The Company's equity capital structure consists of Ordinary Shares. Subject to the solvency test provided for in the Companies (Guernsey) Law, 2008 being satisfied, ordinary shareholders are entitled to all dividends declared by the Company and to all of the Company's assets greater than the value of the liabilities.

ISA

The Company's shares are eligible for Individual Savings Accounts ('ISAs').

Website

The Company's internet address is: **www.fcre.co.uk** and **www.fcre.gg**

Financial Highlights 2016

7.5%

NAV total return
NAV total return of 7.5 per cent for the year

7.1%

Portfolio total return
Portfolio ungeared total return of 7.1 per cent for the year

5.6%

Dividend yield
Dividend of 5.0 pence per share for the year, giving a yield of 5.6 per cent on the year end share price

91.7%

Dividend cover
Dividend cover increased to 91.7 per cent as compared to 76.8 per cent for the previous year

£110m

Borrowing facilities
The Company entered into two new loan agreements totalling £110 million. Weighted average interest rate reduced to 3.3 per cent, from 5.8 per cent under the previous loan arrangements.

Potential investors are reminded that the value of investments and the income from them may go down as well as up and investors may not receive back the full amount invested. Tax benefits may vary as a result of statutory changes and their value will depend on individual circumstances.

Performance Summary

	Year ended 30 June 2016	Year ended 30 June 2015	Cumulative since launch on 1 June 2004
Total Return*			
Net asset value per share	+7.5%	+22.7%	+133.9%
Ordinary share price	-6.5%	+24.9%	+121.5%
Portfolio ungeared return	+7.1%	+16.7%	+146.8%
Investment Property Databank UK Quarterly Index	+9.1%	+15.7%	+127.0%
FTSE All-Share Index	+2.2%	+2.6%	+144.0%

	30 June 2016	30 June 2015	% Change
Capital Values			
Total assets less current liabilities (£000's)	345,587	331,744	+4.2%
Net asset value per share	99.2p	97.0p	+2.3%
Ordinary share price	88.5p	99.5p	-11.1%
Investment Property Databank UK Quarterly Index	119.2	114.2	+4.4%
FTSE All-Share Index	3,515.5	3,570.6	-1.5%
Ordinary share price (discount)/premium to net asset value per share	(10.8)%	2.6%	
Net gearing†	29.1%	29.7%	

	Year ended 30 June 2016	Year ended 30 June 2015
Earnings and Dividends		
Earnings per ordinary share#	7.2p	17.5p
Dividends paid per ordinary share§	5.0p	5.0p
Dividend yield‡	5.6%	5.0%
Ongoing Charges		
As a percentage of average net assets**	1.7%	1.9%
As a percentage of average net assets (excluding direct property expenses)**	1.3%	1.4%

	12 months Highs 2016	12 months Lows 2016
Highs/Lows		
Net asset value per share	99.9p	97.0p
Ordinary share price	104.8p	82.0p
Premium/(discount)	8.0%	(17.3)%

* Total return assuming gross dividends reinvested.
† (Bank debt less net current assets, excluding swap liability) ÷ value of investment properties.
# Earnings per ordinary share include capital gains and losses on investment properties.
§ Calculated on an IFRS basis and therefore excludes the 4th interim dividend for 2015/16 and 2014/15.
‡ Calculated on annualised dividends of 5.0p per share for 2015/2016 and 2014/2015. An analysis of dividend payments is contained in note 6 on page 50.
** Ongoing charges which include direct operating property costs are defined within The Association of Investment Companies Guidelines. A second Ongoing Charges figure is shown which excludes direct operating property costs as these are variable in nature.
Sources: F&C Investment Business, MSCI Investment Property Databank ('IPD') and Datastream.

Chairman's Statement

Vikram Lall Chairman

The UK commercial property market has been going through a period of adjustment with capital returns stabilising following six years of capital growth. The Group's net asset value ('NAV') total return for the year was 7.5 per cent with a NAV as at 30 June 2016 of 99.2 pence per share, up from 97.0 pence per share at the prior year-end.

The share price total return for the year was -6.5 per cent with the shares trading at 88.5 pence per share at the year-end, a discount of 10.8 per cent to the NAV. The share price had generally been trading at a small premium until the last two months of the year as sentiment towards the sector shifted and property valuations began to level off. Following on from the initial drop in the share price, the result of the EU referendum on 23 June 2016 prompted a sharper reaction as investors responded to the climate of uncertainty following the leave vote. This was very close to the year-end and the Group's share price has subsequently recovered. As at 26 September 2016 the share price was trading at a 3.2 per cent discount to the year-end NAV.

Property Market and Portfolio

The UK commercial property market delivered a total return of 9.1 per cent as measured by the Investment Property Databank ('IPD') UK Quarterly Index for all assets in the year to June 2016. Performance moderated in the second half of the review period, as investors became more concerned about pricing, the slow pace of economic growth in the UK and abroad and the approach of the EU referendum. The referendum vote took place on 23 June, limiting the impact of the outcome during this reporting period.

In the year to June 2016, All Property performance was driven by a 4.7 per cent benchmark income return and 4.3 per cent benchmark capital growth. Industrials and offices out-performed retail with London out-performing the regions. The occupier market continued to see a broadening of rental growth beyond London and core South East. The strength of investment demand and yield compression that has driven the market over recent years moderated and investment activity was around 75 per cent of the equivalent period a year ago.

The end of the reporting period was marked by increased uncertainty in the capital markets, which translated into more mixed market sentiment and a wider range of transactional evidence than might ordinarily be expected. This was relevant to the valuation of the Company's assets. The Company's property valuers Cushman & Wakefield therefore issued the valuations for the quarter ended 30 June 2016 under a 'Health Warning', stating that the probability of their opinion of value exactly coinciding with the price achieved, were there to be a sale, had reduced, and that they would recommend that the valuation is kept under regular review and that specific market advice should be obtained in the event of disposal. The Board recognise the heightened risk inherent in the market at this time and the Manager continues to monitor the situation closely on behalf of the Board.

> "The portfolio offers an above market income yield, a void rate of only 4.2 per cent and income with a weighted average lease term of over 7 years, secured on an institutional grade portfolio"

There has been market uncertainty and evidence of a pricing adjustment in the immediate aftermath of the Brexit vote, although this does appear to be moderating as transactional evidence to support pricing improves. Market indicators suggest some weakening of values since the end of June 2016 with the IPD Monthly Index pointing to capital falls of 2.8 per cent and 0.7 per cent over July and August respectively. The Manager believes that the monthly data is relevant as a lead indicator for the September quarter Company valuation.

The Group's property portfolio produced an ungeared return of 7.1 per cent over the year to June 2016, driven primarily by an income return of 5.6 per cent. Against a backdrop of economic and political uncertainty, and historic low yields, the Company has been cautious in its approach to the deployment of capital, evidenced by the fact that three sales and no purchases were undertaken over the year. Much like the wider market, the portfolio's industrial and distribution assets were again the key contributors at the sector level, producing a total return in excess of both the IPD UK Quarterly Index and the market average for the sector for the period. Unsurprisingly, most of the top performing assets were from this sector, the majority being located within the South East. They delivered strong capital growth over the early part of the year, benefitting from both yield shift and underlying income growth. The portfolio's Central London assets continued to make a valuable contribution, though the office sector in general struggled against its peers and remains a focus for near term asset management initiatives.

The portfolio offers an above market income yield, a void rate of only 4.2 per cent and income with a weighted average lease term of over 7 years, secured on an institutional grade portfolio. With the capital cycle at its end and returns from UK real estate now likely to be income driven for the foreseeable future, the Board believes that the portfolio is well placed to deliver on the Company objective of providing shareholders with an attractive income, together with the potential for income and capital growth.

Borrowings and Refinancing

The Group underwent a refinancing exercise during the year and secured a £90 million 11-year non-amortising term loan facility agreement with Canada Life Investments and a £20 million 5-year revolving credit facility agreement with Barclays Bank plc.

Under the new facilities, the Group drew down £110 million to finance the repayment of the term loan facility provided by Lloyds Bank plc, of which £102 million was drawn down, and was due for repayment in January 2017. There was no early repayment penalty in respect of the previous facility but the Group did terminate the interest rate hedging arrangements entered into in connection with this facility. The swap liability had already been accounted for in the NAV and the cost of termination amounted to £5.3 million. No further swap was required given the fixed nature of the new principal loan.


Echo Park, Banbury

Following the refinancing, the Group's gearing level, net of cash, represents 29.1 per cent of investment properties at 30 June 2016. The weighted average interest rate (including amortisation of refinancing costs) on the Group's total current borrowings is 3.3 per cent. The rate on the Group's total borrowings has therefore fallen by 2.5 per cent from 5.8 per cent following the refinancing. The Company continues to maintain a prudent attitude to gearing.

The savings achieved following the refinancing have helped the level of dividend cover which was 91.7 per cent for the year, compared to 76.8 per cent for last year.

The Group had £11.9 million of cash available at 30 June 2016.

Dividends

Three interim dividends of 1.25 pence per share were paid during the year with a fourth interim dividend of 1.25 pence per share to be paid on 30 September 2016. This gives a total dividend for the year ended 30 June 2016 of 5.0 pence per share, a yield of 5.6 per cent on the year-end share price. In the absence of unforeseen circumstances, it is the intention of the Group to continue to pay quarterly interim dividends at this rate.

Share Issues

The Group experienced continued market demand for its shares in the first half of the year and has issued 4.85 million Ordinary Shares at a premium to the published net asset value at the time of each issuance, raising proceeds of £4.8 million. As highlighted above, the share price has been trading at a discount to NAV in recent months and further share issues have therefore not been deemed appropriate by the Board.

At the year-end, there were 238,705,539 Ordinary Shares in issue.

Board Composition

As mentioned in our Interim Results announcement in February 2016, Quentin Spicer retired from the Board and did not offer himself for re-election at the Annual General Meeting in November 2015. I have taken on the role of Chairman following his departure. I would like to reiterate our sincerest thanks to Quentin for his commitment and strong leadership over the years.

We also highlighted the appointment of a new Non-Executive Director, Alexa Henderson with effect from 21 December 2015. Alexa brings with her a wealth of financial experience and she has taken on the role of Chair of the Audit Committee.

Outlook

Investor sentiment has weakened following the UK's vote to leave the EU. A period of uncertainty is in prospect, both with regard to the negotiation process and the likely tone of economic policy under a new administration. Monetary policy has already eased and market expectations are for a prolonged period of low interest rates.

Consensus expectations are that economic growth will be lower, particularly over the next year or so but that there will be no prolonged recession. This is unlikely to be good news for property values in the short term, however in this environment, income is likely to be the main driver of performance, which is in keeping with both the Manager's strategy and the Company objective.

While nervousness in the investment markets does present some downside risk to near term values, the Manager reports that initial post Brexit demand is still evident across the majority of sectors and geographical areas with increased focus on defensive assets, longer leases and core locations.

Vikram Lall
Chairman

27 September 2016

"Income is likely to be the main driver of performance, which is in keeping with both the Manager's strategy and the Company objective"


Southampton International Park, Eastleigh
PEI-Genesis


RECEPTION

Business Model and Strategy

The Company carries on business as a closed-ended property investment company. Its shares are traded on the Main Market of the London Stock Exchange.

Board

The Board of Directors is responsible for the overall stewardship of the Group, including investment and dividend policies, corporate strategy, corporate governance procedures and risk management. As set out in the Directors' Responsibilities on page 30 the Board is also responsible for the preparation of the Annual Report and Consolidated Accounts for each financial period. Biographical details of the Directors, all of whom are independent non-executive Directors, can be found on page 20. The Company has no executive Directors or employees.

Investment Strategy

Objective

The Group's investment objective is to provide ordinary shareholders with an attractive level of income together with the potential for income and capital growth from investing in a diversified UK commercial property portfolio.

Investment Policy

The Group holds a diversified portfolio of freehold and predominantly long leasehold (over 60 years remaining at the time of acquisition) UK commercial properties. It invests principally in three commercial property sectors: office, retail (including retail warehouses) and industrial.

The Group invests predominantly in income producing investments. Investment decisions are based on analysis of, amongst other things, prospects for future income and capital growth, sector and geographic prospects, tenant covenant strength, lease length, initial and equivalent yields and the potential for development or redevelopment of the property. The Group will not invest in other investment companies or funds.

Investment risks are spread through investing in a range of geographical areas and sectors, and through letting properties, where possible, to low risk tenants. The Group has not set any maximum geographic exposures, but the maximum weightings in the principal property sectors (stated as a percentage of total assets) are: office: 60 per cent; retail: 60 per cent; and industrial: 50 per cent. No single property may exceed 15 per cent of total assets* and the five largest properties may not exceed 45 per cent of total assets.* Income receivable from any one tenant, or tenants within the same group, in any one financial year shall not exceed 20 per cent of the total rental income of the Group in that financial year. At least 90 per cent by value of properties held shall be in the form of freehold, feuhold or long leasehold (over 60 years remaining at the time of acquisition) properties or the equivalent.

The Group uses gearing to enhance returns over the long term. Gearing, represented by borrowings as a percentage of investment properties, may not exceed 60 per cent. However, it is the Board's present intention that borrowings will be limited to a maximum of 40 per cent of total assets at the time of borrowing. The Board receives recommendations on gearing levels from the Manager and is responsible for setting the gearing range within which the Manager may operate. The Group's borrowings are represented by two loans totalling £110 million, which are described in more detail in note 12 to the accounts. The gearing level, net of cash, as at 30 June 2016 was 29.1 per cent of investment properties.

Investment of Assets

At each quarterly Board meeting, the Board receives a detailed presentation from the Manager together with a comprehensive analysis of the performance of the Group and compliance with investment restrictions during the reporting period. An analysis of how the portfolio was invested as at 30 June 2016 is contained within the Manager's Review on pages 11 to 15 and a full portfolio listing is provided on pages 16 and 17.

Environmental Policy

The Property Manager acquires, develops and manages properties on behalf of the Group. It is recognised that these activities have both direct and indirect environmental impacts.

The Board has endorsed the Property Manager's own environmental policy which is to work in partnership with contractors, suppliers, tenants and consultants to minimise those impacts, seeking continuous improvements in environmental performance and conducting regular reviews.

Shareholder Value

The Board and the Manager recognise the importance of the share price relative to net asset value in maintaining shareholder value. The Manager meets with current and potential new shareholders, and with stockbroking analysts who cover the investment company sector, on a regular basis. In addition, communication of quarterly portfolio information is provided through the Group's website.

* applicable only on acquisition or disposal of a property. Does not apply to lettings to the Government of the United Kingdom.

Principal Risks and Risk Management

As stated within the Report of the Audit Committee on pages 26 and 27, the Board applies the principles detailed in the internal control guidance issued by the Financial Reporting Council, and has established an ongoing process designed to meet the particular needs of the Company in managing the risks and uncertainties to which it is exposed.

The principal risks and uncertainties faced by the Company are described below. Note 17 also provides detailed explanations of the risks associated with the Company's financial instruments.

- Market – the Group's assets are comprised principally of direct investments in UK commercial property and it is therefore exposed to movements and changes in that market.
- Investment and strategic – poor investment processes and incorrect strategy, including sector and geographic allocations and use of gearing, could lead to poor returns for shareholders.
- Regulatory – breach of regulatory rules could lead to suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report.
- Tax efficiency – changes to the management and control of the Group or changes in legislation could result in the Group no longer being a tax efficient investment vehicle for shareholders.
- Financial – inadequate controls by the Manager or third party service providers could lead to misappropriation of assets. Inappropriate accounting policies or failure to comply with accounting standards could lead to misreporting or breaches of regulations.
- Reporting – valuations of the investment property portfolio require significant judgement by valuers which could lead to a material impact on the net asset value. Incomplete or inaccurate income recognition could have an adverse effect on the Group's net asset value, earnings per share and dividend cover.
- Credit – an issuer or counterparty could be unable or unwilling to meet a commitment that it has entered into with the Group. This may cause the Group's access to cash to be delayed or limited.
- Operational – failure of the Manager's accounting systems or disruption to the Manager's business, or that of third party service providers, could lead to an inability to provide accurate reporting and monitoring, leading to a loss of shareholders' confidence.

The Board seeks to mitigate and manage these risks through continual review, policy-setting and enforcement of contractual obligations. It also regularly monitors the investment environment and the management of the Group's property portfolio, and applies the principles detailed in the internal control guidance issued by the Financial Reporting Council.

Wide Lane, Eastleigh

Key Performance Indicators

A review of the Group's returns during the financial year, the position of the Group at the year-end, and the outlook for the coming year is contained in the Chairman's Statement and the Manager's Review.

The Board uses a number of performance measures to assess the Group's success in meeting its objectives. The key performance indicators are as follows:

- Net asset value total return.
- Portfolio ungeared total return against the Investment Property Databank UK Quarterly Index ('IPD').
- Premium/discount of share price to net asset value.
- Dividend per share and dividend yield.
- Ongoing charges as a percentage of average net assets (excluding direct property expenses).

Performance against these indicators is contained in the Performance Summary on page 3, the Chairman's Statement on pages 4 and 5 and/or in the Historical Record on page 69.

The Chairman's Statement on pages 4 and 5, Business Model and Strategy on pages 8 and 9, Viability Assessment and Statement on page 10, Manager's Review on pages 11 to 15 and Property Portfolio on pages 16 and 17 all form part of this Strategic Report.

Viability Assessment and Statement

The 2014 UK Corporate Governance Code requires Boards to assess the future prospects for the Company, and report on the assessment within the annual report.

The Board conducted this review over a 5 year time horizon, a period thought to be appropriate for a commercial property Investment Company with a long term investment outlook, borrowings secured over an extended period and a portfolio with a weighted average unexpired lease length of 7.2 years. The assessment has been undertaken, taking into account the principal risks and uncertainties faced by the Group which could threaten its objective, strategy, future performance, liquidity and solvency. These risks and uncertainties are highlighted in the Business Model and Strategy section of the Report on page 9.

The major risks identified as relevant to the viability assessment were those relating to a downturn in the UK commercial property market and its resultant effect on the valuation of the investment portfolio, the level of rental income being received and the effect that this would have on cash resources and financial covenants. The Board took into account the illiquid nature of the Company's portfolio, the existence of the long-term borrowing facilities, the effects of any significant future falls in investment values and income receipts on the ability to repay and re-negotiate borrowings, maintain dividend payments and retain investors. These matters were assessed over an initial period to September 2021, and the Directors will continue to assess viability over 5 year rolling periods, taking account of foreseeable severe but plausible scenarios.

In the ordinary course of business, the Board reviews a detailed financial model on a quarterly basis, incorporating market consensus forecast returns, projected out to the maturity of its principal loan of £90 million which is due to mature in 2026. This model uses prudent assumptions and factors in any potential capital commitments. For the purpose of assessing the viability of the Group, the model has been adjusted to look at the next 5 years and is stress tested with projected returns comparable to the commercial property market crash experienced between 2007 and 2009. The model projects an equivalent fall in capital values over the next two years, followed by three years of zero growth.

Based on their assessment, and in the context of the Group's business model, strategy and operational arrangements set out above, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the 5 year period to September 2021. For this reason, the Board also considers it appropriate to continue adopting the going concern basis in preparing the Report and Accounts.

Southampton International Park, Eastleigh

Manager's Review

Peter Lowe, Fund Manager

Peter Lowe, Fund Manager joined BMO Global Asset Management in 2015 from DTZ Investors where he was discretionary Fund Manager for a number of segregated pension Fund clients. He is a member of the Royal Institution of Chartered Surveyors and sits on the BMO Real Estate Partners Investment Committee.

Managers

The Company's investment manager and property manager are, respectively, F&C Investment Business Limited and BMO REP Property Management Limited, a subsidiary of BMO Real Estate Partners, all of which are part of BMO Global Asset Management and, collectively, are referred to in this document as 'the Manager'.

BMO Real Estate Partners is a leading UK-based real estate manager focused on commercial real estate investment management. The team behind BMO Real Estate Partners has been successfully managing commercial property assets for a wide range of UK clients for over 50 years and currently manages (as at 30.06.2016) some £6.9 billion of real estate assets, employing 141 staff. The team structure provides for sector specific teams offering specialist capabilities across the market, establishing strong peer to peer and occupier relationships and sourcing of a range of transactional opportunities. The fund management team and sector heads have on average 25 years of industry experience each. BMO Real Estate Partners undertakes the full Fund and asset management service as well as, where appropriate, the day-to-day property management, complemented by a project management team and full accounting and service charge teams.

Highlights over the year

- Portfolio produced an ungeared total return of 7.1 per cent, driven primarily by an attractive income return of 5.6 per cent.
- Gross income growth of 5.3 per cent from Standing Investments.
- Void levels remain low, well below the IPD Quarterly Index Average, supporting dividend cover.
- Reduced interest rate on borrowings following the Group's refinancing.
- Three properties were sold during the year with net sales proceeds of £3.5 million.

Manager's Review

The UK commercial property market delivered a total return of 9.1 per cent in the year to June 2016, as measured by the Investment Property Databank ('IPD') UK Quarterly Index. This compares with 15.7 per cent in the previous 12-month period. Performance was supported by an annual income return of 4.7 per cent, with capital values rising by 4.3 per cent. The income return varied from 3.0 per cent for West End offices to 5.8 per cent for regional industrials.

UK Economy

The UK economy continued to deliver solid growth with real GDP rising by 2.2 per cent in the year to June 2016. Employment reached record highs during the year and annual inflation, as measured by the CPI, helped by lower fuel and food prices was a modest 0.5 per cent. The Budget in March 2016 was notable for the increase in stamp duty, which adversely affected capital values during that quarter. Monetary policy was supportive, with official rates remaining at 0.5 per cent throughout the period. Gilt yields continued to fall finishing the period at 1.0 per cent. In February 2016, it was announced that a referendum on UK membership of the EU would take place on 23 June 2016. Uncertainty surrounding the outcome of this vote coupled with slower growth overseas contributed to some slowdown in the pace of economic growth in the later part of the review period.

UK Property Market

The year witnessed a moderation in investment activity to £57 billion from £77 billion in the previous year. While investors may have been influenced by wider economic and political developments, there was also concern at the level of pricing in some parts of the market, especially in London. Overseas buyers continued to drive parts of the market, although the volume of their net investment faded as the year under review drew to a close. Institutions were net sellers over the period with net disinvestment focused on the final three months of the reporting period. Investment into regional offices and retail warehousing proved relatively resilient but most segments recorded an annual decline. This was most pronounced for leisure and non-traditional property assets, which had seen both strong transactional volumes and relative performance in the prior period. Banks continued to wind down their problem loans but also were more willing to undertake new lending, competing alongside new entrants, for well-let standing investments.

High Street, Guildford


Eastern Road, Bracknell

Investors still favoured prime stock but a lack of availability and low yields led to a search for higher yielding assets. CBRE data indicates that for outside London the yield gap between prime and secondary remained broadly stable over the course of the year.

The year saw investors becoming more cautious with some thinning in the depth of demand, but there was still competition for quality stock that met investor requirements. This fed through to further modest yield compression. Quarterly IPD data showed initial yields at the all-property level moving in from 5.0 per cent to 4.8 per cent in the year to June 2016.

Performance by sector, as measured by IPD, followed the pattern of the previous yearly reporting period. Industrials and offices both out-performed with each delivering an 11.6 per cent total return. The performance of offices was helped by a strong performance in London and the South East. The regional office market delivered an 8.2 per cent annual total return. In retail, there was considerable polarisation with Central London shops out-performing, but standard retail outside London, shopping centres, retail warehousing and supermarkets all relatively weak, bringing the all-retail average down to 6.3 per cent.

Rental growth was 3.3 per cent at the all-property level, slightly less than the 3.8 per cent recorded in the previous year. This in part reflected the slowdown in the pace of rental growth for Central London offices. Despite this, rental growth in the City and West End still drove the market forward. Central London retail and South East industrials also saw rental growth exceeding 5 per cent annually. There were rental growth hotspots for offices in Bristol, Cambridge and Guildford. In contrast, rental growth remained negative for standard retail outside the South East, variety stores and supermarkets, underscoring the structural issues faced by those parts of the market.

This underlying rental growth translated into net income growth for the year to June 2016 of 3.0 per cent, improved from 1.7 per cent for the year to June 2015. This was the strongest June out-turn since 2008. Again, there was polarisation as income from West End retail and Midtown offices recorded rates above 10 per cent, while income growth was still negative for regional retail.

The property market delivered another year of strong performance in the year to June 2016 but the pace has slowed following two annual reporting periods where total returns were in the mid-teen range. The result of the UK referendum came towards the end of the period and this is expected to have a marked effect on the economy, economic policy and the property market. At the time of writing monthly data suggests an early easing of pricing as open-ended property funds seek to satisfy liquidity requirements and buyers apply a watching brief to the market place.

Portfolio

The Company's property portfolio produced an ungeared total return of 7.1 per cent over the year to June 2016, driven primarily by an income return of 5.6 per cent, which was some way above the income return derived from the IPD UK Quarterly Index of 4.7 per cent. Pleasingly, gross income growth from standing investments was also well in excess of the Quarterly Index over the year, at 5.3 per cent, providing valuable support to dividend cover. This reflected the Manager's continued focus on driving performance from the existing portfolio at a time when market pricing has offered few attractive opportunities to acquire assets suitable to satisfy the Company objective. At 30 June the value of the portfolio had increased to £339.2 million (after sales), compared to £337.5 million this time last year. Over the three years to June 2016 the portfolio has delivered an ungeared total return of 12.8 per cent per annum.

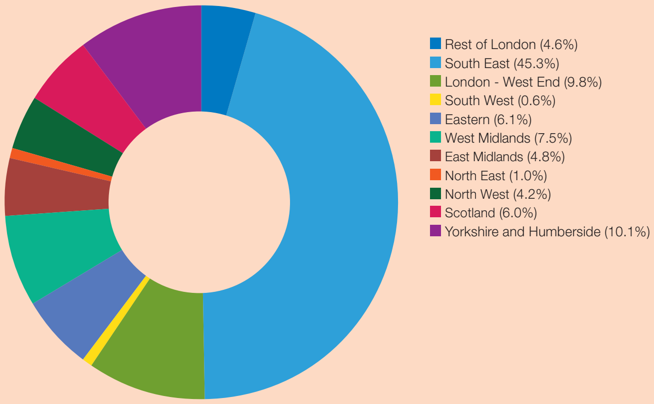
At the sector level the portfolio's industrial and distribution assets continued their run of outperformance, producing a total return of 11.8 per cent, in excess of both the IPD Quarterly Index and the

Church Street, Kingston upon Thames

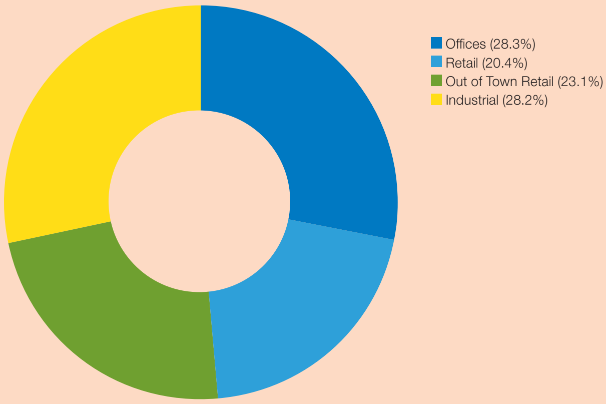
sector average for the period. This is the third year in a row that industrial holdings have led the portfolio's returns. Performance has been driven by robust occupational demand and limited supply, complimented by successful asset management which has translated to income growth. The Fund's industrial assets have also benefitted from a general market preference for modern, well-specified property located within the South East. Retail and offices both underperformed their respective peers, particularly in terms of capital growth, the latter by some distance, however both delivered meaningful yield premium, providing valuable dividend cover.

The majority of top performing assets hailed from the industrial and distribution sectors. Despite the capital cycle having now run its course, this was not necessarily the case in the first half of the year and the majority of top performers were again those assets experiencing the strongest capital growth. While yield shift had a key part to play in this, these assets were also the beneficiary of underlying rental growth and/or associated income growth. Some of the addresses are familiar from last year, with Lakeside Road, Colnbrook, Hemel Gateway, Hemel Hempstead and Eastern Road, Bracknell all featuring in the top 5 performing assets. Whilst Lakeside Road, Colnbrook was the key asset by weighted contribution to overall portfolio return, the two highest total returns over the period were from Chippenham Drive, Milton Keynes and 24 Haymarket, London delivering 31 per cent and 28 per cent respectively. The refurbishment of the vacant industrial unit at Milton Keynes is now complete and terms have been agreed to let the property at levels in excess of historic valuation expectations. The positive performance is therefore on account of delivering the project below the initial budget and attracting a tenant on competitive terms on a relatively short timetable, alongside the general continued improvement in sentiment towards the sector. At the time of writing this property accounts for over half of total portfolio void and the successful letting will make a telling improvement to portfolio yield.

Geographical Analysis
as at 30 June 2016



Sector Analysis
as at 30 June 2016



Despite the continued depth of investment demand for central London property, particularly strong in the first half of the year, the performance of 24 Haymarket has primarily been driven by growth in the underlying rental tone derived from a competitive occupational market. This has been felt strongest on the restaurant element of the building. Similarly, the ground and basement retail unit at the portfolio's largest asset at Berkeley Street, London is now set to offer an attractive improvement in rental income following agreement of the outstanding 2015 rent review. Despite the prevalence of South East industrial assets in the Company's top performers, more recently we have seen a welcome return to asset specific fundamentals rather than sector preference driven yield shift, such that the top performers over the latter 6 months to June include representatives from a wider variety of sectors and geographies.

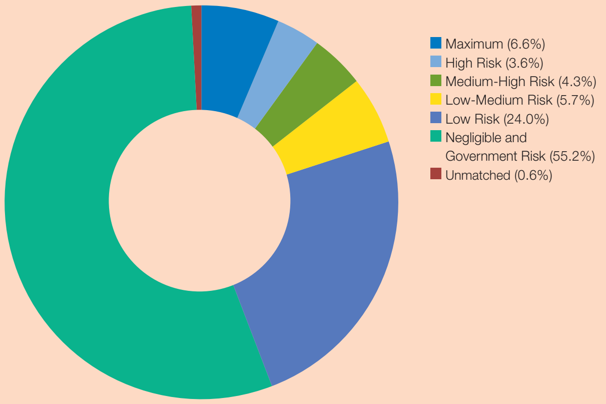
The above market income yield, low void rate (4.2 per cent for the Company versus 7.1 per cent for the IPD Quarterly Index), attractive and contractually backed weighted average income term of over 7 years, leave the Company well placed to benefit in today's income driven environment. Property returns over anything other than the shortest time scales are income dominated and against this backdrop the portfolio is appropriately positioned to deliver on the Company objective.

Nevertheless, overall portfolio returns were below that of the Quarterly Index over 2016 pointing to some underlying challenges. Given the attractive annual income return and the absence of any significant transaction costs, asset level underperformance was predominantly a result of lower capital growth than for the wider market. This was particularly prevalent in the offices sector where the shorter unexpired lease terms, and expectations of associated capital expenditure has weighed more heavily on recent valuations. In the event that the upcoming lease events in this sector can be successfully negotiated then this ought not to represent an insurmountable challenge. With this in mind a number of lease events in the Central London and South Eastern office holdings are now close to early settlement. In some circumstances the goal is to mitigate leasing risk and in the case of the Central London market, there still selectively exists the opportunity to generate income growth.

Given the weight of money that has been targeting the sector over recent years, driving yields to historic lows, the Manager has been particularly discerning where new purchases are concerned. We are at a point in the capital cycle where it has been challenging to source new stock at a price which satisfies the Company objective and certainly the lack of recent purchases has been a conscious decision on the part of both the Manager and the Board. The burden of transaction costs are also particularly relevant in an income driven, lower returns environment and made even more of a consideration following the recent adjustment to Stamp Duty Land Tax rates. The current cash position and the flexibility of a revolving debt facility does however provide scope for opportunistic purchases that fulfil the necessary criteria and complement the existing portfolio. The Manager remains vigilant in this regard, particularly given the recent vote to leave the European Union and corresponding potential for some near term market turbulence.

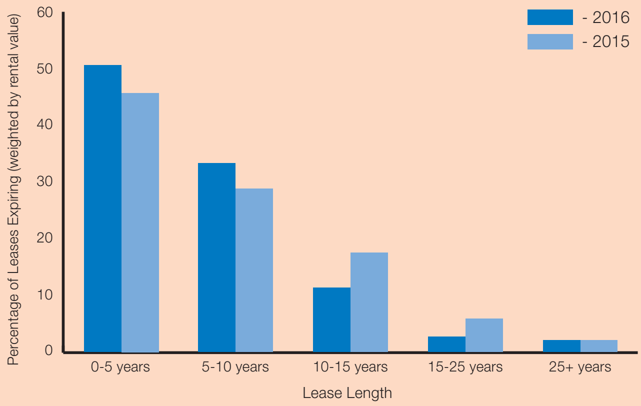
The priority instead has been to address the future of the smaller, more secondary or legacy regional assets. Three sales have been completed over the year (Bridge Street, Guildford, Northbrook Street, Newbury and Newcombe Drive, Swindon) realising £3.5 million. The sale of a fourth property at King William House, Hull has now completed post the financial year end, providing a further £2.6 million of net proceeds. Historically these assets provided both liquidity and attractive dividend cover; however, the rather compromised specification, upcoming requirement for capital expenditure, combined with reduced lease terms and occupational risk present at Swindon and Hull in particular, no longer satisfied the Manager's strategy. Given the recent re-pricing of risk, the timing of disposal now feels even more appropriate.

Covenant Strength
as at 30 June 2016



As measured by: IRIS Report, MSCI Inc

Lease Expiry Profile



As at 30 June 2016 the weighted average lease length for the portfolio, assuming all break options are exercised, was 7.2 years (2015: 7.7 years).

Borrowings

As highlighted in the Chairman's Statement, the Company successfully refinanced its existing £115 million loan facility with Lloyds Bank plc, due for repayment in 2017, with a £90 million 11 year non-amortising term loan facility agreement with Canada Life Investments and a £20 million 5 year revolving credit facility agreement with Barclays Bank plc. The fixed interest rate that will be payable over the term of the loan with Canada Life Investments is at the all-in rate of 3.36 per cent per annum and the interest rate that will be payable in respect of the revolving credit facility with Barclays Bank plc is 1.45 per cent per annum over 3 month LIBOR.

In accordance with the Company policy to adopt a prudent approach to borrowing, net gearing at 30 June was 29.1 per cent, in line with the majority of the peer group and a level at which the Manager considers is appropriate. This figure includes the fully drawn revolving debt facility. The near term intention is to pay a proportion of this down on account of the favourable cash position of the Company, further bolstered by recent sales proceeds. In the event that suitable investment opportunity is identified, this arrangement provides valuable flexibility to access the market.

Outlook

The impact of the UK's decision to leave the EU may well lead to slower economic growth and, in the short term at least, has the potential to lead to wider uncertainty and increased volatility in the capital markets. Weakening sentiment does pose a threat to near term values with the impact of recent transactions, some of them from motivated sellers such as the UK open-ended funds, likely to become apparent in the third quarter valuations. There is little doubt that the weekly and monthly valuations in the weeks since the vote, while reflecting a range of outcomes, point towards a softening of values. City offices, properties with short leases, secondary and development led stock have been most affected in the immediate aftermath. Quality, well-let properties in established centres, particularly in the industrial and distribution sector have been more resilient. Sentiment towards alternative property assets remains robust with concerns persisting about the health of the secondary retail market.

Following a three-year run of capital appreciation across the majority of the market, the Manager considers that the portfolio is well placed to capitalise on the likelihood of income dominated returns over the foreseeable future. The Fund's defensive characteristics, including a yield premium and attractive duration of income, low void rate, and appropriate exposure to London and the South East in particular, leave the Company well placed to weather any near term correction in pricing. Despite historic low valuation yields the case for property still stands up to scrutiny, offering an attractive premium over gilts, with potential for at least some further income growth in selected markets. Against this backdrop, management of the income stream is more important than ever and this will be the primary focus of the Manager. In more turbulent markets, stock selection is paramount, and as has been demonstrated in recent quarters, the Company will continue its commitment to retaining a resilient asset base, disposing of smaller, non-core assets and using the favourable cash position to access the market on an opportunistic basis in search of new acquisitions.

The UK offers a large diverse economy and provides a transparent and mature property market, which has delivered solid risk adjusted performance over the long term alongside the opportunity to access a consistent, relatively high income return. These are all attractive characteristics in uncertain times.

Peter Lowe
BMO REP Property Management Limited

27 September 2016

Property Portfolio

As at 30 June 2016			
Property	Sector	Estimated Market Value £'000	% of Total Assets (less current liabilities)
London W1, 14 Berkeley Street	Offices	25,900	7.5%
Banbury, 3663 Unit, Echo Park	Industrial	21,850	6.3%
Colnbrook, Units 1-8 Lakeside Road	Industrial	16,800	4.8%
Eastleigh, Southampton International Park	Industrial	14,150	4.1%
Hemel Hempstead, Hemel Gateway	Industrial	12,425	3.6%
York,Clifton Moor Gate *	Retail Warehouse	12,000	3.5%
Rotherham, Northfields Retail Park	Retail Warehouse	11,975	3.5%
Leamington Spa, 30-40 The Parade & 47/59a Warwick Street	Retail	10,750	3.1%
Bracknell, 1-2 Network, Eastern Road	Industrial	10,150	2.9%
Edinburgh, 1-2 Lochside Way, Edinburgh Park	Offices	9,650	2.8%
Ten largest property holdings		145,650	42.1%
Chelmsford, County House, County Square	Offices	9,550	2.8%
Andover, Keens House, Anton Mill Road	Offices	9,075	2.6%
Bury, Halls Mill Retail Park, Foundry Street	Retail Warehouse	8,600	2.5%
New Malden, 7 Beverley Way	Retail Warehouse	8,525	2.5%
Bromsgrove, Brook Retail Park, Sherwood Road	Retail Warehouse	8,450	2.5%
Luton, Enterprise Way	Retail Warehouse	8,225	2.4%
High Wycombe, Glory Park	Offices	8,075	2.3%
Winchester, 7-8 High St. & 50 Colebrook Street	Retail	7,700	2.2%
Eastleigh, Wide Lane	Industrial	7,650	2.2%
Northallerton, Willowbeck Road	Retail Warehouse	7,650	2.2%
Twenty largest property holdings		229,150	66.3%
Bellshill, Mercury House, Strathclyde Business Park	Offices	7,550	2.2%
London, 24 Haymarket & 1-2 Panton Street*	Retail	7,475	2.2%
Theale, Maxi Centre, Brunel Road	Industrial	7,150	2.1%
St Albans, 16,18 & 20 Upper Marlborough Road	Offices	6,325	1.8%
Guildford, 51-53 High Street	Retail	6,025	1.7%
Nelson, Churchill Way	Retail Warehouse	5,625	1.6%
Milton Keynes, Site E Chippenham Drive	Industrial	5,450	1.6%
Brookwood,The Clock Tower	Offices	5,425	1.6%
Nottingham, Standard Hill	Offices	4,950	1.4%
Newbury, The Triangle, Pinchington Lane	Retail Warehouse	4,900	1.4%
Thirty largest property holdings		290,025	83.9%

As at 30 June 2016

Property	Sector	Estimated Market Value £'000	% of Total Assets (less current liabilities)
Nottingham, 21/22 Long Row East and 2/6 King Street	Retail	4,075	1.2%
Sunningdale, 53/79 Chobham Road, Berkshire	Retail	3,975	1.2%
Kingston upon Thames, 11 Church Street	Retail	3,875	1.1%
Nottingham, 25-27 Bridlesmith Gate	Retail	3,750	1.1%
Rayleigh, 81/87 High Street	Retail	3,750	1.1%
Nottingham, Park View House, The Ropewalk	Offices	3,450	1.0%
Redhill, 15 London Road	Offices	3,250	0.9%
Edinburgh, 100A Princes Street	Retail	3,125	0.9%
Sutton Coldfield, 63-67 The Parade	Retail	3,125	0.9%
Birmingham, 155a/163, High Street, Kings Heath	Retail	3,050	0.9%
Forty largest property holdings		325,450	94.2%
Croydon, 17, 19 & 21 George Street	Retail	3,050	0.9%
Hull, King William House, Market Place *†	Offices	2,750	0.8%
Rayleigh, 41-55 High Street	Retail	2,525	0.7%
Gateshead, Sands Road	Retail Warehouse	2,450	0.7%
Swindon, 18/19 Regent Street	Retail	2,050	0.6%
Middlesbrough, 47/49 Linthorpe Road	Retail	875	0.2%
Market value of property portfolio		339,150	98.1%
Unamortised lease incentives		(5,352)	(1.5)%
Balance sheet carrying value		333,798	96.6%
Net current assets		11,789	3.4%
Total assets less current liabilities		345,587	100.0%

*Leasehold property
†Sold post year-end

High Street, Winchester


RICK STEIN

Board of Directors

Vikram Lall*†‡
Chairman
was appointed as a Director in April 2013. He is a qualified chartered accountant and was, until 2003, an executive director of Brewin Dolphin Holdings plc with responsibility for corporate finance. Prior to joining Brewin Dolphin, he worked as a corporate financier for many years. He is a director of a number of private limited companies.

Mark Carpenter*†‡
was appointed as a Director in May 2015. He is a chartered surveyor and is director of investment at TH Real Estate, a global real estate asset management company which was previously the property business of Henderson Global Investors. He is also a non-executive director of other TH Real Estate property funds invested in the UK and overseas.

Andrew Gulliford†‡
was appointed as a Director in May 2004. He is a chartered surveyor and was, until 1 January 2006, deputy senior partner of Cushman & Wakefield Healey & Baker. He joined one of its predecessor firms in 1972 and was head of the firm's investment group for twelve years until the end of 2002. He advises a number of institutions on property matters and is also a non-executive director of Helical Bar plc, which is a listed property company.

David Ross*†‡
was appointed as a Director in March 2015. He was a founding partner of Aberforth Partners LLP, an investment management firm specialising in investing in UK smaller companies, from which he recently retired. He is also a non-executive director of EP Global Opportunities Trust plc and JP Morgan US Smaller Companies Investment Trust plc.

Alexa Henderson*†‡
Chairman of the Audit Committee
was appointed as a Director in December 2015. Alexa is a member of the Institute of Chartered Accountants of Scotland and was previously a Director of the WM Company. She is a non-executive Director and chair of the audit committee of Dunedin Smaller Companies Investment Trust plc and Adam and Company. She is also a non-executive director of James Walker (Leith) Limited, the Scottish Building Society and JPMorgan Japan Smaller Companies Trust plc.

* Member of the Audit Committee
† Member of the Management Engagement Committee
‡ Member of the Nomination Committee

Report of the Directors

Results and Dividends

The results for the year are set out in the attached accounts.

The Company has paid interim dividends in the year ended 30 June 2016 as follows:

	Payment date	Rate per share
Fourth interim for prior year	30 September 2015	1.25p
First interim	31 December 2015	1.25p
Second interim	31 March 2016	1.25p
Third interim	30 June 2016	1.25p

It is the policy of the Directors to declare and pay dividends as interim dividends. The Directors do not therefore recommend a final dividend. A fourth interim dividend of 1.25p will be paid on 30 September 2016 to shareholders on the register on 9 September 2016.

Company Number: 41870

Principal Activity and Status

The Company is an authorised closed ended Guernsey registered company and during the year carried on business as a property investment company. The Company's shares are traded on the Main Market of the London Stock Exchange.

The Group elected into the UK REIT regime on 1 January 2015.

Subsidiary Undertakings

At the year-end, the Company had two wholly-owned subsidiaries: IRP Holdings Limited and IPT Property Holdings Limited.

On 28 June 2016 a special resolution was passed by the shareholders of F&C UK Real Estate Finance Limited ('FREF'), a former subsidiary, that FREF be wound up voluntarily pursuant to Section 181 of the Companies (Guernsey) Law 2008 and that Stuart Arthur Gardner and Samantha Jane Keen of Ernst & Young LLP of Royal Chambers, St. Julian's Avenue, St. Peter Port, Guernsey, GY1 4AF, having consented to act, be appointed as joint liquidators with the power to act jointly and severally for the purpose of such winding up, including realising and distributing FREF's assets, and any power conferred on them by law or by said resolution and any act required or authorised under any enactment to be done by them may be exercised by them jointly or by each of them alone.

Directors

Biographical details of the Directors, all of whom are non-executive can be found on page 20. Ms Henderson was appointed as a non-executive director on 21 December 2015 and Mr Spicer retired from the Board on 25 November 2015.

As explained in more detail under Corporate Governance on page 24, the Board has agreed that all the Directors will retire annually. Accordingly Mr Gulliford, Mr Lall, Mr Ross and Mr Carpenter will retire at the Annual General Meeting and, being eligible, Mr Gulliford, Mr Lall, Mr Ross and Mr Carpenter will offer themselves for re-election. As Ms Henderson was appointed to the Board during the year she will offer herself for election.

The Directors believe that the Board has an appropriate balance of skills, experience, independence and knowledge of the Company to enable it to provide effective strategic leadership and proper guidance of the Company. The Board confirms that, following the evaluation process set out in the Corporate Governance Statement on pages 24 and 25, the performance of each of the Directors continues to be effective and demonstrates commitment to the role. The Board therefore believes that it is in the interests of shareholders that these Directors are re-elected/elected.

There are no service contracts in existence between the Company and any Director. Each of the Directors was appointed by a letter of appointment which sets out the main terms of their appointment.

Management

F&C Investment Business Limited provides investment management services to the Group. Details of the agreement between the Group and F&C Investment Business Limited in respect of management services provided is given in note 2 to the accounts.

The Board has a Management Engagement Committee which keeps under review the appropriateness of the Manager's appointment. In doing so the Committee considers the investment performance of the Group and the capability and resources of the Manager to deliver satisfactory investment performance. It also considers the length of the notice period of the investment management contract and the fees payable to the Manager, together with the standard of the other services provided.

The Directors are satisfied with the Manager's ability to deliver satisfactory investment performance, and the quality of other services provided. It is therefore their opinion that the continuing appointment of the Manager on the terms agreed is in the best interests of shareholders as a whole.

Depositary
JPMorgan Europe Limited acts as the depositary in accordance with the AIFM Directive. The depositary's responsibilities which are set out in an Investor Disclosure Document on the Company's website include cash monitoring, segregation and safe keeping of the Company's financial instruments where appropriate and monitoring the Company's compliance with investment limits and leverage requirements.

Share Capital
As at 30 June 2016 there were 238,705,539 Ordinary Shares of 1 pence each in issue. Subject to the Articles of Incorporation, all shares rank equally for dividends and distributions and carry one vote each and there are no restrictions concerning the transfer of Ordinary Shares in the Company. No agreements between the holders of Ordinary Shares regarding their transfer is known to the Company and there is no agreement which the Company is party to that affects its control following a take over bid.

Substantial Interests in Share Capital
At 30 June 2016 the following holdings representing more than 3 per cent of the Company's issued share capital had been notified to the Company.

	Number of Ordinary Shares Held	Percentage Held†
F&C Asset Management	20,724,850	8.6
Schroders	11,335,586	4.7
Brewin Dolphin Limited	10,402,636	4.3

† Based on 238,705,539 Ordinary Shares in issue as at 30 June 2016.

Since 30 June 2016, the Company received notification from BlackRock, Inc. of a holding of 12,077,092 Ordinary Shares (5.0%). There have been no other changes notified to the Company since the end of the year.

Going Concern
In assessing the going concern basis of accounting the Directors have had regard to the guidance issued by the Financial Reporting Council. They have considered the current cash position of the Group, the availability of the loans and compliance with their covenants, forecast rental income and other forecast cash flows. Based on this information the Directors believe that the Group has the ability to meet its financial obligations as they fall due for a period of twelve months from the date of the approval of the accounts. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Directors' Authority to Allot Shares
The Company issued 4,850,000 Ordinary Shares during the year. The aggregate net proceeds were £4.795 million.

In accordance with the provisions of the Listing Rules, the directors of an overseas premium listed company are not permitted to allot new shares (or grant rights over shares) for cash without first offering them to existing shareholders in proportion to their existing holdings.

The Board therefore proposes a resolution at this year's Annual General Meeting which, if passed, will continue to disapply pre-emption rights.

Resolution 10 therefore, gives the Directors, for the period until the conclusion of the Annual General Meeting in 2017 or, if earlier, on the expiry of 15 months from the passing of Resolution 10, the necessary authority to either allot securities or sell shares held in treasury, otherwise than to existing shareholders on a pro-rata basis, up to an aggregate nominal amount of £238,705. This is equivalent to 10 per cent of the issued Ordinary Share capital of the Company as at 27 September 2016. It is expected that the Company will seek this authority on an annual basis.

The Directors will only allot new shares pursuant to this authority if they believe it to be advantageous to the Company's shareholders to do so and will only be issued to new and existing shareholders. Under no circumstances should this result in a dilution to net asset value.

Directors' Authority to Buy Back Shares
The Group did not buy back any shares during the year.

Resolution 11, as set out in the notice of the Annual General Meeting, seeks renewed authority for the Company to make market purchases of up to 14.99 per cent of the issued Ordinary Share capital, such authority to last until the earlier of 31 December 2017 and the Annual General Meeting in 2017. Any buy back of Ordinary Shares will be made subject to Guernsey law and within any guidelines established from time to time by the Board and the making and timing of any buy backs will be at the absolute discretion of the Board. Purchases of Ordinary Shares will only be made through the market for cash at prices below the prevailing net asset value of the Ordinary Shares (as last calculated) where the Directors believe such purchases will enhance shareholder value. The price paid will not be less than the nominal value of 1p per share. Such purchases will also only be made in accordance with the rules of the UK Listing Authority which provide that the price to be paid must not be more than 5 per cent above the average of the middle market quotations for the Ordinary Shares for the five business days before the shares are purchased. Any shares purchased under this authority will be cancelled or held in treasury.

Amendments to the Articles of Incorporation
Resolution 12 seeks shareholder approval to make certain changes to the Company's Articles of Incorporation. These amendments have been proposed to reflect the recent changes that have been made to the Companies (Guernsey) Law, 2008 by the Companies (Guernsey) Law, 2008 (Amendment) Ordinance, 2015 and to include provisions regarding the reporting requirements applicable to the Company under FATCA and the Organisation for Economic Co-operation and Development's Common Reporting Standard ("CRS").

The principal changes introduced to the Articles of Incorporation include the following amendments: (i) implementing the relevant beneficial provisions of the amendments to the Companies (Guernsey) Law, 2008 which include principally the removal of certain statutory restrictions in respect of the issue of shares, the implementation of changes to the notice provisions making communications with shareholders more expeditious, and the simplification of directors' disclosure of their interests (ii) the inclusion of a definition of 'FATCA/CRS' and provisions relating to the reporting requirements in connection therewith. There are also additional minor amendments to reflect minor changes made to the Companies Law and to conform certain language throughout the Articles of Incorporation.

A copy of the existing and the proposed new Articles of Incorporation marked to show the changes will be available during normal business hours (Saturdays, Sundays and public holiday excepted) at the offices of BMO Global Asset Management, Exchange House, Primrose Street, London EC2A 2NY up to and including close of business on 30 November 2016 and at the venue of the Annual General Meeting for at least 15 minutes prior to the start of the meeting and up to the close of the meeting.

Disclosure of Information to the Auditor

The Directors confirm that, so far as each of the Directors is aware, there is no relevant information of which the Company's auditor is unaware and the Directors have taken all the steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

As explained on page 26, it is proposed that PricewaterhouseCoopers CI LLP ('PwC') be appointed as auditors to the Company following a tender process carried out during 2016. PwC have expressed their willingness to take office as the Company's auditor and a resolution proposing their appointment will be submitted at the Annual General Meeting.

Statement Regarding Annual Report and Consolidated Accounts

Following a detailed review of the Annual Report and Consolidated Accounts by the Audit Committee, the Directors, in accordance with the UK Corporate Governance Code, consider that taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. In reaching this conclusion, the Directors have assumed that the reader of the Annual Report and Consolidated Accounts would have a reasonable level of knowledge of the investment industry in general and the investment company and real estate sector in particular.

On behalf of the Board
V Lall
Chairman

27 September 2016

Corporate Governance Statement

The Company is obliged to comply with the UK Corporate Governance Code issued by the Financial Reporting Council in September 2014, or explain any non-compliance. It has always been the Company's policy to comply with best practice on corporate governance and it has in place a framework for corporate governance which it believes is suitable for an investment company.

The Board has also considered the principles and recommendations of the Association of Investment Companies Code of Corporate Governance (the "AIC Code") issued in February 2015 and follows the AIC Corporate Governance Guide for Investment Companies (the "AIC Guide") which complements the UK Corporate Governance Code, and provides a framework of best practice for investment companies.

The AIC Code and the AIC Guide are available on the AIC's website, www.theaic.co.uk. The UK Corporate Governance Code is available on the Financial Reporting Council's website, www.frc.org.uk.

The Board considers that it is appropriate to report against the principles and recommendations of the AIC Code and by reference to the AIC Guide (which incorporates the UK Corporate Governance Code).

The Board has reviewed the need for an internal audit function and deemed this function unnecessary as discussed in the Report of the Audit Committee.

Except for the matters disclosed below, the Group has complied fully with the Code throughout the year ended 30 June 2016. It is the intention of the Board that, except for the matters disclosed below, the Group will comply fully with the Code throughout the year ended 30 June 2017.

Since all the Directors are non-executive, in accordance with the AIC Code and the preamble to the UK Corporate Governance Code, the provisions of the UK Corporate Governance Code on the role of the chief executive and, except in so far as they apply to non-executive Directors, on Directors' remuneration, are not relevant to the Company, and are not reported on further.

The Guernsey Financial Services Commission issued a Finance Sector Code of Corporate Governance ('the GFSC Code') which came into effect on 1 January 2012. As the Company already reports against the AIC Code and the UK Corporate Governance Code it is deemed that it has met the requirements of the GFSC Code and has therefore not reported further on its compliance with that code. The GFSC Code is available on the Guernsey Financial Services Commission's website, www.gfsc.gg.

The Company's Articles of Incorporation require all Directors to retire by rotation at least every three years. However, in accordance with the recommendations of the AIC Code and the UK Corporate Governance Code, the Board has agreed that all Directors will retire annually and, if appropriate, seek re-election. The Board's policy on tenure is that continuity and experience are considered to add significantly to the strength of the Board and, as such, no limit on the overall length of service of any of the Company's Directors, including the Chairman has been imposed. Mr Gulliford has served on the Board in excess of nine years. However, the Board does not consider that length of service affects the ability of each Director to act independently and also considers that each Director is independent in character and judgement and there are no relationships or circumstances relating to the Company or the Manager which are likely to affect their judgement.

Due to the size of the Board and the fact that all Directors are non-executive, the Directors do not consider it appropriate for a Senior Independent Director to be appointed as recommended by provision 4.1 of the UK Corporate Governance Report.

The Board consists solely of non-executive Directors of which Mr Lall is Chairman. All Directors are considered by the Board to be independent, (as defined by the AIC Code), of the Manager as at 30 June 2016. New Directors will receive an induction from the Manager and Secretary on joining the Board, and all Directors receive other relevant training as necessary.

The basis on which the Group aims to generate value over the longer term is set out in its objective and investment policy as contained on page 8. A management agreement between the Group and its Manager sets out the matters over which the Manager has authority and the limits beyond which Board approval must be sought. All other matters, including strategy, investment and dividend policies, gearing and corporate governance procedures and risk management, are reserved for the approval of the Board of Directors. The Board currently meets at least quarterly and receives full information on the Group's investment performance, assets, liabilities and other relevant information in advance of Board meetings.

Throughout the year a number of committees have been in operation. The committees are the Property Valuation Committee, the Audit Committee, the Management Engagement Committee and the Nomination Committee. The Committees operate within clearly defined terms of reference which are available for inspection on request at the Company's registered office.

As stated in the Remuneration Report on page 28, the full Board determines the level of Directors' fees and accordingly there is no separate Remuneration Committee.

The table below sets out the number of scheduled Board and Committee meetings attended by each Director during the year.

	Board Meetings Attended	Property Valuation Committee Attended	Audit Committee Attended	Management Engagement Committee Attended	Nomination Committee Attended
Q Spicer(1)	2	2	1	1	1
A Gulliford(2)	4	4	1	1	1
V Lall	4	4	3	1	1
D Ross	4	4	3	1	1
M Carpenter	4	4	3	1	1
A Henderson(3)	2	2	2	–	–

In addition to the scheduled meetings detailed above, there were a further 9 Board Meetings and 1 Board Committee meeting held during the year.

(1) Retired from the Board on 25 November 2015.

(2) Stepped down from the Audit Committee on 8 September 2015 after the first Audit Committee meeting of the year.

(3) Appointed to the Board on 21 December 2015.

Property Valuation Committee

The Property Valuation Committee comprises all of the Directors and is chaired by Mr Andrew Gulliford. The Committee reviews the quarterly property valuation report produced by the valuer.

Audit Committee

The Report of the Audit Committee is contained on pages 26 and 27.

Management Engagement Committee

The Management Engagement Committee, chaired by Mr David Ross, comprises the full Board and reviews the appropriateness of the Manager's continuing appointment together with the terms and conditions thereof on a regular basis.

The committee also reviews the terms and quality of service received from other service providers on a regular basis.

Nomination Committee

The Nomination Committee comprises all of the Directors and is chaired by Mr Vikram Lall. The Board considers that, given its size, it would be unnecessarily burdensome to establish a separate nomination committee which did not include the entire Board and believes that this enables all Directors to be kept fully informed of any issues that arise. The committee is convened for the purpose of considering the appointment of additional Directors as and when considered appropriate. Any appointments to the Board are based on merit, but in considering appointments the Nomination Committee also takes into account the ongoing requirements of the Company and the need to have a balance of skills, experience, independence, diversity, including gender, and knowledge of the Company within the Board. The Directors have not set any measurable objectives in relation to the diversity of the Board.

During the year the performance of the Board, committees and individual Directors was evaluated through an assessment process, led by the Chairman. The performance of the Chairman was evaluated by the other Directors.

Mr Spicer was Chairman of the Board until he retired on 25 November 2015 and was succeeded by Mr Lall. Mr Spicer was also Chairman of the Management Engagement Committee and the Nomination Committee and was replaced by Mr Ross as Chairman of the Management Engagement Committee and Mr Lall as Chairman of the Nomination Committee.

On 21 December 2015, the Board approved a recommendation from the Nomination Committee and appointed Ms Alexa Henderson as a non-executive Director and Chair of the Audit Committee. The recruitment process undertaken by the Nomination Committee did not involve an external search agency.

Individual Directors may, at the expense of the Group, seek independent professional advice on any matter that concerns them in the furtherance of their duties. The Group maintains appropriate Directors' and Officers' liability insurance.

Relations with Shareholders

The Company proactively seeks the views of its shareholders and places great importance on communication with them. The Board receives regular reports from the Manager and brokers on the views of shareholders, and the Chairman and other Directors meet with major shareholders at least annually and make themselves available to meet shareholders when required to discuss any significant issues that have arisen and address shareholder concerns and queries. The Notice of Annual General Meeting to be held on 30 November 2016 is set out on pages 63 and 64. It is hoped that this will provide a forum, both formal and informal, for shareholders to meet and discuss issues with the Directors and Manager of the Company. The Annual Report and Notice of Annual General Meeting are posted to shareholders at least 20 working days before the Annual General Meeting.

On behalf of the Board

V Lall
Chairman

27 September 2016

Report of the Audit Committee

During the year, the Audit Committee comprised all of the Directors except Mr Gulliford who stepped down from the Audit Committee on 8 September 2015 due to his length of tenure on the Board. The Audit Committee was chaired by Mr Lall until 21 December 2015 when Ms Henderson was appointed as the current Chairman of the Audit Committee. The duties of the Audit Committee in discharging its responsibilities include reviewing the Annual Report and Interim Accounts, the system of internal controls and the terms of appointment of the auditor together with its remuneration. It is also the forum through which the external auditor reports to the Board of Directors. The Committee reviews the scope and results of the audit, its cost-effectiveness and the independence and objectivity of the external auditor, with particular regard to non-audit fees. The committee meets at least three times a year including at least one meeting with the auditor, Ernst & Young ("EY").

The Audit Committee met on three occasions during the year and the attendance of each of the members is set out on page 25. In the due course of its duties, the Committee had direct access to EY and senior members of the Manager's investment company team. Amongst other things, the Audit Committee considered and reviewed the following matters and reported thereon to the Board:

- the annual and half-yearly reports and accounts;
- the accounting policies of the Group;
- the principal risks faced by the Group and the effectiveness of the Group's internal control environment;
- the effectiveness of the audit process and related non-audit services and the independence and objectivity of EY, their remuneration and terms of engagement;
- the appointment of an audit firm for the year ended 30 June 2017;
- the policy on the engagement of EY to supply non-audit services;
- the implications of proposed new accounting standards and regulatory changes;
- the receipt of an AAF (01/06) report from the Manager; and
- whether the Annual Report is fair, balanced and understandable.

As part of its review of the scope and results of the audit, during the year the Audit Committee considered and approved EY's plan for the audit of the financial statements for the year ended 30 June 2016. At the conclusion of the audit, EY did not highlight any issues to the Audit Committee which would cause it to qualify its audit report, nor did it highlight any fundamental internal control weaknesses. EY issued an unqualified audit report which is included on pages 32 to 36.

In relation to the provision of non-audit services by the auditor, it has been agreed that all non-audit work to be carried out by the auditor must be approved in advance by the Audit Committee and any special projects must also be approved in advance. Such fees amounted to £84,000 for the year ended 30 June 2016 (year ended 30 June 2015: £102,000) and related to the provision of taxation compliance and advisory services and in particular, advice on matters following the REIT conversion, advice on the Group re-financing and also services in respect of the liquidation of F&C UK Real Estate Finance Limited. Notwithstanding such services the Audit Committee considers EY to be independent of the Group. The Audit Committee does not consider that the provision of such non-audit services is a threat to the objectivity and independence of the conduct of the audit.

As part of the review of auditor independence and effectiveness, EY have confirmed that they are independent of the Group and have complied with relevant auditing standards. In evaluating EY, the Audit Committee has taken into consideration the standing, skills and experience of the firm and the audit team. The Committee assesses the effectiveness of the audit process through the reporting it receives from EY in respect of the year end Annual Report and Consolidated Accounts. The Committee remains satisfied that EY continues to provide effective independent challenge in carrying out its responsibilities.

EY have been the Company's auditor since its launch in 2004. In accordance with best practice, the Audit Committee decided to put the appointment out to tender. The Committee decided to adopt best practice with regards to Corporate Governance and the perceived benefit of rotating audit firms after a period of ten years. On this basis EY did not re-tender. Two audit firms tendered and were asked to submit a detailed tender document covering a number of key areas. The Audit Committee reviewed these before asking the two audit firms to give a presentation to an interview panel comprised of members of the Audit Committee and representatives of the Manager.

There was very little to choose between the parties involved. They were independently scored on numerous criteria by the interview panel covering that firm's experience, team structure and audit methodology, amongst other things. After detailed discussions, the Committee recommends that PricewaterhouseCoopers CI LLP be appointed as the Company's auditor for the 2017 year end and a resolution proposing their appointment will be submitted at the Annual General Meeting.

We would like to take this opportunity to thank EY for the audit work they have performed for the Company over the years, which has always been of the highest standard.

Internal Controls

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. The Board has therefore established an ongoing process designed to meet the particular needs of the Group in managing the risks to which it is exposed, consistent with internal control guidance issued by the Financial Reporting Council. The process is based principally on the Manager's existing risk-based approach to internal control whereby a risk matrix is created that identifies the key functions carried out by the Manager and other service providers, the individual activities undertaken within those functions, the risks associated with each activity and the controls employed to minimise those risks. A residual risk rating is then applied. The risk matrix is regularly updated and the Board is provided with regular reports highlighting all material changes to the risk ratings and confirming the action which has been, or is being, taken.

A formal annual review of these procedures is carried out by the Audit Committee. The Audit Committee has also reviewed the Manager's Report on Internal Controls in accordance with AAF (01/06) ('AAF') for the period 1 January 2015 to 31 October 2015 that has been prepared for their investment company clients. Containing a report from independent external accountants, the report sets out the Manager's control policies and procedures with respect to the management of their clients' investments. In the previous year, the AAF covered the year ended 31 December 2014. Due to the shortened period of the 2015 AAF, EY requested confirmation that the Manager's valuation controls were operating effectively. The Manager's auditor KPMG performed additional procedures and issued an ISAE 3000 Report for the period from 1 November 2015 to 30 April 2016. The effectiveness of these controls is monitored by the Manager's group audit committee which receives regular reports from the Manager's audit, risk and compliance department. Procedures are in place to capture and evaluate failings and weaknesses and ensure that action would be taken to remedy any significant issues identified from this monitoring, which would be reported to the Board. No significant failings or weaknesses in respect of the Group were identified in the year under review nor to the date of this report. The depositary provides quarterly reports to the Board and carries out daily independent checks on cash and investment transactions and is liable for any loss of assets.

Such review procedures have been in place throughout the year and up to the date of approval of the Annual Report, and the Committee is satisfied with their effectiveness. These procedures are designed to manage rather than eliminate risk and, by their nature can only provide reasonable, but not absolute, assurance against material misstatement or loss.

At each Board meeting the Board monitors the investment performance of the Group in comparison to its stated objective and against comparable companies. The Board also reviews the Group's activities since the last Board meeting to ensure that the Manager adheres to the agreed investment policy and approved investment guidelines and, if necessary, approves changes to such policy and guidelines. In addition, at each Board meeting, the Board receives reports from the Secretary in respect of compliance matters and duties performed on behalf of the Group.

Based on review, observation and enquiry by the Committee and the Board of the processes and controls in place by the Manager, including confirmation by a reputable independent accounting firm that those controls operated satisfactorily, the Committee has concluded that there is no current need for the Group to have an internal audit function and the Board has concurred.

A Henderson
Chairman of the Audit Committee

27 September 2016

Significant Matters Considered by the Audit Committee in Relation to the Financial Statements

Matter	Action
Valuation and ownership of the Investment Property Portfolio The Group's property portfolio accounted for 94.6 per cent of its total assets as at 30 June 2016. Although valued by an independent firm of valuers, Cushman & Wakefield, the valuation of the investment property portfolio is inherently subjective, requiring significant judgement by the valuers. Errors in the valuation could have a material impact on the Group's net asset value. Further information about the property portfolio and inputs to the valuations are set out in note 8 to the accounts. The title deeds are held by the Group's property lawyers.	The Board and Audit Committee reviewed the outcomes of the valuation process throughout the year and discussed the detail of each of the quarterly valuations with the Manager at Board Meetings. The Manager liaises with the valuers on a regular basis and meets with them prior to the production of each quarterly valuation. The Board was represented at all of the quarterly valuation meetings with Cushman & Wakefield during the year, including the meeting in advance of the production of the year end valuation. In addition, this is the main area of audit focus and, accordingly, the Audit Committee receives detailed verbal and written reports from EY on this matter.
Loan Arrangements The Group has a £110 million loan facility: £90 million with Canada Life and £20 million with Barclays Bank of which £110 million is currently drawn down. The loan facilities are subject to various covenants, a breach of which could result in early repayment or penalties.	The Board and Audit Committee review the bank covenants throughout the year to ensure the risk of any breach is sufficiently mitigated.
Income Recognition Incomplete or inaccurate recognition could have an adverse effect on the Group's net asset value, earnings per share and dividend cover.	The Board and the Audit Committee review the revenue forecast on a quarterly basis to ensure that the level of income is able to sustain the dividend. They also review the level and speed of income collection and any provisions for bad debts.

Directors' Remuneration Report

Directors' Remuneration Policy

The Board comprises only non-executive Directors. The Company has no executive Directors or employees. For these reasons, it is not considered appropriate to have a separate Remuneration Committee. The full Board determines the level of Directors' fees.

Full details of the Company's policy with regards to Directors' fees, and fees paid during the year ended 30 June 2016, are shown below. No major decisions or substantial changes relating to Directors' remuneration were made during the year.

The Board considers the level of Directors' fees at least annually. Its policy is that the remuneration of the Directors should reflect the experience of the Board as a whole, the time commitment required, and be fair and comparable with that of other similar companies. Furthermore, the level of remuneration should be sufficient to attract and retain the Directors needed to oversee the Company properly and to reflect its specific circumstances. There were no changes to the policy during the year and it is intended that this policy will continue for the year ending 30 June 2017 and subsequent years.

The fees for the Directors are determined within the limit set out in the Company's Articles of Incorporation. The present limit is an aggregate of £200,000 per annum and may not be changed without seeking shareholder approval at a general meeting. The fees are fixed and are payable in cash, quarterly in arrears. Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

It is the Board's policy that Directors do not have service contracts, but each new Director is provided with a letter of appointment. The Directors' letters of appointment are available on request at the Company's registered office during business hours and will be available for 15 minutes prior to and during the forthcoming Annual General Meeting.

The terms of Directors' appointments provide that Directors should retire by rotation at least every three years and be subject to re-election. However, in accordance with the recommendations of the UK Corporate Governance Code, the Board has agreed that all Directors will retire annually. There is no notice period and no provision for compensation upon early termination of appointment.

Future Policy Report

Based on the current levels of fees, Directors' remuneration for the forthcoming financial year will be as follows:

	2017* £	2016† £
Q Spicer(1)	–	13,071
A Gulliford	27,500	27,500
V Lall	32,500	30,902
D Ross	27,500	27,500
M Carpenter	27,500	27,500
A Henderson(2)	28,500	15,102
Total	143,500	141,575

* Directors' remuneration for the year ending 30 June 2017 based on current fee levels.

† Actual Directors' remuneration for the year ended 30 June 2016.

(1) Retired from the Board on 25 November 2015.

(2) Appointed to the Board on 21 December 2015.

At the Company's Annual General Meeting, held on 19 November 2014, shareholders approved the Directors' Remuneration Policy. 99.2 per cent of votes were in favour of the resolution and 0.8 per cent of votes were against. It is the Board's intention that the Directors' Remuneration Policy will be put to a shareholder vote again at the Annual General Meeting in 2017 unless changes are made to the policy before then.

Annual Report on Directors' Remuneration

Directors' Emoluments for the Year

The Directors who served during the year received the following emoluments in the form of fees:

	2016 £	2015 £
Q Spicer[1]	13,071	32,500
A Gulliford	27,500	27,500
V Lall	30,902	28,500
C Sherwell[2]	–	13,750
G Harrison[2]	–	13,750
D Ross[3]	27,500	7,327
M Carpenter[4]	27,500	2,593
A Henderson[5]	15,102	–
Total	141,575	125,920

(1) Retired from the Board on 25 November 2015.
(2) Retired from the Board on 31 December 2014.
(3) Appointed to the Board on 26 March 2015.
(4) Appointed to the Board on 28 May 2015.
(5) Appointed to the Board on 21 December 2015.

Relative Importance of Spend on Pay

The table below shows the actual expenditure during the year in relation to Directors' remuneration, other expenses and shareholder distributions:

	2016 £	2015 £	Change %
Aggregate Directors' Remuneration	141,575	125,920	+12.4
Management fee and other expenses*	3,967,000	3,903,000	+1.6
Aggregate Shareholder Distributions	11,867,000	11,618,000	+2.1

* Includes directors' remuneration.

Directors' Shareholdings

The Directors who held office at the year-end and their interests (all beneficial) in the Ordinary Shares of the Company were as follows:

	2016 Ordinary Shares	2015 Ordinary Shares
A Gulliford	75,000	75,000
V Lall	143,765	143,765
D Ross[1]	120,000	100,000
M Carpenter[2]	20,000	–
A Henderson[3]	–	–

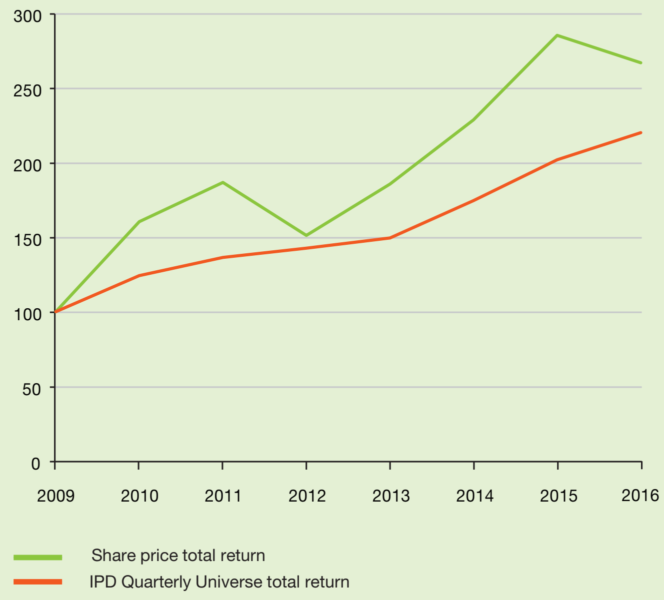
(1) Appointed to the Board on 26 March 2015.
(2) Appointed to the Board on 28 May 2015.
(3) Appointed to the Board on 21 December 2015.

Between 30 June 2016 and 27 September 2016 there were no changes to Directors' shareholdings.

Company Performance

The Board is responsible for the Group's investment strategy and performance, although the management of the Group's investment portfolio is delegated to the Manager through the investment management agreement, as referred to on page 21. The graph below compares, for the seven financial years ended 30 June 2016, the total return (assuming all dividends are reinvested) to ordinary shareholders compared with the total return on a notional investment from the IPD Quarterly Universe. This index was chosen as it is considered a comparable index and is the Company's benchmark for performance fee purposes. An explanation of the performance of the Company for the year ended 30 June 2016 is given in the Chairman's Statement and Manager's Review.

Share Price Total Return and the IPD Quarterly Universe Performance Graph



Voting at Annual General Meeting

At the Company's last Annual General Meeting, held on 25 November 2015, shareholders approved the Directors' Remuneration Report in respect of the year ended 30 June 2015. 99.5 per cent of votes were in favour of the resolution and 0.5 per cent were against.

An ordinary resolution for the approval of this Annual Report on Directors' Remuneration will be put to shareholders at the forthcoming Annual General Meeting.

On behalf of the board

V Lall
Chairman

27 September 2016

Directors' Responsibilities

Directors' Responsibilities for the Annual Report and Consolidated Accounts

The Directors are responsible for preparing the Annual Report and Consolidated Accounts in accordance with applicable law and regulations. They are also responsible for ensuring that the Annual Report includes information required by the Rules of the UK Listing Authority.

Guernsey 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 adopted by the EU and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the Group and of the financial performance and cash flows of the Group for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and 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 Group 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 Group and to enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are also responsible for ensuring that the Group complies with the provisions of the Listing Rules and the Disclosure Rules and Transparency Rules of the UK Listing Authority which, with regard to corporate governance, require the Group to disclose how it has applied the principles, and complied with the provisions of the UK Corporate Governance Code applicable to the Group.

Directors' Responsibility Statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole and comply with The Companies (Guernsey) Law, 2008; and
- the Strategic Report (including the Chairman's Statement, Business Model and Strategy, Viability Assessment and Statement, Manager's Review and Property Portfolio) and Report of the Directors include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board

V Lall
Chairman

27 September 2016

14 Berkeley Street, London

Independent Auditor's Report

Independent Auditor's Report to the Members of F&C UK Real Estate Investments Limited

Our opinion on the financial statements

In our opinion:

- the consolidated financial statements give a true and fair view of the state of the Group's affairs as at 30 June 2016 and of the Group's profit for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- the consolidated financial statements have been prepared in accordance with the requirements of the Companies (Guernsey) Law 2008.

What we have audited

F&C UK Real Estate Investments Limited's financial statements comprise:

- Consolidated Statement of Comprehensive Income for the year ended 30 June 2016
- Consolidated Balance Sheet as at 30 June 2016
- Consolidated Statement of Changes in Equity for the year ended 30 June 2016
- Consolidated Cash Flow Statement for the year ended 30 June 2016
- Related notes 1 to 21 to the financial statements

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union ('EU').

Overview of our audit approach

Risks of material misstatement	• Recognition of rental income • Fair valuation of the property portfolio
Audit scope	• We performed an audit of the financial statements of F&C UK Real Estate Investments Limited, and its two subsidiaries, IRP Holdings Limited and IPT Property Holdings Limited for the year ended 30 June 2016.
Materiality	• Materiality of £2.4 million (2015: £2.3 million) which represents 1 per cent of net assets.

Our Assessment of Risk of Material Misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

Risk	Our response to the risk	What we concluded to the Audit Committee
Recognition of income as described on page 27 of the Report of the Audit Committee) During the year, the Group recognised £19.56 million (2015: £18.93 million) of rental income. Rental income received by the Group during the period directly drives the Group's ability to make a dividend payment to shareholders. Incomplete or inaccurate rental income recognition, taking into account any lease incentives, could have a significant impact on profit or loss of the Group.	We performed the following procedures: We understood the rental income process through walk through procedures and used analytics to identify any non-standard patterns arising as a result of discounted/rent free periods and other lease incentives. We performed detailed substantive analytical review procedures on rental income to identify any items that did not meet our expectations. On a sample basis, we agreed rental rates to tenancy agreements and bank statements. For a sample of tenancy agreements with lease incentives, we re-calculated the lease incentive and assessed the appropriateness of the accounting treatment in accordance with IFRSs as adopted by the EU.	Based on the work performed, we have no matters to report.
Fair valuation of the property portfolio (as described on page 27 of the Report of the Audit Committee) The valuation of the portfolio at 30 June 2016 was £333.8 million (2015: £331.9 million). The valuation of the properties held in the investment portfolio is the key driver of the Group's net asset value and total return. Incorrect property valuation could have a significant impact on the net asset value of the Group and, therefore, the return generated for shareholders.	We performed the following procedures: We identified and performed walk-throughs on controls over the valuation process operated by F&C Investment Business Limited ("the Manager"), as described in their AAF 01/06 Internal Controls report dated 31 October 2015 ("the AAF"), in order to gain an understanding of the process and identify the key points in the process where the valuation of investment properties could be materially misstated. This report covered the period 1 January 2015 to 31 October 2015 (in the prior period the equivalent report was for the period 1 January 2014 to 31 December 2014). Due to the shortened period of AAF coverage, and in order for us to place reliance on the valuation controls identified by Management within the AAF report at the year-end, we requested that KPMG confirm that they were still operating effectively. For the period 1 November 2015 to 30 April 2016 KPMG performed additional procedures and issued an ISAE 3000 Report for the period to 30 April 2016. We have been able to place reliance on this additional report for confirmation that the valuation controls were operating effectively throughout the period to 30 April 2016. For coverage of the remaining 2 month period, we then engaged our own valuation experts to discuss and challenge the valuation of a sample of properties by assessing the reasonableness of the valuation methodologies used as at year end. We independently corroborated the key inputs and assumptions relating to equivalent yield and rental rates consistent with published market data and comparable transaction evidence through market activity. We read all third party valuation reports to agree the appropriateness and suitability of the reported values and confirmed that the changes in value from the previous accounting period were consistent with our expectations. We assessed the independence and competence of the valuers. We agreed the value of all the properties held at 30 June 2016, and as reported in the financial statements, to the open market valuations included in the valuation reports provided by the Group's independent valuers.	Based on the work performed, we have no matters to report.

The Scope of Our Audit

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. The Group consists of the Company and its two wholly-owned subsidiaries.

Our Application of Materiality

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

Materiality

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

We determined materiality for the Group to be £2.4 million (2015: £2.3 million), which is 1 per cent of net assets. We derived our materiality calculation from a proportion of net assets as we consider that to be the most important financial metric on which shareholders judge the performance of the Group.

Performance Materiality

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

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75 per cent (2015: 75 per cent) of our planning materiality, namely £1.8 million (2015: £1.7 million). We have set performance materiality at this percentage due to our past experience of the audit that indicates a lower risk of misstatements, both corrected and uncorrected.

Reporting Threshold

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

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.12 million (2015: £0.11 million), which is set at 5 per cent of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Scope of the Audit of the Financial Statements

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 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.

Respective Responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities set out on page 30 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 International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Matters on Which we are Required to Report by Exception

ISAs (UK and Ireland) reporting	We are required to report to you if, in our opinion, financial and non-financial information in the annual report is: • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or • otherwise misleading. In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the directors' statement that they consider the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the annual report appropriately addresses those matters that we communicated to the audit committee that we consider should have been disclosed.	We have no exceptions to report.
Companies (Guernsey) Law 2008 reporting	We are required to report to you if, in our opinion: • adequate accounting records have not been kept; or • the Group financial statements are not in agreement with the accounting records and returns; or • we have not received all the information and explanations we require for our audit.	We have no exceptions to report.
Listing Rules review requirements	We are required to review: • the Directors' statement in relation to going concern, set out on page 22 and longer-term viability, set out on page 10; and • the part of the Corporate Governance Statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review.	We have no exceptions to report.

Statement on the Directors' Assessment of the Principal Risks that Would Threaten the Solvency or Liquidity of the Entity

ISAs (UK and Ireland) reporting	We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to: • the Directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity; • the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated; • the Directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and • the Directors' explanation in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

David Robert John Moore, ACA
for and on behalf of Ernst & Young LLP
Guernsey, Channel Islands
27 September 2016

Notes:

1. The maintenance and integrity of the F&C UK Real Estate Investments Limited website is the responsibility of the Directors; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Statement of Comprehensive Income

Notes	For the year ended 30 June	2016 £'000	2015 £'000
	Revenue		
	Rental income	19,562	18,932
	Total revenue	19,562	18,932
8	**Gains on investment properties**	4,807	31,665
		24,369	50,597
	Expenditure		
2	Investment management fee	(2,084)	(1,974)
3	Other expenses	(1,883)	(1,929)
	Total expenditure	(3,967)	(3,903)
	Net operating profit before finance costs	20,402	46,694
	Net finance costs		
	Interest receivable	9	15
4	Finance costs	(4,455)	(5,955)
12	Gain on redemption of interest rate swap	1,485	–
		(2,961)	(5,940)
	Net profit from ordinary activities before taxation	17,441	40,754
5	Taxation on profit on ordinary activities	(264)	(163)
	Profit for the year	17,177	40,591
	Other comprehensive income		
	Items that are or may be reclassified subsequently to profit or loss		
	Net change in fair value of swap reclassified to profit or loss	(1,485)	–
	Movement in fair value of effective interest rate swap	1,293	2,649
	Total other comprehensive income	(192)	2,649
	Total comprehensive income for the year, net of tax	16,985	43,240
7	**Basic and diluted earnings per share**	7.2p	17.5p

All items in the above statement derive from continuing operations.

All of the profit and other comprehensive income for the year is attributable to the owners of the Company.

The accompanying notes 1 to 21 are an integral part of this statement.

Consolidated Balance Sheet

Notes	As at 30 June	2016 £'000	2015 £'000
	Non–current assets		
8	Investment properties	333,798	331,874
		333,798	331,874
	Current assets		
10	Trade and other receivables	7,014	6,861
11	Cash and cash equivalents	11,931	4,656
		18,945	11,517
	Total assets	352,743	343,391
	Non–current liabilities		
12	Interest-bearing bank loans	(108,845)	(102,986)
12	Interest rate swap	–	(1,929)
		(108,845)	(104,915)
	Current liabilities		
13	Trade and other payables	(6,872)	(6,912)
	Income tax payable	(284)	(77)
12	Interest rate swap	–	(4,658)
		(7,156)	(11,647)
	Total liabilities	(116,001)	(116,562)
	Net assets	236,742	226,829
	Represented by:		
14	Share capital	2,387	2,339
	Special distributable reserve	175,367	170,620
	Capital reserve	58,485	53,678
	Other reserve	–	192
	Revenue reserve	503	–
	Equity shareholders' funds	236,742	226,829
15	**Net asset value per share**	99.2p	97.0p

The accounts were approved and authorised for issue by the Board of Directors on 27 September 2016 and signed on its behalf by:

V Lall, Director **A Henderson**, Director

The accompanying notes 1 to 21 are an integral part of this statement.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2016

Notes		Share Capital £'000	Special Distributable Reserve £'000	Capital Reserve £'000	Other Reserve £'000	Revenue Reserve £'000	Total £'000
	At 1 July 2015	2,339	170,620	53,678	192	–	226,829
	Profit for the year	–	–	–	–	17,177	17,177
	Other comprehensive losses	–	–	–	(192)	–	(192)
	Total comprehensive income for the year	–	–	–	(192)	17,177	16,985
14	Issue of ordinary shares	48	4,747	–	–	–	4,795
6	Dividends paid	–	–	–	–	(11,867)	(11,867)
	Transfer in respect of gains on investment properties	–	–	4,807	–	(4,807)	–
	At 30 June 2016	2,387	175,367	58,485	–	503	236,742

For the year ended 30 June 2015

Notes		Share Capital £'000	Special Distributable Reserve £'000	Capital Reserve £'000	Other Reserve £'000	Revenue Reserve £'000	Total £'000
	At 1 July 2014	2,309	170,704	22,013	(2,457)	–	192,569
	Profit for the year	–	–	–	–	40,591	40,591
	Other comprehensive gains	–	–	–	2,649	–	2,649
	Total comprehensive income for the year	–	–	–	2,649	40,591	43,240
14	Issue of ordinary shares	30	2,608	–	–	–	2,638
6	Dividends paid	–	–	–	–	(11,618)	(11,618)
	Transfer in respect of gains on investment properties	–	–	31,665	–	(31,665)	–
	Transfer to revenue reserve	–	(2,692)	–	–	2,692	–
	At 30 June 2015	2,339	170,620	53,678	192	–	226,829

The accompanying notes 1 to 21 are an integral part of this statement.

Consolidated Cash Flow Statement

Notes	For the year ended 30 June	2016 £'000	2015 £'000
	Cash flows from operating activities		
	Net profit for the year before taxation	17,441	40,754
	Adjustments for:		
8	Gains on investment properties	(4,807)	(31,665)
	Increase in operating trade and other receivables	(153)	(800)
	(Decrease)/increase in operating trade and other payables	(40)	802
	Interest received	(9)	(15)
4	Finance costs	4,455	5,955
12	Gain on redemption of interest rate swap	(1,485)	–
		15,402	15,031
	Taxation paid	(58)	(462)
	Net cash inflow from operating activities	15,344	14,569
	Cash flows from investing activities		
8	Purchase of investment properties	–	(10,054)
8	Capital expenditure	(636)	(403)
8	Sale of investment properties	3,519	5,635
	Interest received	9	15
	Net cash inflow/(outflow) from investing activities	2,892	(4,807)
	Cash flows from financing activities		
14	Shares issued (net of costs)	4,795	2,638
6	Dividends paid	(11,867)	(11,618)
	Bank loan interest paid	(2,057)	(1,202)
	Interest on interest rate swap arrangement	(2,561)	(4,697)
12	Redemption of interest rate swap arrangement	(5,294)	–
	Bank loan repaid – Lloyds Loan	(102,000)	(7,000)
	Bank loan drawn down, net of costs – Canada Life Loan	88,503	–
	Bank loan drawn down, net of costs – Barclays Loan	19,520	–
	Net cash outflow from financing activities	(10,961)	(21,879)
	Net increase/(decrease) in cash and cash equivalents	7,275	(12,117)
	Opening cash and cash equivalents	4,656	16,773
	Closing cash and cash equivalents	11,931	4,656

The accompanying notes 1 to 21 are an integral part of this statement.

Notes to the Accounts

1. Significant accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year, is set out below.

(a) Basis of accounting

(i) Statement of compliance

The consolidated accounts have been prepared and approved in accordance with International Financial Reporting Standards ('IFRS') issued by, or adopted by, the International Accounting Standards Board (the IASB), interpretations issued by the IFRS Interpretations Committee, as adopted by the EU, applicable legal and regulatory requirements of the Companies (Guernsey) Law, 2008 and the Listing Rules of the UK Listing Authority.

Where presentational guidance set out in the Statement of Recommended Practice ('SORP') for investment trust companies issued by the Association of Investment Companies ('AIC') in November 2014 is consistent with the requirements of IFRS, the Directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.

(ii) Basis of measurement

The financial statements have been prepared on a going concern basis and adopt the historical cost basis except for investment properties and derivative financial instruments which have been measured at fair value.

(iii) Presentation currency

The notes and financial statements are presented in pounds sterling (presentational currency) and are rounded to the nearest thousand except where otherwise indicated.

(iv) Use of estimates and judgements

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenue and expenses during the period. The nature of the estimation means that actual outcomes could differ from those estimates. Significant estimates and assumptions are made in the valuation of investment properties held. Further information on the valuation, market risk and sensitivity to market changes are detailed in note 1(f) and note 8.

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.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 8.

After making enquiries, and bearing in mind the nature of the Company's business and assets, the Directors consider that the Company has adequate resources to continue in operational existence for a period of at least twelve months from the date of approval of the accounts. For this reason, they continue to adopt the going concern basis in preparing the accounts.

(v) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year, except that the following amendments to existing standards have been adopted in the current year:

- *Annual Improvements to IFRSs 2010-2012 Cycle and 2011-2013 Cycle.* The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

(vi) New standards and interpretations not yet adopted

The following new standards have been issued but are not effective for this accounting period and have not been adopted early:

- In July 2014, the IASB published the final version of IFRS 9 '*Financial Instruments*' which replaces the existing guidance in IAS 39 '*Financial Instruments: Recognition and Measurement*'.

Notes to the Accounts (continued)

1. Significant accounting policies (continued)

The IFRS 9 requirements represent a change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivables.

For financial liabilities, IFRS 9 largely carries forward without substantive amendment the guidance on classification and measurement from IAS 39. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in profit or loss.

The standard introduces new requirements for hedge accounting that align hedge accounting more closely with risk management and establishes a more principles-based approach to hedge accounting. The standard also adds new requirements to address the impairment of financial assets and means that a loss event will no longer need to occur before an impairment allowance is recognised.

The standard will be effective for annual periods beginning on or after 1 January 2018, and is required to be applied retrospectively with some exemptions. The Group is yet to assess IFRS 9's full impact but it is not currently anticipated that this standard will have any material impact on the Group's financial statements as presented for the current year.

- The IASB has issued a new standard for the recognition of revenue, IFRS 15 '*Revenue from Contracts with Customers*'. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

  The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application (eg 1 January 2017), ie without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application.

  The standard will be effective for annual periods beginning on or after 1 January 2018. The Group is yet to assess IFRS 15's full impact but it is not currently anticipated that this standard will have any material impact on the Group's financial statements as presented for the current year.

- The IASB has issued a new standard for leases, IFRS 16 '*Leases*'. This will replace IAS 17 '*Leases*', and related interpretations. The new standard sets out the principles for the recognition, measurement, presentation and disclosures of leases for both parties to a contract, ie the customer ('lessee') and the supplier ('lessor').

  IFRS 16 changes fundamentally the accounting for leases by lessees. It eliminates the current IAS 17 dual accounting model, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases and, instead, introduces a single, on-balance sheet accounting model where for lessees, the lease becomes an on-balance sheet liability that attracts interest, together with a new lease asset.

  Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. Accordingly, for companies with material off balance sheet leases, there will be a change to key financial metrics derived from the company's assets and liabilities (for example, leverage ratios).

  The standard will be effective for annual periods beginning on or after 1 January 2019. The Group is yet to assess IFRS 16's full impact but it is not currently anticipated that this standard will have any material impact on the Group financial statements as presented for the current year.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

1. Significant accounting policies (continued)

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries drawn up to 30 June each year. Subsidiaries are those entities, including special purpose entities, controlled by the Company. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Up until 28 June 2016, F&C UK Real Estate Finance Limited ("FREF"), was a subsidiary of the Company before it entered into voluntary members' liquidation on 28 June 2016 at which point control was transferred from the Company. The results of FREF were consolidated up to the point at which control was lost.

Business combinations – the Group acquires subsidiaries that own real estate. At the time of acquisition, the Group considers whether each acquisition represents an acquisition of a business or an acquisition of an asset. The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired together with the property. More specifically, the following criteria, which indicate the acquisition of a business, are considered: the number of properties acquired, the extent to which strategic management processes and operational processes are acquired and the complexity of the processes acquired.

When the acquisition of subsidiaries does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognised.

On the acquisition of subsidiaries and operations that do not constitute a business, the acquisition consideration is allocated between the acquired identifiable assets and liabilities based on their relative fair values on the acquisition date without attributing any amount to goodwill or deferred taxes. Non-controlling interests, if any, participate at their relative share of the fair value of the net identifiable assets on the acquisition date. Directly attributable costs are recognised as part of the acquisition cost.

Business combinations are accounted for using the acquisition method. The acquisition is recognised at the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree.

For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with contractual terms, economic circumstances and pertinent conditions at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. All contingent consideration arrangement classified as asset or liabilities arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

(c) Revenue recognition

Rental income, excluding VAT, arising on investment properties is accounted for in the Consolidated Statement of Comprehensive Income on a straight-line basis over the lease term of ongoing leases. Incentives for lessees to enter into lease agreements are spread evenly over the lease term, even if payments are not made on such a basis. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, the Directors are reasonably certain that the tenant will exercise that option.

Interest income is accounted for on an accruals basis using the effective interest method.

Notes to the Accounts (continued)

1. Significant accounting policies (continued)

(d) Expenses

Expenses are accounted for on an accruals basis. The Group's investment management, administration fees, finance costs and all other expenses are charged through the Consolidated Statement of Comprehensive Income.

(e) Taxation

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date. Current tax relating to items recognised directly in equity is recognised in equity and not in the Consolidated Statement of Comprehensive Income. Positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation are periodically evaluated and provisions established where appropriate.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets are only recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. As the Directors consider the value of the property portfolio is likely to be realised by sale rather than use over time, and that no charge to taxation will arise on capital gains, no provision has been made for deferred tax on valuation uplifts.

Entry to UK-REIT Regime

The Group's conversion to UK-REIT status was effective from 1 January 2015. The Group's rental profits arising from both income and capital gains are exempt from UK corporation tax from that date, subject to the Group's continuing compliance with the UK REIT rules.

(f) Investment properties

Investment properties consist of land and buildings (principally offices, industrial, distribution, retail shops and retail warehouses) which are not occupied for use by, or in the operations of, the Group, nor for sale in the ordinary course of business, but are held to earn rental income together with the potential for capital and income growth.

Investment properties are initially recognised at cost, being the fair value of consideration given, including transaction costs associated with the investment property. Any subsequent capital expenditure incurred in improving investment properties is capitalised in the period incurred and included within the book cost of the property.

After initial recognition, investment properties are measured at fair value, with unrealised gains and losses recognised in the Consolidated Statement of Comprehensive Income. Fair value is based on the open market valuation provided by Cushman & Wakefield, chartered surveyors, at the balance sheet date using recognised valuation techniques suitably adjusted for unamortised lease incentives and lease surrender premiums. These techniques comprise both the Traditional Method and the Discounted Cash Flow Method. In some cases, the fair values are determined based on recent real estate transactions with similar characteristics and location to those of the Group's assets.

The determination of the fair value of investment properties requires the use of estimates such as future cash flows from assets (such as lettings, tenants' profiles, future revenue streams, capital values of fixtures and fittings, plant and machinery, any environmental matters and the overall repair and condition of the property) and discount rates applicable to those assets. These estimates are based on local market conditions existing at the balance sheet date.

Techniques used for valuing investment property

The Traditional Method converts anticipated future cash flow benefits in the form of rental income into present value. This approach requires careful estimation of future benefits and application of investor yield or return requirements. One approach to value the property on this basis is to capitalise net rental income on the basis of an Initial Yield, generally referred to as the 'All Risks Yield' approach or 'Net Initial Yield' approach.

1. Significant accounting policies (continued)

The Discounted Cash Flow Method involves the projection of a series of periodic cash flows to an operating property. To this projected cash flow series, an appropriate, market-derived discount rate is applied to establish an indication of the present value of the income stream associated with the property. The calculated periodic cash flow is typically estimated as gross income less vacancy and collection losses and less operating expenses/outgoings. A series of periodic net operating incomes, along with an estimate of the reversion/terminal/exit value (which uses the traditional valuation approach) anticipated at the end of the projection period, are discounted to present value. The aggregate of the net present values equals the market value of the property.

The fair value of investment properties is measured based on each property's market value and considers the potential uses of the property that are physically possible, legally permissible and financially feasible.

Investment properties held under finance leases and leased out under operating leases are classified as investment property and stated at fair value.

On derecognition, realised gains and losses on disposals of investment properties are recognised in the Consolidated Statement of Comprehensive Income and transferred to the Capital Reserve.

Recognition and derecognition generally occurs on the exchange of signed contracts between a willing buyer and a willing seller.

(g) Fair value measurement

Assets and liabilities within the hierarchy designated as fair value through profit or loss are measured at subsequent reporting dates at fair value. Accounting standards recognise a hierarchy of fair value measurements for assets and liabilities within the hierarchy which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The classification within the hierarchy depends on the lowest significant applicable input, as follows:

Level 1 – Unadjusted, fully accessible and current quoted prices in active markets for identical assets or liabilities. Examples of such instruments would be investments listed or quoted on any recognised stock exchange.

Level 2 – Quoted prices for similar assets or liabilities, or other directly or indirectly observable inputs which exist for the duration of the period of investment. Examples of such instruments would be those for which the quoted price has been suspended, forward exchange contracts and certain other derivative instruments.

Level 3 – External inputs are unobservable. Value is the Directors' best estimate, based on advice from relevant knowledgeable experts, use of recognised valuation techniques and on assumptions as to what inputs other market participants would apply in pricing the same or similar instrument. All investments in direct property are included in Level 3.

The Company measures financial instruments, such as investment properties, at fair value at each balance sheet date. Fair values of financial instruments measured at amortised cost, if any, are disclosed in note 12. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

(h) Derivative financial instruments

During the year, the Group used derivative financial instruments to hedge its risk associated with interest rate fluctuations. The Group's policy is not to trade in derivative instruments and apply hedge accounting for transactions that meet specified criteria. Derivative instruments are initially recognised in the Consolidated Balance Sheet at their fair value. Transaction costs are expensed immediately.

Notes to the Accounts (continued)

1. Significant accounting policies (continued)

The effective portion of the gains or losses arising on the fair value of cash flow hedges in the form of derivative instruments are taken directly to other comprehensive income, while any ineffective portion is recognised immediately in the Consolidated Statement of Comprehensive Income. Amounts recognised in other comprehensive income are taken to a reserve created specifically for that purpose, described as the Other Reserve in the Consolidated Balance Sheet.

The Group considers that an interest rate swap qualifies for hedge accounting when the following criteria are satisfied:

- The instrument must be related to an asset or liability;
- It must change the character of the interest rate by converting a variable rate to a fixed rate or vice versa;
- It must match the principal amounts and maturity date of the hedged item; and
- As a cash-flow hedge the forecast transaction that is subject to the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect the profit or loss. The effectiveness of the hedge must be capable of reliable measurement and must be assessed as highly effective on an ongoing basis throughout the financial reporting periods for which the hedge was designated.

On maturity, early redemption and if the forecast transaction is no longer expected to occur, the gains or losses arising from cash flow hedges in the form of derivative instruments, initially recognised in the Consolidated Statement of Changes in Equity, are reclassified to the Consolidated Statement of Comprehensive Income. The interest rate swap was repaid on 13 November 2015 and the gain on redemption of the interest rate swap was reclassified to the profit for the year.

(i) Share issue expenses

Incremental external costs directly attributable to an equity transaction that would have otherwise been avoided are written off against the Special Distributable Reserve.

(j) Cash and cash equivalents

Cash and cash equivalents consist of cash in hand at bank and short-term deposits in banks with an original maturity of three months or less.

(k) Trade and other receivables

Trade receivables, which are generally due for settlement at the relevant quarter end, are recognised and carried at the original invoice amount less an allowance for any uncollectible amounts. A provision for doubtful debts is made when amounts are more than three months old unless there is certainty of recovery. Bad debts are written off when identified. Reverse lease surrender premiums and other incentives provided to tenants are recognised as an asset and amortised over the period from the date of lease commencement to the earliest termination date.

(l) Interest-bearing loans

All loans are initially recognised at cost, being the fair value of the consideration received, net of arrangement costs associated with the borrowings. After initial recognition, all interest-bearing loans are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any loan arrangement costs and any discount or premium on settlement.

On maturity bank loans are recognised at par, which is equivalent to amortised cost. Bank loans redeemed before maturity are recognised at amortised cost with any charges associated with early redemption being taken to the Consolidated Statement of Comprehensive Income.

(m) Operating lease contracts

The Group leases out its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the leases of its investment properties to lessees as operating leases which recognise rental income over the life of the lease and property.

1. Significant accounting policies (continued)

(n) Reserves

Share capital

Under the Company's Articles of Incorporation, the Company may issue an unlimited number of Ordinary Shares. Subject to the solvency test contained in the Companies (Guernsey) Law, 2008 being satisfied, ordinary shareholders are entitled to all dividends declared by the Company and to all of the Company's assets after repayment of its borrowings and ordinary creditors. Ordinary shareholders have the right to vote at meetings of the Company. All Ordinary Shares carry equal voting rights.

Special distributable reserve

The special reserve is a distributable reserve to be used for all purposes permitted under Guernsey law, including the buy back of shares and the payment of dividends.

The surplus of net proceeds received from the issue of new Ordinary Shares over the nominal value of such shares, is credited to this account subsequent to its initial recognition in the share capital account.

Capital reserve

The following are accounted for in this reserve:

- gains and losses on the disposal of investment properties

- increases and decreases in the fair value of investment properties held at the year-end.

Other reserve

The following are accounted for in this reserve:

- movements relating to the interest rate swap arrangement accounted for as a cash flow hedge.

Revenue reserve

Any surplus arising from the net profit on ordinary activities after taxation, after adding back capital gains or losses and after payment of dividends, is taken to this reserve, with any deficit transferred from the special distributable reserve.

2. Fees

	2016 £'000	2015 £'000
Investment management fee	2,084	1,974

The fees of any managing agents appointed by the Manager are payable out of the investment management fee. The Group's Manager receives a fee of 0.6 per cent per annum of the Total Assets including cash held provided that no fee is payable on any cash held in excess of 5 per cent of the net assets of the Group.

A performance fee is payable equal to 15 per cent of the amount by which the total return of the Group's directly held properties exceeds 115 per cent of the total return of the Group's benchmark and multiplied by the Group's total assets. The Group's benchmark for direct property performance is the IPD total return on direct UK commercial property held by the quarterly index in the IPD universe. The performance fee therefore excludes the impact of cash and/or gearing.

The performance fee payable in each financial year is capped at an amount which, when taken with the aggregate base management fee payable in each financial year, equals 0.75 per cent of the average adjusted total assets of the Group.

Performance fees in excess of this capped return can be carried forward for up to two subsequent financial years subject to the annual 0.75 per cent cap.

Notes to the Accounts (continued)

2. Fees (continued)

The performance fee is measured over a rolling three year period and the performance fee payable in respect of any one financial year is equal to the total performance fee earned over that three year period less any performance fees already paid in the previous two years. In the event that the amount already paid in the previous two years is in excess of the amount earned over the rolling three year period, such excess shall be repaid to the Group by the Manager. A performance fee is payable in the event of outperformance of the benchmark even if the total return is negative.

No performance fee was paid for the year ended 30 June 2016 (2015: none).

The Manager also receives an administration fee, which from 11 April 2013 was rebased to £100,000 per annum. This fee is recalculated from 1 July each year to reflect movements in the consumer price index.

The notice period in relation to the termination of the investment management agreement is six months by either party.

The investment management agreement may be terminated earlier provided that a payment in lieu of notice, equivalent to the amount the Investment Manager would otherwise have received during the notice period, is made.

3. Other expenses

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Direct operating expenses of let rental property	752	749
Direct operating expenses of vacant property	269	230
Bad debts	(12)	46
Valuation and other professional fees	227	266
Directors' fees	142	126
Administration fee payable to the Manager	102	102
Auditor's remuneration for:		
– statutory audit	57	55
– tax compliance services	39	23
– tax advisory services	12	79
– liquidation of a subsidiary	10	–
Other	285	253
	1,883	1,929

In addition to the auditor's remuneration disclosed in the table above, the Company paid the auditor for tax advice in relation to the Group re-financing in the year ended 30 June 2016. These fees of £23,000 have been allocated to interest-bearing bank loans in accordance with accounting policy note 1(l). Details of the re-financing are shown in note 12.

The valuers, Cushman & Wakefield provide valuation services in respect of the property portfolio. The annual fee is equal to 0.0195 per cent of the aggregate value of the property portfolio paid quarterly.

4. Finance costs

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Interest on interest-bearing bank loans	2,700	1,207
Interest in respect of interest rate swap arrangement	1,555	4,697
Amortisation of loan set up costs	153	29
Other interest/fees	47	22
	4,455	5,955

5. Taxation

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Current income tax charge	–	136
Adjustment to provision for prior years	(22)	(53)
Corporation tax charge in respect of distributions to holders of excessive rights	286	80
Total tax charge	264	163

A reconciliation of the tax charge applicable to the results from ordinary activities at the statutory tax rate to the charge for the year is as follows:

Net profit before taxation	17,441	40,754
UK tax at an effective rate of 20.0 per cent (2015: 20.0 per cent)	3,488	8,151
Effects of:		
UK REIT exemption on net income	(2,230)	(879)
Capital gains on investment properties not taxable	(961)	(6,333)
Utilisation of brought forward and current year losses	(297)	–
Income not taxable, including interest receivable	–	(2)
Expenditure not allowed for income tax purposes	–	683
Allowable intercompany debt financing costs	–	(1,414)
Deferred tax asset not provided for	–	(70)
Adjustment to provision for prior years	(22)	(53)
Corporation tax charge in respect of distributions to holders of excessive rights	286	80
Total tax charge	264	163

From 1 January 2015 the Group elected into the UK REIT regime. The UK REIT rules exempt the profits from the Group's property rental business, arising from both income and capital gains. The Group is otherwise subject to UK corporation tax at the prevailing rate. As the principal company of the REIT, the Company is required to distribute at least 90 per cent of the income profits of the Group's UK property rental business. There are a number of other conditions that also require to be met by the Group to maintain REIT tax status. These conditions were met in the year and the Board intends to conduct the Group's affairs such that these conditions continue to be met.

5. Taxation (continued)

Prior to 1 January 2015, the Company and its subsidiaries were subject to United Kingdom income tax at 20 per cent (the rate relevant to non-resident landlords) on rental income arising on the property portfolio after deduction of its allowable debt financing costs and other allowable expenses. No charge to Guernsey tax arose on capital gains.

The Company is exempt from Guernsey taxation under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 (as amended) as a category B collective investment vehicle, as are its subsidiaries. A fixed annual tax exemption fee of £1,200 per company is payable to the States of Guernsey in respect of this (the annual tax exemption fee was £600 prior to 1 January 2015).

6. Dividends and property income distributions gross of income tax

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Non Property Income Distributions:		
Fourth interim for the prior year of 1.25 pence per share paid on 30 September 2015 (2014: 1.25 pence)	1,310	2,886
First interim of 1.25 pence per share paid on 31 December 2015 (2014: 1.25 pence)	–	2,886
Second interim of 1.25 pence per share paid on 31 March 2016 (2015: 1.25 pence)	–	2,923
Property Income Distributions:		
Fourth interim for the prior year of 1.25 pence per share paid on 30 September 2015 (2014: 1.25 pence)	1,613	–
First interim of 1.25 pence per share paid on 31 December 2015 (2014: 1.25 pence)	2,976	–
Second interim of 1.25 pence per share paid on 31 March 2016 (2015: 1.25 pence)	2,984	–
Third interim of 1.25 pence per share paid on 30 June 2016 (2015: 1.25 pence)	2,984	2,923
	11,867	11,618

A fourth interim dividend totalling 1.25 pence per share will be paid on 30 September 2016 to shareholders on the register on 9 September 2016. Although this payment of £2,984,000 relates to the year ended 30 June 2016, under IFRS it will be accounted for in the year ending 30 June 2017.

7. Earnings per share

The basic and diluted earnings per Ordinary Share are based on the net profit for the year of £17,177,000 (2015: £40,591,000) and on 237,264,306 (2015: 232,096,635) Ordinary Shares, being the weighted average number of shares in issue during the year.

8. Investment properties

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Freehold and leasehold properties		
Opening market value	337,490	300,590
Capital expenditure and purchase of investment properties	636	10,457
Sales – net proceeds	(3,519)	(5,635)
– realised losses on sales	(868)	(2,556)
– realised gains on sales	–	452
Unrealised gains on investment properties	10,908	36,659
Unrealised losses on investment properties	(5,233)	(2,890)
Movement in lease incentive receivable	(264)	413
Closing market value	339,150	337,490
Adjustment for lease incentives	(5,352)	(5,616)
Balance sheet carrying value	333,798	331,874

All the Group's investment properties were valued as at 30 June 2016 by qualified professional valuers working in the company of Cushman & Wakefield, Chartered Surveyors. All such valuers are chartered surveyors, being members of the Royal Institution of Chartered Surveyors ('RICS'). Cushman & Wakefield completed a valuation of Group investment properties at 30 June 2016 on an open market basis in accordance with the requirements of the Appraisal and Valuation Manual published by the RICS. Fair value is determined on a market value basis in accordance with International Valuation Standards, as set out by the International Valuation Standards Committee. The valuation is prepared on an aggregated ungeared basis. It is also determined using market based evidence, which is the amount for which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction as at the valuation date. The critical assumptions made in valuing the properties are detailed in Note 1(f). The market value of these investment properties amounted to £339,150,000 (2015: £337,490,000), however an adjustment has been made for lease incentives of £5,352,000 (2015: £5,616,000) that are already accounted for as an asset.

The property valuer is independent and external to the Group and the Manager.

The property valuer takes account of deleterious materials included in the construction of the investment properties in arriving at its estimate of open market valuation, when the Manager advises the presence of such materials. In arriving at their estimates of market values, the valuers have used their market knowledge and professional judgement and not only relied on historical transactional comparables.

Following the Referendum held on 23 June 2016 concerning the UK's membership of the EU, a decision was taken to exit. The UK is now in a period of uncertainty in relation to many factors that impact the property investment and letting markets. Cushman & Wakefield have highlighted that, since the Referendum date it has not been possible to gauge the effect of this decision by reference to transactions in the market place. The probability of Cushman & Wakefield's opinion of value exactly coinciding with the price achieved, were there to be a sale, has reduced. The valuer would, therefore, recommend that the valuation is kept under regular review and that specific market advice is obtained should the Group wish to effect a disposal.

The Group has entered into leases on its property portfolio as lessor (See note 19 for further information). No one property accounts for more than 7.5 per cent of total assets less current liabilities of the Group. The market values of the properties are shown on pages 16 and 17. All leasehold investment properties have more than 60 years remaining on the lease term.

There are no restrictions on the realisability of the Group's investment properties or on the remittance of income or proceeds of disposal. However, the Group's investments comprise UK commercial property, which may be difficult to realise, as described in liquidity risk, note 17. There is also uncertainty in respect of valuations as detailed in market price risk, note 17.

The Group is under no contractual obligations to purchase, construct or develop any investment property. The majority of leases are on a full repairing basis and as such the Group is not liable for costs in respect of repairs, maintenance or enhancements to such properties.

Notes to the Accounts (continued)

8. Investment properties (continued)

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

Sector	Valuation £'000	Valuation Technique	Significant Assumption	Range*	2016 Weighted Average	Range*	2015 Weighted Average
Retail	69,175 (2015: 71,390)	All Risks Yield	Current Net Rental Income per square foot ('psf') per annum	£(4)-£122	£33	£1-£122	£32
			Estimated Net Rental Value psf per annum	£10-£122	£36	£10-£122	£33
			Net Initial Yield	(3.0)%-6.8%	4.5%	1.2%-7.6%	5.1%
			Equivalent Yield	3.9%-9.4%	5.4%	4.1%-9.4%	5.4%
Retail Warehouse	78,400 (2015: 78,800)	All Risks Yield	Current Net Rental Income psf per annum	£7-£35	£16	£7-£35	£16
			Estimated Net Rental Value psf per annum	£7-£35	£16	£7-£35	£16
			Net Initial Yield	5.0%-6.7%	5.9%	4.4%-6.6%	5.7%
			Equivalent Yield	5.0%-6.9%	5.8%	5.3%-6.9%	5.8%
Office	95,950 (2015: 97,075)	All Risks Yield	Current Net Rental Income psf per annum	£3-£71	£31	£0-£67	£25
			Estimated Net Rental Value psf per annum	£4-£78	£32	£4-£77	£31
			Net Initial Yield	3.5%-10.6%	5.9%	0%-10.7%	4.8%
			Equivalent Yield	3.8%-13.4%	5.9%	3.9%-11.5%	6.0%
Industrial	95,625 (2015: 90,225)	All Risks Yield	Current Net Rental Income psf per annum	£(1)-£10	£7	£4-£8	£6
			Estimated Net Rental Value psf per annum	£6-£10	£8	£5-£10	£8
			Net Initial Yield	(0.6)%-6.5%	4.8%	2.2%-9.4%	5.0%
			Equivalent Yield	5.1%-7.5%	5.6%	5.1%-8.5%	5.8%

* The ranges are based on averages per property and include properties which were vacant at the date of valuation. Individual tenancies within properties may fall outside these ranges.

For the majority of properties the fair value was determined by using the market comparable method. This means that valuations performed by Cushman & Wakefield are based on inputs determined from active markets, adjusted for differences in the nature, location or condition of the specific property. Most valuations are based on initial yield, although equivalent yield may also be taken into consideration. In determining the net initial yield, or capital value per square foot, the valuers may have regard to the terms of any existing lease including current rental values, lease length and covenant strength, along with assumptions regarding estimated rental values, rental growth rates, vacancy rates and void or rent free periods expected after the end of each lease.

8. Investment properties (continued)

Sensitivity analysis

The valuations of investment properties are sensitive to changes in the assumed significant unobservable inputs. A significant increase/(decrease) in estimated rental values in isolation would result in a significantly higher/(lower) fair value of the properties. A significant increase/(decrease) in the all risks yield in isolation would result in a significantly (lower)/higher fair value.

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 30 June 2016 arising from:	Retail £'000	Retail Warehouses £'000	Offices £'000	Industrial £'000	Total £'000
Increase in rental value by 5%	3,459	3,920	4,798	4,781	16,958
Decrease in rental value by 5%	(3,459)	(3,920)	(4,798)	(4,781)	(16,958)
Increase in initial yield by 0.25%	(3,654)	(3,199)	(3,909)	(4,703)	(15,465)
Decrease in initial yield by 0.25%	4,086	3,483	4,256	5,216	17,041

Estimated movement in fair value of investment properties at 30 June 2015 arising from:	Retail £'000	Retail Warehouses £'000	Offices £'000	Industrial £'000	Total £'000
Increase in rental value by 5%	3,570	3,940	4,854	4,511	16,875
Decrease in rental value by 5%	(3,570)	(3,940)	(4,854)	(4,511)	(16,875)
Increase in initial yield by 0.25%	(3,343)	(3,289)	(4,798)	(4,336)	(15,766)
Decrease in initial yield by 0.25%	3,689	3,588	5,324	4,797	17,398

9. Investment in subsidiary undertakings

The Company owns 100 per cent of the issued ordinary share capital and voting rights of the following companies: IRP Holdings Limited ('IRPH') and IPT Property Holdings Limited ('IPTH'). IRPH and IPTH are companies incorporated in Guernsey whose principal business is that of an investment and property company.

During the year and up until 28 June 2016, the Company also owned 100 per cent of the issued ordinary share capital of F&C UK Real Estate Finance Limited ('FREF'). On 28 June 2016, a special resolution was passed by the shareholders of FREF that FREF be wound up voluntarily pursuant to Section 181 of the Companies (Guernsey) Law 2008 and that Stuart Arthur Gardner and Samantha Jane Keen of Ernst & Young LLP of Royal Chambers, St. Julian's Avenue, St. Peter Port, Guernsey, GY1 4AF, having consented to act, be appointed as joint liquidators with the power to act jointly and severally for the purpose of such winding up including realising and distributing FREF's assets and any power conferred on them by law or by said resolution and any act required or authorised under any enactment to be done by them may be exercised by them jointly or by each of them alone. As at this date, FREF was no longer considered to be a subsidiary.

On 13 November 2015, IRPH repaid in full an inter-company loan to FREF of £51,747,000. During the year, interest was payable in arrears at a fixed rate of 5.5 per cent per annum on this loan (at 30 June 2015: FREF had lent £51,747,000 to IRPH. From 1 January 2015, interest was payable at 5.5 per cent per annum and prior to 1 January 2015: 7.65 per cent per annum).

On 13 November 2015, IPTH repaid in full an inter-company loan to FREF of £42,729,000. During the year, interest was payable in arrears at a fixed rate of 5.5 per cent per annum (at 30 June 2015: FREF had lent £42,729,000 to IPTH. From 1 January 2015, interest was payable at 5.5 per cent per annum and prior to 1 January 2015: 7.43 per cent per annum).

Notes to the Accounts (continued)

10. Trade and other receivables

	2016 £'000	2015 £'000
Rents receivable (net of provision for bad debts)	597	654
Other debtors and prepayments	6,417	6,207
	7,014	6,861

As at 30 June, the analysis of gross rents receivables per aged analysis is as follows:

	Total £'000	<30 days £'000	30-60 days £'000	60-90 days £'000	90-120 days £'000	>120 days £'000
2016	**614**	**593**	**4**	**–**	**5**	**12**
2015	719	570	84	–	15	50

Rents receivable, which are generally due for settlement at the relevant quarter end, are recognised and carried at the original invoice amount less an allowance for any uncollectible amounts. A provision for doubtful debts is made when the amounts are more than 3 months overdue unless there is certainty of recovery. The provision at 30 June 2016 is £17,000 which is the total amount receivable over 90 days per the above table (2015: £65,000).

Included within other debtors and prepayments is the prepayment for rent-free periods recognised over the life of the lease. At 30 June 2016 this amounted to £3,645,000 (2015: £3,724,000). The remaining balance within other debtors and prepayments consists of the reverse lease surrender premium paid on properties at Banbury, Leamington Spa, New Malden, Bracknell and St. Albans of £1,707,000 (2015: £1,892,000) and also sundry debtors.

11. Cash and cash equivalents

All cash balances were held in cash, current accounts or in banks on short term deposits with an original maturity of three months or less at the year-end.

12. Bank loan and interest rate swap liability

On 9 November 2015, the Group entered into an eleven year £90 million non-amortising term loan agreement with Canada Life Investments ("Canada Life") and a five year £20 million revolving credit facility agreement ('RCF') with Barclays Bank plc ("Barclays"). This replaced the Company's previous £115 million secured term loan agreement with Lloyds TSB Bank plc ("Lloyds") which was cancelled on entering into the new agreement. The new loan facilities were used to repay the £102 million Lloyds Loan which was drawn down and due for repayment in January 2017. There was no early repayment penalty on the Lloyds loan. The balance of the new loan facilities will be used for general working capital purposes.

	2016 £'000	2015 £'000
Lloyds loan		
Principal amount outstanding	–	102,000
Set up costs	(100)	(100)
Accumulated amortisation of set up costs	65	58
Set up costs written off	35	–
Accrued variable rate interest on bank loan	–	1,028
Total due	–	102,986

	2016 £'000	2015 £'000
Canada Life loan		
Principal amount outstanding	90,000	–
Set up costs	(1,497)	–
Accumulated amortisation of set up costs	86	–
Accrued variable rate interest on bank loan	596	–
Total due	89,185	–

	2016 £'000	2015 £'000
Barclays loan		
Principal amount outstanding	20,000	–
Set up costs	(480)	–
Accumulated amortisation of set up costs	61	–
Accrued variable rate interest on bank loan	79	–
Total due	19,660	–
Total interest-bearing bank loans	108,845	102,986

12. Bank loan and interest rate swap liability (continued)

Lloyds loan and interest rate swap repaid on 13 November 2015

Up until 13 November 2015, interest was charged on the first £12.5 million of the Lloyds loan at LIBOR plus 2.0 per cent. Interest accrued on the remainder of the bank loan at a variable rate, based on LIBOR plus a margin of 70.5 basis points and mandatory lending costs and was payable quarterly. The amount payable by the Company in respect of the variable LIBOR part of the bank loan was fixed at 5.105 per cent through an interest rate swap against £100 million of the loan. The effective rate of interest for the year ended 30 June 2015 was 5.845 per cent.

The swap (previously Level 2) was repaid on 13 November 2015 at a cost of £5,294,000. The gain on redemption of the interest rate swap of £1,485,000 was reclassified to the Consolidated Statement of Comprehensive Income in line with accounting policy 1(h).

£90 million Canada Life Loan 2026

As part of the restructuring of the Group's long-term financing, IRP Holdings Limited ("IRPH") entered into a £90 million eleven year non-amortising term loan facility agreement with Canada Life.

Canada Life provided committed funds on 9 November 2015 and IRPH drew down the loan in full on 13 November 2015. Interest is payable on this loan from the first utilisation date, quarterly in arrears, at a fixed rate of 3.36 per cent per annum. The loan is secured by means of a fixed charge over specific properties. The loan has a maturity date of 9 November 2026.

Under the financial covenants related to this loan IRPH must ensure that the fixed charge assets meet the following criteria:

- the loan to value percentage does not exceed 55 per cent;
- the projected interest cover is greater than 2.0 times on any calculation date; and
- the actual interest cover is greater than 2.3 times on any calculation date.

All the applicable Canada Life loan covenants have been complied with during the year.

The fair value of the interest-bearing Canada Life loan as at 30 June 2016, based on the yield on the Treasury 2% 2025 which would be used as the basis for calculating the early repayment of such loan plus the appropriate margin would be £100,162,000. The exercise of early repayment approximates the carrying amount of the loan. The Canada Life loan is classified as Level 2 under the hierarchy of fair value measurement.

£20 million Barclays Loan 2020

As part of the restructuring of the Group's long-term financing, IPT Property Holdings Limited ("IPTH") entered into a £20 million five year revolving credit facility ("RCF") agreement with Barclays.

Barclays provided committed funds on 9 November 2015 and IPTH drew down the loan in full on 13 November 2015. The loan facility expires on 9 November 2020 and can be drawn down or repaid at anytime. Interest accrues on the bank loan at a variable rate, based on 3 month LIBOR plus margin and mandatory lending costs, and is payable quarterly. The margin is 1.45 per cent per annum for the duration of the loan.

This bank loan is secured by way of a fixed charge over specific properties held by IPTH. Under the bank covenants related to this loan, IPTH is to ensure that at all times:

- the loan to value percentage does not exceed 60 per cent;
- the historic and projected interest cover is greater than 2.0 times; and
- the qualifying net rental income for the preceding 12 month period is greater than £2,500,000.

All the applicable Barclays loan covenants have been complied with during the year.

The fair value of the Barclays loan is not materially different to the carrying value at 30 June 2016.

13. Trade and other payables

	2016 £'000	2015 £'000
Rental income received in advance	3,925	3,682
VAT payable	778	825
Manager's fees payable	544	519
Other payables	1,625	1,886
	6,872	6,912

The Company's payment policy is to ensure settlement of supplier invoices in accordance with stated terms.

14. Share capital and reserves

	£'000
Allotted, called–up and fully paid	
233,855,539 Ordinary Shares of 1 pence each in issue at 30 June 2015	2,339
Issue of 4,850,000 Ordinary Shares of 1 pence each	48
238,705,539 Ordinary Shares of 1 pence each in issue at 30 June 2016	2,387

Ordinary shareholders have the right to vote at meetings of the Company. All Ordinary Shares carry equal voting rights.

The Company issued 4,850,000 Ordinary Shares during the year (2015: 3,000,000) for a consideration of £4,795,000 (2015: £2,638,000). The surplus of net proceeds received from the issue of new shares over the par value of such shares is £4,747,000 (2015: £2,608,000) and is credited to the special distributable reserve subsequent to its initial recognition in the share capital account.

Capital Risk Management

The objective of the Company is to provide ordinary shareholders with an attractive level of income together with the potential for income and capital growth from investing in a diversified UK commercial property portfolio. In pursuing this objective, the Board has responsibility for ensuring the Company's ability to continue as a going concern. This involves the ability to issue and buy back share capital within limits set by shareholders in a general meeting; borrow monies in the short and long term; and pay dividends out of reserves all of which are considered and approved by the Board on a regular basis. Dividends are set out in note 6 to the accounts and borrowings are set out in note 12.

The capital of the Group is managed in accordance with its investment policy, in pursuit of its investment objective, both of which are detailed in the Business Model and Strategy on page 8 and in note 1(n). To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, issue new shares, manage the Group's discount to net asset value and monitor the Group's gearing level. No changes were made to the objectives, policies or processes during the years ended 30 June 2016 or 30 June 2015.

15. Net asset value per share

The net asset value per Ordinary Share is based on net assets of £236,742,000 (2015: £226,829,000) and 238,705,539 (2015: 233,855,539) Ordinary Shares, being the number of Ordinary Shares in issue at the year-end.

Notes to the Accounts (continued)

16. Related party transactions

No Director has an interest in any transactions which are or were unusual in their nature or significant to the nature of the Group.

F&C Investment Business Limited received fees for its services as Investment Manager. Further details are provided in note 2. The total charge to the Consolidated Statement of Comprehensive Income during the year was £2,084,000 (2015: £1,974,000) of which £544,000 (2015: £519,000) remained payable at the year-end. Property management is delegated to BMO REP Property Management Limited.

The Directors of the Company received fees for their services. Further details are provided in the Remuneration Report on pages 28 and 29 and in note 3. Total fees for the year were £141,575 (2015: £125,920) of which £36,546 (2015: £34,000) remained payable at the year-end.

The Group has no ultimate controlling party.

17. Financial instruments and investment property

The Group's investment objective is to provide ordinary shareholders with an attractive level of income together with the potential for income and capital growth from investing in a diversified UK commercial property portfolio.

Consistent with that objective, the Group holds UK commercial property investments. In addition, the Group's financial instruments comprise cash, receivables, bank loans and payables.

The Group is exposed to various types of risk that are associated with financial instruments. The most important types are credit risk, liquidity risk, interest rate risk and market price risk. There was no foreign currency risk as at 30 June 2016 or 30 June 2015 as assets and liabilities are maintained in Sterling.

The Board reviews and agrees policies for managing the Group's risk exposure. These policies are summarised below and have remained unchanged for the year under review. These disclosures include, where appropriate, consideration of the Group's investment properties which, whilst not constituting financial instruments as defined by IFRS, are considered by the Board to be integral to the Group's overall risk exposure.

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.

The Group's financial assets exposed to credit risk and due within three months were:

Financial assets

	2016 Three months or less £'000	2015 Three months or less £'000
Cash	11,931	4,656
Rent receivable (net of provision for bad debts)	597	654
Other debtors	1,062	821
	13,590	6,131

In the event of default by an occupational tenant, the Group will suffer a rental shortfall and incur additional costs, including legal expenses, in maintaining, insuring and re-letting the property until it is re-let. The Board receives regular reports on concentrations of risk and any tenants in arrears. The Manager monitors such reports in order to anticipate, and minimise the impact of, defaults by occupational tenants.

17. Financial instruments and investment property (continued)

The Group has a diversified tenant portfolio. The maximum credit risk from the rent receivables of the Group at 30 June 2016 is £597,000 (2015: £654,000). The maximum credit risk is stated after deducting the bad debt provision of £17,000 (2015: £65,000).

It is the practice of the Group to provide for rental debtors greater than three months overdue unless there is certainty of recovery. At 30 June 2016 the provision was £17,000 (2015: £65,000). Of this amount £nil was subsequently written off and £5,000 has been recovered.

All of the cash is placed with financial institutions with a credit rating of A or above. Bankruptcy or insolvency may cause the Group's ability to access cash placed on deposit to be delayed or limited. Should the credit quality or the financial position of the banks currently employed significantly deteriorate, the Manager would move the cash holdings to another financial institution.

The Group can also spread counterparty risk by placing cash balances with more than one financial institution. The Directors consider the residual credit risk to be minimal.

Liquidity risk

Liquidity risk is the risk that the Group will encounter in realising assets or otherwise raising funds to meet financial commitments. The Group's investments comprise UK commercial property.

Property in which the Group invests is not traded in an organised public market and may be illiquid. As a result, the Group may not be able to liquidate quickly its investments in these properties at an amount close to their fair value in order to meet its liquidity requirements.

The Group's liquidity risk is managed on an ongoing basis by the Manager and monitored on a quarterly basis by the Board.

In certain circumstances, the terms of the Group's bank loans (detailed in note 12) entitle the lender to require early repayment, for example if covenants are breached, and in such circumstances the Group's ability to maintain dividend levels and the net asset value attributable to the Ordinary Shares could be adversely affected.

At the reporting date, the contractual maturity of the Group's liabilities was:

Financial liabilities 2016

	Three months or less £'000	Between three months and one year £'000	Between one year and five years £'000	More than five years £'000	Total £'000
Canada Life bank loan	1,318	2,165	11,547	105,655	120,685
Barclays bank loan†	20,080	–	–	–	20,080
Trade and other payables	1,625	544	–	–	2,169
	23,023	2,709	11,547	105,655	142,934

† At 30 June 2016, this loan is contractually due within three months but the Company has the right to extend the facility until the termination date.

Financial liabilities 2015

	Three months or less £'000	More than three months but less than one year £'000	Between one year and five years £'000	More than five years £'000	Total £'000
Lloyds bank loan	1,371	1,025	103,248	–	105,644
Interest rate swap	1,164	3,494	1,929	–	6,587
Trade and other payables	1,886	519	–	–	2,405
	4,421	5,038	105,177	–	114,636

Notes to the Accounts (continued)

17. Financial instruments and investment property (continued)

Interest rate risk

Some of the Group's financial instruments are interest-bearing. They are a mix of both fixed and variable rate instruments with differing maturities. As a consequence, the Group is exposed to interest rate risk due to fluctuations in the prevailing market rate.

The Group's exposure to interest rate risk relates primarily to the Group's borrowings. Interest rate risk on the £90 million Canada Life term loan is managed by fixing the interest rate on such at 3.36 per cent until maturity on 9 November 2026. Prior to 12 November 2015, the Group managed its interest rate risk using an interest rate swap, in which the Group agreed to exchange the difference between fixed and variable interest amounts, calculated by reference to an agreed upon notional principal amount. The swap was designed to fix LIBOR on £100 million of the loan at 5.105 per cent per annum. The interest rate swap covered £100 million of the loan and had the same duration.

The tables below set out the carrying amount of the Group's financial instruments that are exposed to interest rate risk.

As at 30 June 2016

	Total £'000	Fixed rate £'000	Variable rate £'000	Weighted average interest rate %
Financial assets				
Cash	11,931	–	11,931	0.01
Financial liabilities				
Barclays loan	(19,660)	–	(19,660)	2.04
Canada Life loan	(89,185)	(89,185)	–	3.36

As at 30 June 2015

	Total £'000	Fixed rate £'000	Variable rate £'000	Weighted average interest rate %
Financial assets				
Cash	4,656	–	4,656	0.34
Financial liabilities				
Lloyds loan and interest rate swap*	(109,573)	(100,000)	(9,573)	5.8

*Lloyds loan was hedged by the principal value of the swap of £100 million.

In addition, tenant deposits are held in interest-bearing bank accounts and the interest rate on these accounts was 0.2 per cent at the year end. Interest accrued on these accounts is paid to the tenant.

An increase of 0.5 per cent in interest rates as at the reporting date would have decreased net assets by £40,000 (2015: increased by £1.0 million). A decrease of 0.5 per cent would have increased net assets by £40,000 (2015: reduced by £1.0 million). These calculations are based on the variable rate asset and liability balances as at the respective balance sheet dates and are not representative of the year as a whole. These movements are calculated as at 30 June 2016 which may not be reflective of actual future conditions.

Market price risk

The Group's strategy for the management of market price risk is driven by the investment policy as outlined within the Business Model and Strategy on page 8. The management of market price risk is part of the investment management process and is typical of commercial property investment. The portfolio is managed with an awareness of the effects of adverse valuation movements through detailed and continuing analysis, with an objective of maximising overall returns to shareholders. Investments in 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. Such risk is minimised through the appointment of external property valuers. The basis of valuation of the property portfolio is set out in detail in the accounting policies and note 8.

17. Financial instruments and investment property (continued)

Any changes in market conditions will directly affect the profit/loss reported through the Consolidated Statement of Comprehensive Income. Details of the Group's investment property portfolio at the balance sheet date are disclosed on pages 16 and 17. A 10 per cent increase in the value of the investment properties held as at 30 June 2016 would have increased net assets available to shareholders and increased the net income for the year by £33.4 million (2015: £33.2 million); an equal change in the opposite direction would have decreased net assets and decreased the net income by an equivalent amount.

The calculations above are based on investment property valuations at the respective balance sheet dates and are not representative of the year as a whole, nor reflective of future market conditions.

18. Capital commitments

The Group had no capital commitments as at 30 June 2016 (2015: £nil).

19. Lease length

The Group leases out its investment properties under operating leases.

The future income based on the lessor lease length (all break options being exercised) at the year-end was as follows (based on annual rentals):

	2016 £'000	2015 £'000
Less than one year	19,043	17,828
Between one and five years	58,267	55,394
Over five years	63,346	68,424
Total	140,656	141,646

The largest single tenant at the year end accounted for £1.3 million and 6.6 per cent of the current annual rental income (2015: £1.3 million and 6.6 per cent of current annual rental income).

The unoccupied property expressed as a percentage of estimated total rental value was 4.2 per cent at the year-end (2015: 3.3 per cent).

The Group has entered into commercial property leases on its investment property portfolio as a lessor. These properties, held under operating leases, are measured under the fair value model as the properties are held to earn rentals. The majority of these non-cancellable leases have remaining non-cancellable lease terms of between 5 and 15 years.

Analyses of the nature of investment properties and leases are provided in the Manager's Review on pages 14 and 15.

20. Operating segments

The Board has considered the requirements of IFRS 8 'Operating Segments'. The Board is 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, and that therefore the Group has only a single operating segment. The Board of Directors, as a whole, has been identified as constituting the chief operating decision maker of the Group. The key measure of performance used by the Board to assess the Group's performance is the total return of the Group's net asset value, as calculated under IFRS, and therefore no reconciliation is required between the measure of profit or loss used by the Board and that contained in the consolidated financial statements.

21. Subsequent events

There are no material subsequent events that need to be disclosed.

AIFM Disclosures

Alternative Investment Fund Managers ('AIFM') Directive
In accordance with the AIFM Directive, information in relation to the Company's leverage and the remuneration of the Company's AIFM, F&C Investment Business Limited, is required to be made available to investors.

The Company's maximum and average actual leverage levels at 30 June 2016 are shown below:

Leverage exposure	Gross method	Commitment method
Maximum limit	400%	400%
Actual	141%	146%

For the purposes of the AIFM Directive, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a percentage of the Company's exposure to its net asset value and is calculated on both a gross and commitment method.

Under the gross method, exposure represents the sum of the Company's positions after deduction of cash balances, without taking account of any hedging or netting arrangements. Under the commitment method, exposure is calculated without the deduction of cash balances and after certain hedging and netting positions are offset against each other.

The leverage limits are set by the AIFM and approved by the Board and are in line with the maximum leverage levels permitted in the Company's Articles of Incorporation. The AIFM is also required to comply with the gearing parameters set by the Board in relation to borrowings.

Detailed regulatory disclosures including those on the AIFM's remuneration policy and costs are available on the Company's website or from F&C on request.

An Investor Disclosure Document for the Company is available on the Company's website: www.fcre.co.uk

Notice of Annual General Meeting

Notice is hereby given that the twelfth Annual General Meeting of F&C UK Real Estate Investments Limited will be held at the offices of BMO Global Asset Management, Exchange House, Primrose Street, London EC2A 2NY on 30 November 2016 at 12 noon for the following purposes.

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

1. That the Annual Report and Consolidated Accounts for the year ended 30 June 2016 be received and approved.

2. That the Directors' Annual Report on Remuneration be approved.

3. That Mr V Lall, who retires annually, be re-elected as a Director.

4. That Mr A Gulliford, who retires annually, be re-elected as a Director.

5. That Mr D Ross, who retires annually, be re-elected as a Director.

6. That Mr M Carpenter, who retires annually, be re-elected as a Director.

7. That Ms A Henderson be elected as a Director.

8. That PricewaterhouseCoopers CI LLP, be appointed as Auditor until the conclusion of the next Annual General Meeting.

9. That the Directors be authorised to determine the Auditor's Remuneration.

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

10. That the Directors of the Company be and are hereby generally empowered to allot ordinary shares in the Company or grant rights to subscribe for, or to convert securities into, ordinary shares in the Company ("equity securities") for cash, including by way of a sale of ordinary shares held by the Company as treasury shares, as if any pre-emption rights in relation to the issue of shares set out in the Listing Rules made by the Financial Conduct Authority under part VI of the Financial Services and Markets Act 2000 (as amended) did not apply to any such allotment of equity securities, provided that this power:

    (a) expires at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on the expiry of 15 months from the passing of this resolution, whichever is the earlier, save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired; and

    (b) shall be limited to the allotment of equity securities up to an aggregate nominal value of £238,705 being 10 per cent of the issued share capital of the Company, as at 27 September 2016.

11. That the Company be authorised, in accordance with section 315 of the Companies (Guernsey) Law, 2008 (the 'Law'), to make market purchases (within the meaning of section 316 of the Law) of Ordinary Shares of 1p each ("Ordinary Shares") (either for retention as treasury shares or cancellation) provided that:

    (a) the maximum number of Ordinary Shares hereby authorised to be purchased shall be 14.99 per cent of the issued Ordinary Shares on the date on which this resolution is passed;

    (b) the minimum price which may be paid for an Ordinary Share shall be 1p;

    (c) the maximum price (exclusive of expenses) which may be paid for an Ordinary Share shall be the higher of (i) 105 per cent of the average of the middle market quotations (as derived from the Daily Official List) for the Ordinary Shares for the five business days immediately preceding the date of purchase and (ii) the higher of the last independent trade and the highest current independent bid on the trading venue which the purchase is carried out; and

    (d) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on 31 December 2017 or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2017, save that the Company may, prior to such expiry, enter into a contract to purchase Ordinary Shares under such authority and may make a purchase of Ordinary Shares pursuant to any such contract.

12. That, the Articles of Incorporation presented at the meeting and initialled by the Chairman of the meeting for the purpose of identification be adopted as the articles of incorporation of the Company in substitution for, and to the exclusion of, the existing articles of incorporation.

By order of the Board
Northern Trust International Fund Administration Services (Guernsey) Limited
Secretary
PO Box 255, Trafalgar Court, Les Banques
St. Peter Port, Guernsey GY1 3QL

27 September 2016

Notes:

1. A member who is entitled to attend, speak and vote at the Meeting is entitled to appoint one or more proxies to attend, speak and vote instead of him or her. More than one proxy may be appointed provided each proxy is appointed to exercise the rights attached to different shares. A proxy need not be a member of the Company.

2. 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 Computershare Investor Services (Guernsey) Limited, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY not later than 12 noon on 28 November 2016.

3. The completion and return of the form of proxy will not preclude you from attending the Meeting. If you have appointed a proxy and attend the Meeting in person your proxy appointment will remain valid and you may not vote at the Meeting in person unless you have provided a hard copy notice clearly stating your intention to revoke you proxy appointment to Computershare Investor Services (Guernsey) Limited, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY not later than 12 noon on 28 November 2016. In the case of a member which is an individual, the revocation notice must be under the hand of the appointer or of his attorney duly authorised in writing or in the case of a member which is a company, the revocation notice must be executed under its common seal or under the hand of an officer of the company or an attorney duly authorised. Any power of attorney or any other authority under which the revocation notice is signed (or a notarially certified copy of such power or authority under which the revocation notice is signed) must be included with the revocation notice.

4. To have the right to attend and vote at the Meeting (and also for the purposes of calculating how many votes a member may cast on a poll) a member must first have his or her name entered on the register of members not later than 12 noon on 28 November 2016. 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.

5. A copy of the existing and the proposed new Articles of Incorporation marked to show the changes will be available during normal business hours (Saturdays, Sundays and public holiday excepted) at the offices of BMO Global Asset Management, Exchange House, Primrose Street, London EC2A 2NY up to and including close of business on 30 November 2016 and at the venue of the Annual General Meeting for at least 15 minutes prior to the start of the meeting and up to the close of the meeting. The Directors' letters of appointment will also be available for inspection for fifteen minutes prior to the Annual General Meeting and during the meeting held.

6. As at 27 September 2016, the latest practicable date prior to publication of this document, the Company had 238,705,539 Ordinary Shares in issue with a total of 238,705,539 voting rights.

7. Any person holding three per cent of the total voting rights in the Company who appoints a person other than the Chairman as his proxy will need to ensure that both he and such third party complies with their respective disclosure obligations under the Disclosure and Transparency Rules.

Glossary of Terms

Corporate Terms

AAF – Audit and Assurance Faculty guidance issued by the Institute of Chartered Accountants in England and Wales.

AIC – Association of Investment Companies. This is the trade body for Closed-end Investment Companies (www.theaic.co.uk).

AIFMD – Alternative Investment Fund Managers Directive. Issued by the European Parliament in 2012 and 2013, the Directive required that all investment vehicles in the European Union, including Closed-end Investment Companies, must have appointed a Depositary and an Alternative Investment Fund Manager before 22 July 2014. The Board of Directors of a Closed-end Investment Company, nevertheless, remains fully responsible for all aspects of the company's strategy, operations and compliance with regulations.

Benchmark – This is a measure against which an Investment Company's performance is compared. The Company does not have a formal Benchmark but does report its performance against the Investment Property Databank ('IPD') Quarterly Universe, which is used to determine whether a performance fee is payable to the Manager (see note 2 to the Accounts.)

Closed-end Investment Company – A company with a fixed issued ordinary share capital which is traded on an exchange at a price not necessarily related to the Net Asset Value of the company and where shares can only be issued or bought back by the company in certain circumstances. This contrasts with an open-ended investment company, which has units not traded on an exchange but issued or bought back from investors at a price directly related to the Net Asset Value.

Depositary – Under AIFMD rules applying from July 2014, the Company must appoint a Depositary, whose duties in respect of investments, cash and similar assets include: safekeeping; verification of ownership and valuation; and cash monitoring. Under AIFMD regulations, the Depositary has strict liability for the loss of the Company's financial assets in respect of which it has safekeeping duties. The Depositary's oversight duties include, but are not limited to, oversight of share buy backs, dividend payments and adherence to investment limits. The Company's Depositary is JP Morgan Europe Limited.

Discount (or Premium) – If the share price of an Investment Company is less than its Net Asset Value per share, the shares are trading at a discount. If the share price is greater than the Net Asset Value per share, the shares are trading at a premium.

Dividend – The income from an investment. The Company currently pays dividends to shareholders quarterly.

GAAP – Generally Accepted Accounting Practice. This includes UK GAAP and International GAAP (IFRS or International Financial Reporting Standards applicable in the European Union). The Company's financial statements are prepared in accordance with IFRS as adopted by the EU.

Gearing – Unlike open-ended investment companies, Closed-end Investment Companies have the ability to borrow to invest. This term is used to describe the level of borrowings that an Investment Company has undertaken. The higher the level of borrowings, the higher the gearing ratio.

Leverage – As defined under AIFMD rules, leverage is any method by which the exposure of an AIF is increased through borrowing of cash or securities or leverage embedded in derivative positions. Leverage is broadly equivalent to Gearing, but is expressed as a ratio between the assets (excluding borrowings) and the net assets (after taking account of borrowing). Under the gross method, exposure represents the sum of the Company's positions after deduction of cash balances, without taking account of any hedging or netting arrangements. Under the commitment method, exposure is calculated without the deduction of cash balances and after certain hedging and netting positions are offset against each other.

Manager – The Company's investment manager is F&C Investment Business Limited, and its property manager is BMO REP Property Management Limited. Further details are set out on page 11 and in note 2 to the accounts.

Market Capitalisation – The stock market value of a company as determined by multiplying the number of shares in issue, excluding those shares held in treasury, by the market price of the shares.

Net Assets (or Shareholders' Funds) – This is calculated as the value of the investments and other assets of an Investment Company, plus cash and debtors, less borrowings and any other creditors. It represents the underlying value of an Investment Company at a point in time.

Net Asset Value ('NAV') per Ordinary Share – This is calculated as the net assets of an Investment Company divided by the number of shares in issue, excluding those shares held in treasury.

Ongoing Charges – All operating costs incurred by the Company, expressed as a proportion of its average Net Assets over the reporting year. The costs of buying and selling investments and derivatives are excluded, as are interest costs, taxation, non-recurring costs and the costs of buying back or issuing Ordinary Shares.

Ordinary Shares – The main type of equity capital issued by conventional Investment Companies. Shareholders are entitled to their share of both income, in the form of dividends paid by the Investment Company, and any capital growth. As at 30 June 2016 the Company had only Ordinary Shares in issue.

Share Price – The value of a share at a point in time as quoted on a stock exchange. The Company's Ordinary Shares are quoted on the Main Market of the London Stock Exchange.

SORP – Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" issued by the AIC.

Total Assets – This is calculated as the value of the investments and other assets of an Investment Company, plus cash and debtors.

Total Return – The return to shareholders calculated on a per share basis by adding dividends paid in the period to the increase or decrease in the Share Price or NAV. The dividends are assumed to have been reinvested in the form of Ordinary Shares or Net Assets.

Property Terms

Break Option – A clause in a Lease which provides the landlord or tenant with an ability to terminate the Lease before its contractual expiry date.

Covenant Strength – This refers to the quality of a tenant's financial status and its ability to perform the covenants in the Lease.

Equivalent Yield – The internal rate of return of the cash flow from the property, assuming a rise to ERV at the next review, but with no further rental growth.

Estimated Rental Value ('ERV') – The estimated annual market rental value of a property as determined by the Company's External Valuer. This will normally be different from the actual rent being paid.

External Valuer – An independent external valuer of a property. The Company's External Valuer is Cushman & Wakefield and detailed information regarding the valuation of the Company's properties is included in note 8 to the accounts.

Fixed and Minimum Uplift Rents – Rents subject to fixed uplifts at an agreed level on agreed dates stipulated within the Lease, or rents subject to contracted minimum uplifts at specified review dates.

Lease – A legally binding contract between a landlord and a tenant which sets out the basis on which the tenant is permitted to occupy a property, including the Lease length.

Lease Incentive – A payment used to encourage a tenant to take on a new Lease, for example by a landlord paying a tenant a sum of money to contribute to the cost of a tenant's fit-out of a property or by allowing a rent free period.

Lease Re-gear – This term is used to describe the renegotiation of a Lease during the term and is often linked to another Lease event, for example a Break Option or Rent Review.

Lease Renewal – The renegotiation of a Lease with the existing Tenant at its contractual expiry.

Lease Surrender – An agreement whereby the landlord and tenant bring a Lease to an end other than by contractual expiry or the exercise of a Break Option. This will frequently involve the negotiation of a surrender premium by one party to the other.

Net Income – The net income from a property after deducting ground rent and non-recoverable expenditure.

Net Initial Yield – The initial Net Income from a property at the date of purchase, expressed as a percentage of the gross purchase price including the costs of purchase.

Non-property Income Distribution – An ordinary dividend paid to a shareholder of the Company.

Property Income Distribution (PID) – A dividend paid to a shareholder of the Company in respect of profits and gains of the Tax Exempt Business of the UK resident members of the Group or in respect of the profits or gains of a non-UK resident member of the Group insofar as they derive from its UK qualifying property rental business.

Rent Review – A periodic review of rent during the term of a Lease, as provided for within a Lease agreement.

Reversion – Increase in rent estimated by the Company's External Valuer, where the passing rent is below the ERV. The increases to rent arise on rent reviews and lettings.

Tenant's Improvements – This term is used to describe a wide range of works that are usually carried out by a tenant, at its own cost, and usually require the landlord's prior approval.

Voids – The amount of rent relating to properties which are unoccupied and generating no rental income. Stated as a percentage of ERV.

Shareholder Information

Dividends

Ordinary dividends are paid quarterly in March, June, September and December each year. Shareholders who wish to have dividends paid directly into a bank account rather than by cheque to their registered address can complete a mandate form for the purpose. Mandates may be obtained from Computershare Investor Services (Guernsey) Limited, c/o Queensway House, Hilgrove Street, St. Helier, Jersey JE1 1ES on request. Where dividends are paid directly to shareholders' bank accounts, dividend tax vouchers are sent directly to shareholders' registered addresses.

Share Price

The Company's ordinary shares are listed on the London Stock Exchange. Prices are given daily in the *Financial Times* under "Investment Companies" and in other newspapers.

Change of Address

Communications with shareholders are mailed to the address held on the share register. In the event of a change of address or other amendment this should be notified to Computershare Investor Services (Guernsey) Limited, c/o Queensway House, Hilgrove Street, St. Helier, Jersey JE1 1ES under the signature of the registered holder.

Shareholder Enquiries

Contact Northern Trust International Fund Administration Services (Guernsey) Limited, Trafalgar Court, Les Banques, St. Peter Port, Guernsey GY1 3QL. Additional information regarding the Company may also be found at its website addresses which are:

www.fcre.co.uk
www.fcre.gg

Historical Record

	Total assets less current liabilities £'000	Shareholders' funds £'000	Net asset value per ordinary share p	Ordinary share price p	Premium/ (discount) %	Earnings/ (loss) per ordinary share p	Dividends paid per ordinary share p	Ongoing charges* %
1 June 2004 (launch)	176,814	106,152	96.0	100.0	4.2	–	–	–
30 June 2005	202,007	124,478	112.6	124.5	10.6	26.2	5.615	1.8
30 June 2006	231,118	157,136	142.2	142.5	0.2	33.1	6.750	1.7
30 June 2007	236,703	176,377	159.6	125.5	(21.4)	18.8	6.876	1.5
30 June 2008	191,773	133,657	121.0	75.0	(38.0)	(30.4)	7.210	1.5
30 June 2009	146,844	80,535	72.9	57.5	(21.1)	(33.4)	7.20	1.9
30 June 2010	162,095	94,328	85.4	84.3	(1.3)	23.6	7.20	1.8
30 June 2011	158,217	91,485	82.8	90.0	8.7	3.3	7.20	1.7
30 June 2012	158,433	84,185	76.2	66.0	(13.4)	2.9	7.20	2.0
30 June 2013†	272,001	149,115	71.7	72.5	1.1	1.2	7.20	2.0
30 June 2014	307,275	192,569	83.4	84.0	0.7	14.4	5.00	1.4
30 June 2015	331,744	226,829	97.0	99.5	2.6	17.5	5.00	1.4
30 June 2016	345,587	236,742	99.2	88.5	(10.8)	7.2	5.00	1.3

*as a percentage of average net assets (excluding direct property expenses).

† post the merger with ISIS Property Trust.

Warning to shareholders – Beware of Share Fraud

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment.

If you are approached by fraudsters please tell the Financial Conduct Authority ('FCA') by using the share fraud reporting form at **www.fca.org.uk/scams** where you can find out more about investment scams. You can also call the FCA Consumer Helpline on **0800 111 6768**. If you have already paid money to share fraudsters you should contact Action Fraud on **0300 123 2040**.

Corporate Information

Directors (all non-executive)
Vikram Lall (Chairman)‡
Andrew Gulliford§
Mark Carpenter
David Ross†
Alexa Henderson*

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

Secretary
Northern Trust International Fund Administration Services (Guernsey) Limited
PO Box 255
Trafalgar Court
Les Banques
St. Peter Port
Guernsey GY1 3QL
Tel: 01481 745001

Alternative Investment Fund Manager ('AIFM') and Investment Manager
F&C Investment Business Limited
80 George Street
Edinburgh EH2 3BU
Tel: 0207 628 8000

Property Manager
BMO REP Property Management Limited
5 Wigmore Street
London W1U 1PB

Property Valuers
Cushman & Wakefield
48 Warwick Street
London W1B 5NL

‡ Chairman of the Nomination Committee
§ Chairman of the Property Valuation Committee
† Chairman of the Management Engagement Committee
* Chairman of the Audit Committee

Auditor
Ernst & Young LLP
Royal Chambers
St Julian's Avenue
St. Peter Port
Guernsey GY1 4AF

Guernsey Legal Advisers
Mourant Ozannes
1 Le Marchant Street
St. Peter Port
Guernsey GY1 4HP

UK Corporate Legal Advisers
Dickson Minto
Broadgate Tower
20 Primrose Street
London EC2A 2EW

Bankers
Barclays Bank plc
1 Churchill Place
Canary Wharf
London E14 5HP

Corporate Brokers
Cenkos Securities plc
6.7.8 Tokenhouse Yard
London EC2R 7AS

Depositary
JPMorgan Europe Limited
25 Bank Street
Canary Wharf
London E14 5JP

Website:
www.fcre.co.uk
www.fcre.gg

aic
The Association of Investment Companies

London Stock Exchange
LISTED
PREMIUM

F&C UK Real Estate Investments Limited

Annual Report and Accounts 2016

Registered Office
PO Box 255
Trafalgar Court
Les Banques
St. Peter Port
Guernsey GY1 3QL
Tel: 01481 745001

Registrars
Computershare Investor Services (Guernsey) Limited
c/o Queensway House
Hilgrove Street
St. Helier
Jersey
Channel Islands JE1 1ES

FCRE/Ann/16