

# F&C UK Real Estate Investments Limited

2017 Annual Report and Consolidated Accounts



# Contents

## OVERVIEW

Company Summary	1
Financial Highlights 2017	2
Performance Summary	3

## STRATEGIC REPORT

Chairman's Statement	5
Business Model and Strategy	8
Key Performance Indicators	10
Viability Assessment and Statement	11
Manager's Review	12
Property Portfolio	17

## GOVERNANCE REPORT

Board of Directors	20
Report of the Directors	21
Corporate Governance Statement	24
Report of the Audit Committee	26
Directors' Remuneration Report	28
Directors' Responsibilities	30

## AUDITOR'S REPORT

Independent Auditor's Report	32
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## FINANCIAL REPORT

Consolidated Statement of Comprehensive Income	38
Consolidated Balance Sheet	39
Consolidated Statement of Changes in Equity	40
Consolidated Statement of Cash Flows	41
Notes to the Accounts	42

## NOTICE OF MEETING

Notice of Annual General Meeting	64
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## OTHER INFORMATION

Shareholder Information	66
Historical Record	67
Alternative Performance Measures	68
Glossary of Terms	69
How to Invest	72
Corporate Information	73

## Financial Calendar 2017/2018

Annual General Meeting	22 November 2017
Payment of first interim dividend	December 2017
Announcement of interim results	February 2018
Posting of Interim Report	February 2018
Payment of second interim dividend	March 2018
Payment of third interim dividend	June 2018
Announcement of annual results	September 2018
Posting of Annual Report	September 2018
Payment of fourth interim dividend	September 2018

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.

Front Cover Photo: Southampton International Park, Eastleigh

# Company Summary

## The Company

F&C UK Real Estate Investments Limited ('the Company') is an authorised closed-ended Guernsey-registered investment company. 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 2017 total assets less current liabilities were £346.3 million and shareholders' funds were £240.8 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 F&C Asset Management plc group ('F&C') 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.

F&C is wholly owned by Bank of Montreal ('BMO') and is part of the BMO Global Asset Management group of companies.

## 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, (as amended), 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.

## Alternative Performance Measures ('APM')

The Company uses a number of alternative performance measures in the discussion of its business performance and financial position. Further information is provided on page 68.

## ISA

The Company's shares are eligible for Individual Savings Accounts ('ISAs'). Further information is provided on page 72.

## Website

The Company's internet address is: [fcree.co.uk](http://fcree.co.uk) and [fcree.gg](http://fcree.gg)



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# Financial Highlights 2017

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26.8%

**Share price total return\***

Share price total return of 26.8 per cent for the year

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6.6%

**Portfolio total return\***

Portfolio ungeared total return of 6.6 per cent for the year

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6.1%

**NAV total return\***

NAV total return of 6.1 per cent for the year

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4.7%

**Dividend yield\***

Dividend of 5.0 pence per share for the year, giving a yield of 4.7 per cent on the year-end share price

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94.4%

**Dividend cover\***

Dividend cover increased to 94.4 per cent for the year

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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.

\* See Alternative Performance Measures on page 68

# Performance Summary

	Year ended 30 June 2017	Year ended 30 June 2016	Cumulative since launch on 1 June 2004
<b>Total Returns*</b>			
Net asset value per share	+6.1%	+7.5%	+148.3%
Ordinary share price	+26.8%	-6.5%	+180.9%
Portfolio ungeared return	+6.6%	+7.1%	+163.1%
MSCI Investment Property Databank ('IPD') All Quarterly and Monthly Valued Fund Benchmark	+5.6%	+9.1%	+139.9%
FTSE All-Share Index	+18.1%	+2.2%	+188.2%

	Year ended 30 June 2017	Year ended 30 June 2016	% Change
<b>Capital Values</b>			
Total assets less current liabilities (£000's)	346,255	346,419	0.0%
Net asset value per share	100.1p	99.2p	+0.9%
Ordinary share price	106.8p	88.5p	+20.7%
Investment Property Databank UK Quarterly Index	120.2	119.2	+0.8%
FTSE All-Share Index	4,002.2	3,515.5	+13.8%
Ordinary share price premium/(discount) to net asset value per share*	6.7%	(10.8)%	
Net gearing*	28.3%	30.4%	

	Year ended 30 June 2017	Year ended 30 June 2016
<b>Earnings and Dividends</b>		
Earnings per ordinary share	5.9p	7.2p
Dividends paid per ordinary share	5.0p	5.0p
Dividend yield*	4.7%	5.6%
<b>Ongoing Charges</b>		
As a percentage of average net assets*	1.7%	1.7%
As a percentage of average net assets (excluding direct property expenses)*	1.3%	1.3%

\* See Alternative Performance Measures on page 68.  
Sources: F&C Investment Business, MSCI Investment Property Databank ('IPD') and Thomson Reuters Eikon.

“The Board believes that the existing portfolio remains well placed to continue to deliver on the Company objective”



Maxi Centre, Theale

	Highs 2017	Lows 2017
Year's Highs/Lows		
Net asset value per share	100.1p	95.8p
Ordinary share price	109.0p	77.0p
Premium/(discount)*	10.9%	(22.4)%

\* See Alternative Performance Measures on page 68.

# Chairman's Statement

Vikram Lall Chairman



The Group's net asset value ('NAV') total return\* for the year was 6.1 per cent with a NAV per share as at 30 June 2017 of 100.1 pence, up from 99.2 pence per share at the prior year-end.

The share price total return\* for the year was 26.8 per cent with the shares trading at 106.8 pence per share at the year-end, a premium\* of 6.7 per cent to the NAV. The increase in the share price for the year can primarily be explained by the fact that the share price at the previous year-end was trading at a 10.8 per cent discount, reflecting the initial fall experienced following the result of the EU referendum on 23 June 2016. Despite the move to a discount, the strength of the closed-ended sector was demonstrated as many open-ended funds were forced into short term selling of property to finance redemptions. In many cases, this was followed by the suspension of redemptions until the market stabilised. The share price rebounded relatively quickly following the initial shock and has been trading at a gradually increasing premium over the year.

## Property Market and Portfolio

The UK commercial market delivered a total return of 5.6 per cent as measured by the MSCI Investment Property Databank ('IPD') UK Quarterly Index for all assets in the year to 30 June 2017. The first quarter of the year witnessed a price correction following the EU Referendum result, however, the subsequent three quarters saw a re-balancing and by the year-end, capital values had recorded a modest 0.9 per cent annual growth. Performance was driven by strength in investment demand for industrial property and alternative assets such as student accommodation, healthcare and self-storage, coupled with overseas buying of London property. All the standard segments of the IPD Index delivered positive benchmark total returns for the year.

In the year to 30 June 2017, All Property performance was driven by a 4.7 per cent income return. Open market rental value growth was 1.9 per cent for the year, led by industrials, but the structural weakness of regional retail persisted with rental growth for this sector negative. After a fall in investment volumes around the time of the EU

Referendum, activity has seen some recovery, driven by overseas buyers and local authorities.

The Group's property portfolio produced an ungeared return\* of 6.6 per cent over the year to June, outperforming the IPD Quarterly Index. Performance was driven primarily by an above market income return of 5.9 per cent. Unsurprisingly given the positive sentiment for the Industrial sector over the year, the portfolio's industrial and distribution assets, being exclusively located within the South East, were again the key contributors to performance, producing a total return comfortably in excess of both the IPD UK Quarterly Index and the market average in the sector for the period. Encouragingly, the portfolio's retail assets also outperformed their peers, though at a lower overall level of return. The portfolio's office assets offered poorer performance over the period and although the Central London assets performed broadly in line with their peers, they contributed negatively at the portfolio level.

The portfolio offers an above market income yield, a predominantly fully let portfolio with a void rate of 5.6 per cent and contractual income with an average weighted lease term of approximately 7 years. As demonstrated by the present portfolio composition, the overall strategy is to retain an overweight position to Industrial and Warehouse property.

The Company continues its cautious approach to the deployment of capital, with the primary focus having been on the disposal of non core and secondary assets at a time of low yields and discernible structural change in certain retail submarkets. Nevertheless, a number of buying opportunities are currently being actively considered with the Company's favourable cash position allowing for a planned and cautious approach to acquisitions.

## Borrowings and Refinancing

The Group currently has in place a secured £90 million non-amortising term loan facility with Canada Life Investments, repayable in November 2026 and a £20 million 5-year revolving credit facility agreement with Barclays Bank plc, £16 million of which was drawn down at the year-end. This facility is available until November 2020.

The Group's gearing\* level, net of cash, represented 28.3 per cent of investment properties at 30 June 2017. The weighted average interest rate (including amortisation of refinancing costs) on the Group's total current borrowings was 3.2 per cent. The Company continues to maintain a prudent attitude to gearing.

The Group had £16.6 million of cash available and an undrawn facility of £4 million at 30 June 2017.

"The portfolio offers an above market income yield, a predominantly fully let portfolio with a void rate of 5.6 per cent and contractual income with an average weighted lease term of approximately 7 years"

### Dividends and Dividend Cover

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 29 September 2017. This gives a total dividend for the year ended 30 June 2017 of 5.0 pence per share, a yield\* of 4.7 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.

The level of dividend cover\* for the year was 94.4 per cent, compared to 91.7 per cent for the previous year. The improvement in the level of cover can primarily be attributed to a reduction in the finance costs following the refinancing exercise in November 2015.

### Share Issues

The Group has experienced continued market demand for its shares and issued 2 million Ordinary Shares early in 2017 at a premium to the published net asset value at the time of each issuance, raising proceeds of £2.0 million. There continues to be demand for the shares, however, the Company currently has a significant amount of cash and further share issuances will only be made if it is considered to be in the interest of shareholders.

At the year-end, there were 240,705,539 Ordinary Shares in issue.

### Responsible Property Investment

The Company has taken measures to strengthen its approach to responsible property investment. An outline of the main actions is included in the Manager's Review.

### Outlook

The outlook continues to be dominated by Brexit, with considerable uncertainty still remaining about the likely outcome of negotiations and the nature of the exit process. The UK general election occurred towards the end of the reporting period and, although the property market appears to have been little affected at the headline level, the result has added to the uncertainty, particularly surrounding business investment. Economic growth has disappointed recently and the extent to which fiscal austerity will be pursued is also unclear. Monetary policy was eased further in the wake of the Brexit vote but the timing and extent of policy normalisation will be a factor affecting the property market outlook.

In an environment of relatively lower growth and increased economic and political uncertainty, property's income return should prove an attractive defensive characteristic to investors. The Board believes that the existing portfolio remains well placed to continue to deliver on the Company objective.

### Vikram Lal

Chairman

20 September 2017



\* See Alternative Performance Measures on page 68

### Forward-looking statements

This document may contain forward-looking statements with respect to the financial condition, results of operations and business of the Company. Such statements involve risk and uncertainty because they relate to future events and circumstances that could cause actual results to differ materially from those expressed or implied by forward-looking statements. The forward-looking statements are based on the Directors' current view and on information known to them at the date of this document. Nothing should be construed as a profit forecast.





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# Business Model and Strategy

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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, gearing, 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.

The Board has contractually delegated the management of the investment portfolio and other services to the Manager. A summary of the terms of the management agreement is contained in note 2 to the accounts.

## 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 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 £106 million drawn down as at 30 June 2017 and are described in more detail in note 13 to the accounts. The gearing level, net of cash, as at 30 June 2017 was 28.3 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 2017 is contained within the Manager's Review on pages 12 to 16 and a full portfolio listing is provided on page 17.

## Responsible Property Investment Strategy

The Property Manager acquires, develops and manages properties on behalf of the Company. It is recognised that Environmental, Social and Governance (ESG) factors are relevant at each stage of this property investment management process. The Company and its Property Manager has a fiduciary obligation to make sure that these are attended to properly, in order that relevant risks are managed appropriately and that shareholder returns are optimised.

The Property Manager works in partnership with contractors, tenants and consultants to minimise negative impacts, manage risks, capture value enhancement and environmental improvement opportunities, and deliver positive societal benefits. Further detail is provided within the Manager's Review on pages 15 and 16.

## Shareholder Value

The Board and the Manager recognise the importance of both marketing and share buy backs in increasing demand for the Company's shares. Share buy backs can help reduce the volatility of any discount of the share price to the net asset value per share and enhance the net asset value per share for continuing shareholders. In terms of marketing, the Manager offers a range of private investor savings schemes, details of which can be found on page 72. In

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



addition, meetings are held regularly with current and prospective shareholders and stockbroking analysts covering the investment company sector. Communication of quarterly portfolio information is made through the Company's website.

### 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 18 also provides detailed explanations of the risks associated with the Company's financial instruments.

- **Market** – the Group's assets comprise 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 other third party service providers through error, fraud, cyber attack or business continuity failure could lead to an inability to provide accurate reporting and monitoring, leading to a loss of shareholders' confidence.
- **Environmental** – inadequate attendance to environmental factors by the Manager, including those of a regulatory and market nature and particularly those relating to energy performance, flood risk and environmental liabilities, leading to the reputational damage of the Company, reduced liquidity in the portfolio, and/or negative asset value impacts.



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.

The Manager seeks to mitigate these risks through active asset management initiatives and carrying out due diligence work on potential tenants before entering into any new lease agreements. All of the properties in the portfolio are insured.

### Principal Risks encountered during the year

#### • Valuation Accuracy

There was concern over the accuracy of property valuations following the Brexit vote. A caveat on the accuracy of the valuations was included in the June 2016 external valuations and whilst this was subsequently removed for future valuations, a degree of uncertainty still exists.

#### • Discount/Premium to Net Asset Value

The share price went through a period of instability and fell significantly to a discount of 22 per cent following the Brexit vote. The share price recovered reasonably quickly and has subsequently settled at a small premium.

# Key Performance Indicators

The Board assesses its performance in meeting the Company's objective against the following key measures. Commentary can be found in the Chairman's Statement and Manager's Review. The Company is engaging with its shareholders and other key stakeholders to establish appropriate KPIs for the RPI performance of its portfolio and investment activities.

Total return* performance					
	1 year %	3 years %	5 years %	10 years %	
F&C UK Real Estate Investments ordinary share price	26.8	48.1	124.0	89.0	This measures the Company's share price and NAV total return, which assumes dividends paid by the Company have been reinvested, relative to the market benchmark.
F&C UK Real Estate Investments net asset value (NAV)	6.1	40.1	80.4	29.0	
F&C UK Real Estate Investments portfolio total return	6.6	33.2	59.5	61.6	
MSCI Investment Property Databank ('IPD') All Quarterly and Monthly Valued Fund Benchmark	5.6	33.4	63.1	50.3	
FTSE All-Share Index	18.1	23.9	65.2	68.5	

Income return (Compound annual growth rate)					
	1 year %	3 years %	5 years %	10 years %	
F&C UK Real Estate Investments portfolio income return*	5.9	5.7	6.2	6.5	The income derived from a property during the period as a percentage of the property value, taking account of direct property expenditure.
MSCI Investment Property Databank ('IPD') All Quarterly and Monthly Valued Fund Benchmark	4.7	4.8	5.1	5.5	

Share price premium/(discount) to NAV per share						
As at:	30 June 2017 %	30 June 2016 %	30 June 2015 %	30 June 2014 %	30 June 2013 %	
Premium/(discount)*	6.7	(10.8)	2.6	0.7	1.1	This is the difference between the share price and the NAV per share. It can be an indicator of the need for shares to be bought back or, in the event of a premium to NAV per share, issued.

Expenses						
Year to:	30 June 2017 %	30 June 2016 %	30 June 2015 %	30 June 2014 %	30 June 2013 %	
Ongoing charges as a percentage of average net assets*	1.7	1.7	1.9	2.1	2.6	This data shows whether the Company is being run efficiently. It measures the running costs as a percentage of the average net assets.
Ongoing charges as a percentage of average net assets (excluding direct property expenses)*	1.3	1.3	1.4	1.4	2.0	This data shows whether the Company is being run efficiently. It measures the running costs (excluding direct property expenses) as a percentage of the average net assets.

\* See Alternative Performance Measures on page 68.

Sources: F&C Investment Business, MSCI IPD and Thomson Reuters Eikon.



# Viability Assessment and Statement

The 2016 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 6.6 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 2022, 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 worst case scenario of an equivalent fall in capital and income values over the next two years, followed by three years of zero growth. The model demonstrated that even under these extreme circumstances the Company remains viable.

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 2022. For this reason, the Board also considers it appropriate to continue adopting the going concern basis in preparing the Report and Accounts, as disclosed in the Report of the Directors on page 22.

Southampton International Park, Eastleigh



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# 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. 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 c.25 years of industry experience each. BMO Real Estate Partners undertakes fund and asset management services as well as, where appropriate, the day-to-day property management, complemented by a project management team and full accounting and service charge teams.

On 8 March 2017, BMO Global Asset Management announced the acquisition by F&C Asset Management plc of the 30% minority interest in BMO Real Estate Partners LLP ('BMO REP'). As part of the transaction a small portion of BMO REP's business was demerged. This portion of the business was responsible for the management of UK value add assets for certain family trusts and investment joint ventures in which these trusts are invested. With effect from August 2017, it transferred to a new family office. In the UK, BMO REP retain their specialist sector team focus and post the demerger managed £5.1 billion of real estate assets employing 114 staff. There was no change to the Fund Manager resource or the asset management teams dedicated to the Company.

## Highlights over the year

- Share price total return\* of 26.8 per cent for the year
- Annual dividend yield\* of 4.7 per cent driven by a top quartile portfolio income return (IPD Quarterly Index) of 5.9 per cent
- Consistent outperformance of the IPD Quarterly Index by the property portfolio, leading to 90bps of outperformance over the year, driven by the portfolio's high weighting to South East Industrials
- Successful progression of the property sales programme, disposing of three more non-core retail assets

\* See Alternative Performance Measures on page 68.

## Property Market

The UK commercial property market delivered a total return of 5.6 per cent in the year to June 2017, as measured by the MSCI Investment Property Databank ("IPD") all Quarterly and Monthly Funds Index for all-property. Performance was driven by an annual income return of 4.7 per cent, with capital values rising by 0.9 per cent.

The first months of the review period witnessed a fall in capital values as the market absorbed the shock of the EU referendum result. Property has since seen a re-balancing with capital value growth returning to recover the ground lost during the early months of the financial year. The income return was largely unaffected during this period.

The UK economy has continued to see growth, although the pace slackened in the second half of the period. Inflation has moved higher, in part reflecting the depreciation of sterling in the aftermath of the vote. Monetary policy was eased in August 2016 in response to the referendum result, with the bank rate reduced to 0.25 per cent. Gilt yields finished the reporting year higher than at the start, but with ten-year yields at 1.28 per cent, they remain at very low levels by historic standards. The Brexit decision has dominated the political sphere over the past year, with Article 50 invoked in March 2017 and negotiations commencing in June 2017. The Government called a snap election in June which failed to produce an overall majority and has widened the debate not just on Brexit but on fiscal policy and the UK's austerity programme generally.



High Street, Guildford

but this was primarily in the first half of the reporting period. The open-ended retail funds struggled with liquidity issues in the immediate aftermath of the vote, but all have since re-opened and modest net inflows resumed towards the end of the reporting period. The year to June 2017 saw £52 billion invested in property versus £59 billion in the previous year. Investment in offices and town centre retail assets was lower but the year saw growth in investment in industrials and logistics, and alternative assets. The banks have remained cautious in their new lending to property, both for standing investments and development.

The year saw considerable equity invested in the market, but investors were generally cautious and favouring long-term secure income. There was some yield compression evident, particularly in the industrial market and some specialist markets such as healthcare and leisure, but shopping centres and retail parks, especially at the secondary end, fell from favour, with yields softening.

Total return performance by segment saw some changes following the Brexit vote. Industrials and distribution property was seen as being relatively immune from Brexit and beneficiaries of both technological change and a structural change in retailing. As a result, they pulled further ahead of offices and retail to deliver a total return of 12.0 per cent. Offices delivered a 3.4 per cent return. The gap between London offices and the regions narrowed, with Rest of UK offices overtaking the City on an annual basis in terms of total returns. For retail, total returns were 3.3 per cent. As in previous years, a strong Central London shops market boosted the South East numbers but standard retail elsewhere under-performed the all-property average and shopping centres and retail warehousing were particularly weak.

Open market rental growth was 1.9 per cent at the all-property level, representing a deceleration from the pace seen in the previous reporting period. At the market level, although retail property and regional offices recorded some moderation in rental growth, the main factor was a sharp deterioration in rental growth for Central London offices, although it did remain positive. In contrast, industrials saw



Eastern Road, Bracknell

Property investment activity suffered during the immediate aftermath of the vote but has since recovered, helped by strong investment flows from overseas and also by purchases from local authorities taking advantage of low borrowing costs. Although there were some price reductions, most notably from the open ended vehicles that attempted to satisfy redemptions, these were on the whole fairly minor and available for only a brief window. Most deals proceeded and there was no flight of capital from the UK. Institutions were net sellers of property,



some improvement in rental growth year on year and were the major driver behind rental growth performance.

Gross income growth for the year to June 2017 was 2.7 per cent, with offices and alternatives performing well but all the main sectors seeing positive growth. This compares with 3.0 per cent in the previous year.

The property market appears to have stabilised following the referendum result but considerable uncertainty remains and both investors and occupiers are cautious. The yield premium against gilts remains attractive and an all-property annual income return of 4.7 per cent may look appealing when compared against other assets.

### Portfolio

The Company's property portfolio produced an ungeared total return\* of 6.6 per cent over the year to June 2017 versus the IPD Quarterly index of 5.6 per cent. This outperformance was driven primarily by an income return\* of 5.9 per cent, which was an improvement on 2016, and some way above the income return derived from the IPD Quarterly Index of 4.7 per cent. Capital growth was marginally below that of the Quarterly Index at 0.6 per cent. Portfolio turnover and thereby the burden of associated transaction costs were low, as were non recoverable costs linked to property voids, which is key in a relatively low returns environment. Over the three years to June 2017 the portfolio has delivered an ungeared total return\* of 10.0 per cent per annum.

At 30 June 2017 the value of the portfolio was £335.4 million. No assets were acquired over the year apart from some additional car parking space at Lochside Way, Edinburgh Park. This reflects 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 of an appropriate quality to satisfy the Company objective. On the other hand a sales programme has been undertaken to dispose of the secondary and non-core holdings to take advantage of investor appetite. A majority of these assets have been from the high street retail sector with a further three assets sold over the year at net premium to valuation.

At the sector level the portfolio's industrial and distribution warehouse assets continued their run of outperformance, producing a total return\* of 16.5 per cent, in excess of both the IPD Quarterly Index and the sector average for the period. This is the fourth year in a row that industrial holdings have led the portfolio's returns, being primarily located in the core South East where limited supply and good levels of demand have driven performance. The portfolio's Retail sector outperformed its peer group over the year but Offices again underperformed, despite a generous yield advantage, on account of below market capital growth.

Unsurprisingly the majority of the best performing assets were in the industrial and logistics sector, driven by a combination of both capital and income growth. Some of the addresses are familiar from last year, Lakeside Road, Colnbrook; Hemel Gateway, Hemel Hempstead and the two assets in Eastleigh, Hampshire all featuring in the top 5 performing assets. Chippenham Drive, Milton Keynes was the best performing asset over the year by weighted contribution following the refurbishment in 2016 that came in below budget, and the successful



onward letting at, what was then, a new benchmark level of rent for refurbished stock in the locality. Following the expiration of the tenant's rent free incentive the property is now income producing and offers a meaningful contribution to the dividend.

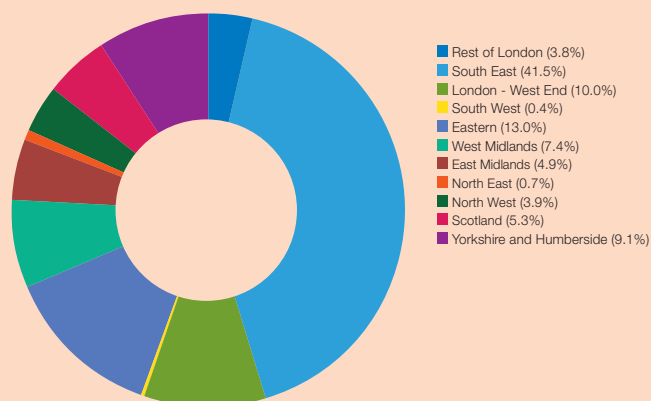
The portfolio's overweight position to retail warehousing acted as a brake on performance over the year, despite the sector experiencing an improvement in sentiment towards the end of the period as investors saw relative value against an earlier pick up in pricing elsewhere. Pleasingly the portfolio's assets within this sub-sector outperformed their peers over the year, a position mirrored by the portfolio's South East retail holdings.

Challenges remain, in particular within the underperforming Offices sector. Despite a substantial yield advantage, negative capital growth associated with shorter unexpired lease terms, and risks associated with near term capital expenditure has weighed more heavily on some of the Company's assets than for the market as a whole. While this has led to poorer performance over recent quarters, this should provide a more sustainable base from which to approach lease events and asset management projects in order to enhance value. As an example of the work being undertaken in this regard since the period end, the lease on the office property at 15 London Road, Redhill has been re-gearred to the Department for Work & Pensions to extend the term for a further five years at no capital cost. This has de-risked the asset in the short term and extended the income due without interruption.

Following on from a sustained period of outperformance the portfolio's London assets at 24 Haymarket and 14 Berkeley Street, in Central London, are now performing below the overall quarterly return for the IPD Index, and therefore somewhat below the overall portfolio return. The lower yielding nature of the assets was supported by rental growth in the period to mid-2016 but this has since moderated somewhat. Both assets are multi-let, mixed use properties which offer underlying reversion in the rents particularly on the retail element. Given the point in the London capital cycle, the key to their success moving forward will be the ability to capture this improvement in rents receivable

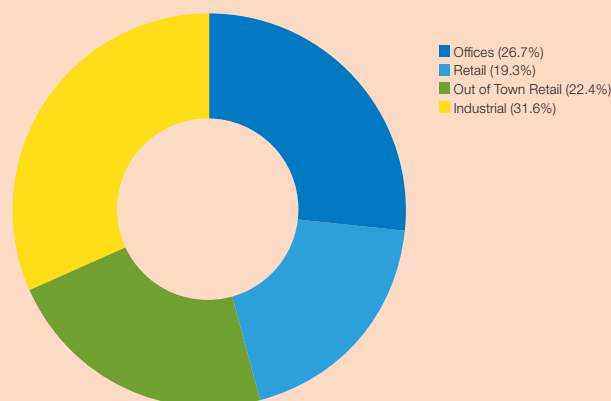


**Geographical Analysis**  
as at 30 June 2017



Source: BMO Rep Property Management Limited

**Sector Analysis**  
as at 30 June 2017



through either active management (Berkeley Street) or the rent review mechanism (24 Haymarket). The portfolio retains a relatively low weighting to central London of less than 10 per cent of assets.

Despite the volatility in capital values triggered by the vote to leave the European Union and the corresponding market uncertainty created by well publicised redemptions from the open ended funds, the story remains very much about income, with real estate's contractually backed rental income set to be the key driver of returns moving forward. The portfolio's above market yield, low void rate of 5.6 per cent and weighted unexpired lease term of c.7 years, secured primarily to low risk corporate tenants are all good defensive characteristics, and leave the portfolio well placed to deliver on the Company objective. The portfolio offers a relatively high exposure to Industrial and Logistics property at over 30 per cent of total assets and to the wider South East (60 per cent of assets by value), sectors and geographies supported by robust supply side characteristics backed by strong tenant demand.

Considerable weight of money has been targeting the sector over the last 6 months, initially from opportunistic buyers in the wake of Brexit and followed by yield driven investors, UK Institutions and Overseas buyers, particularly for central London trophy assets. The market remains very competitive which has had the effect of driving yields to historic lows. Against this backdrop the Manager has been particularly selective in identifying new acquisition targets at sustainable pricing. The cash position and the flexibility afforded by the revolving debt facility provides a good footing from which to approach the market. Since the period end the Company has agreed terms to purchase a freehold, single let distribution unit located in the South East for a sum of c.£10 million at a yield of c.5.2 per cent.

The more immediate priority has been to continue the success of last year's planned sales programme (three small sales were completed over the previous period raising £3.5 million) to address the more secondary and non-core tail of legacy assets, selling into what has been a market relatively receptive to risk. A further three assets, all from the high street retail sub-sector, have been sold

over the year to June 2017, realising £7.5 million in net proceeds at a premium to valuation.

### Borrowings

The Company refinanced in 2015 to secure a new £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 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.

The Company continues to adopt a prudent approach to borrowing, with net gearing\* of 28.3 per cent at 30 June 2017.

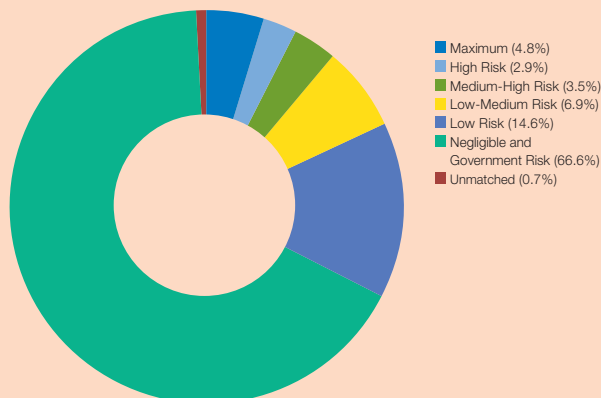
### Responsible Property Investment Update

The principles of Responsible Property Investment (RPI), through which environmental, social and governance (ESG) factors are integrated into investment processes and asset ownership activities, have continued to gain significant traction and momentum in the UK property market. In particular, the emergence of new regulations which target the energy performance of existing buildings, together with the ratification and coming into force of the Paris Agreement on Climate Change during 2016, have been key stimulants of investor engagement on the topic. Increasingly, investment decision-making is influenced by these factors, in terms of capital allocation strategies and commercial property transactions.

The Company has taken measures to strengthen its approach to RPI during 2016 and 2017, most notably through the actions of its Managers, which have included:

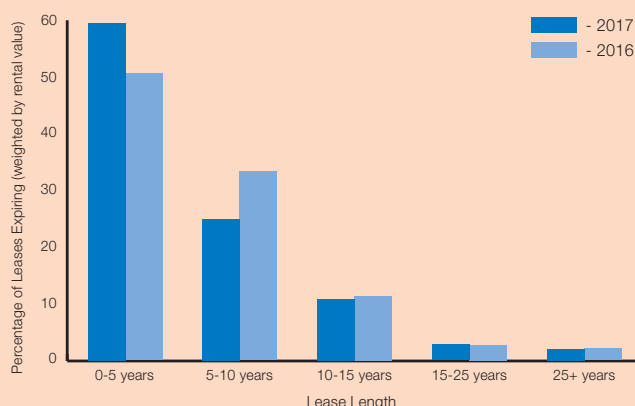
- Formalising an ESG Committee with representation from across its investment management teams, with the purpose of leading on, monitoring and overseeing the Property Managers' approach to RPI.

### Covenant Strength as at 30 June 2017



Source: IRIS Report, MSCI Inc

### Lease Expiry Profile as at 30 June 2017



As at 30 June 2017 the weighted average lease length for the portfolio, assuming all break options are exercised, was 6.6 years (2016: 7.2 years).

Source: BMO Rep Property Management Limited

- Establishing a new RPI Strategy for its corporate and investment activities, which is reflective of strengthening market expectations with respect to ESG factors, and which has the mutual goals of: ensuring portfolio resilience; driving environmental improvements; and engaging with our stakeholders.
- Putting in place comprehensive RPI requirements for asset and property managers to ensure continued attendance to ESG factors across the property investment lifecycle.
- Introducing Responsible Property Management Guidelines to support property managers in identifying and capturing opportunities for improving the ESG performance and attributes of assets, covering factors such as energy efficiency, water conservation, health and well-being, waste management and procurement.
- Implementing a system for the classification of all assets under management according to their energy performance risk and energy consumption characteristics, which the Company is using as a basis for prioritising actions and determining the frequency of its comprehensive ESG monitoring activities at the property level.
- Installing a market-leading RPI Appraisal system, which is now applied to all acquisitions made by the Company. We are also in the process of applying the Appraisal system to all assets under management, a process which will be completed by Q4 2017.
- Preparing Guidelines for Sustainable Development & Refurbishment which is to be applied to all significant capital projects undertaken on the portfolio.
- Delivering training to its fund, investment, asset and property management teams to ensure that they are cognisant of the evolving RPI agenda, aware of the expectations which the Company places upon them in relation to ESG factors, and knowledgeable about what needs to be done to implement the new RPI Strategy.
- In carrying out the above, the Property Managers appointed a specialist RPI consulting and training firm, Hillbreak, which will

continue to support and advise by taking an independent role on the Property Managers' ESG Committee.

The Company and its Property Managers will remain vigilant of the evolving nature of the RPI agenda and will continue to develop its approach to ESG factors so that it remains on track to realising its RPI goals, whilst ensuring that these remain relevant.

### Outlook

The Manager believes that the property portfolio is appropriately placed to deliver solid performance over the coming years led by a defendable top quartile (IPD Quarterly Index) income return. The intention is to continue to dispose of the smaller, and non-core assets, whilst looking for new investment opportunities which will complement the existing portfolio composition. We will remain selective in our acquisition strategy given that a significant weight of money continues to compete for quality commercial property assets.

Brexit will inevitably be a major factor influencing investors for several years. There remains considerable uncertainty about the outcome of negotiations, the timetable for withdrawal and the impact on the economy. The consensus economic outlook is for sustained but fairly modest economic growth and some moderation in inflation. In this environment, we would expect investors to continue to favour core products and prioritise the longevity of a secure income stream. The other major uncertainty is the likely path of interest rates. Sentiment is moving towards a likely upward move, although the timing and speed of change is unclear. The scope for further yield compression to drive performance may be limited, and we would expect income to be the major driver of performance over the coming years.

### Peter Lowe

BMO REP Property Management Limited

20 September 2017

\* See Alternative Performance Measures on page 68.

# Property Portfolio

	Sector
<b>Properties valued in excess of £10.0 million</b>	
London W1, 14 Berkeley Street	Offices
Banbury, 3663 Unit, Echo Park	Industrial
Colnbrook, Units 1-8 Lakeside Road	Industrial
Eastleigh, Southampton International Park	Industrial
Hemel Hempstead, Hemel Gateway	Industrial
York, Clifton Moor Gate *	Retail Warehouse
Rotherham, Northfields Retail Park	Retail Warehouse
Leamington Spa, 30-40 The Parade & 47/59a Warwick Street	Retail
Bracknell, 1-2 Network Bracknell, Eastern Road	Industrial
<b>Properties valued between £7.5 million and £10.0 million</b>	
Edinburgh, 1-2 Lochside Way, Edinburgh Park	Offices
Andover, Keens House, Anton Mill Road	Offices
New Malden, 7 Beverley Way	Retail Warehouse
Chelmsford, County House, County Square	Offices
Theale, Maxi Centre, Brunel Road	Industrial
Eastleigh, Wide Lane	Industrial
Milton Keynes, Site E Chippenham Drive	Industrial
Bromsgrove, Brook Retail Park, Sherwood Road	Retail Warehouse
Luton, Enterprise Way	Retail Warehouse
Bury, Halls Mill Retail Park, Foundry Street	Retail Warehouse
High Wycombe, Glory Park	Offices
Winchester, 7-8 High St. & 50 Colebrook Street	Retail
London, 24 Haymarket & 1-2 Panton Street*	Retail
<b>Properties valued between £5.0 million and £7.5 million</b>	
Northallerton, Willowbeck Road	Retail Warehouse
Guildford, 51-53 High Street	Retail
St Albans, 16, 18 & 20 Upper Marlborough Road	Offices
Nottingham, Standard Hill	Offices
Nelson, Churchill Way	Retail Warehouse
<b>Properties valued under £5.0 million</b>	
Bellshill, Mercury House, Strathclyde Business Park	Offices
Brookwood, The Clock Tower	Offices
Newbury, The Triangle, Pinchington Lane	Retail Warehouse
Sunningdale, 53/79 Chobham Road, Berkshire	Retail
Nottingham, 21/22 Long Row East and 2/6 King Street	Retail
Kingston upon Thames, 11 Church Street	Retail
Rayleigh, 41/47 & 55/55A High Street	Retail
Nottingham, Park View House	Offices
Nottingham, 25-27 Bridlesmith Gate	Retail
Edinburgh, 100A Princes Street	Retail
Redhill, 15 London Road	Offices
Sutton Coldfield, 63-67 The Parade	Retail
Birmingham, 155a/163, High Street, Kings Heath	Retail
Rayleigh, 81/87 High Street	Retail
Gateshead, Sands Road	Retail Warehouse
Swindon, 18/19 Regent Street	Retail
* Leasehold Property	



High Street, Winchester









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# Board of Directors

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**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. 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.



**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, Bravura Solutions Limited and JPMorgan Japan Smaller Companies Trust plc.

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\* Member of the Audit Committee

† Member of the Management Engagement Committee

‡ Member of the Nomination Committee

# Report of the Directors

The Directors present their report and accounts of the Group for the year ended 30 June 2017.

## 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 2017 as follows:

	Payment date	Rate per share
Fourth interim for prior year	30 September 2016	1.25p
First interim	30 December 2016	1.25p
Second interim	31 March 2017	1.25p
Third interim	30 June 2017	1.25p

A fourth interim dividend of 1.25p will be paid on 29 September 2017 to shareholders on the register on 8 September 2017.

## Dividend policy

As a result of the timing of the payment of the Company's quarterly dividends in March, June, September and December, the Company's shareholders are unable to approve a final dividend each year. As an alternative the Board therefore proposes to put the Company's dividend policy to shareholders for approval on an annual basis. Resolution 4, which is an ordinary resolution, relates to the approval of the Company's dividend policy which is as follows: Dividends on the Ordinary Shares are payable quarterly at the end of March, June, September and December.

**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.

The principal activities of the Company's subsidiaries are included in note 9 to the accounts.

## Voluntary Liquidation of F&C UK Real Estate Finance 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.

The completion meeting of the liquidation was held on 29 June 2017.

## Directors

Biographical details of the Directors, all of whom are non-executive can be found on page 20.

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, Mr Carpenter and Ms Henderson will retire at the Annual General Meeting and, being eligible, will offer themselves for re-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 in relation to 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.

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. Amongst other things, the letter includes confirmation that the Directors have a sufficient understanding of the Company and the sector in which it operates and sufficient time available to discharge their duties effectively taking into account their other commitments. Those letters are available for inspection upon request at the Company's registered office.

## Management

The Board has appointed F&C Investment Business Limited (referred to throughout this document as 'FCIB' or 'the Investment Manager') as the Company's investment managers and BMO REP Property Management Limited (referred to throughout this document as 'BMO REP' or 'the Property Manager') as the Company's property managers. FCIB and BMO REP are both part of the F&C Asset Management plc group ('F&C') and, collectively, are referred to in this

document as 'the Manager'. FCIB was appointed as the Company's AIFM on 18 July 2014.

F&C Investment Business Limited provides investment management services to the Group. Details of the agreement between the Group and the Manager 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 Company's 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 2017 there were 240,705,539 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 2017 the Company had received notification of the following holdings of voting rights (under the Financial Conduct Authority's Disclosure Guidance and Transparency Rules):

	Number of Ordinary Shares Held	Percentage Held†
Aviva	20,006,793	8.3
Blackrock	12,077,092	5.0
Schroders	11,335,586	4.7
Brewin Dolphin Limited	10,402,636	4.3
Mattioli Woods	7,255,461	3.0

† Based on 240,705,539 Ordinary Shares in issue as at 30 June 2017.

Between 30 June 2017 and 20 September 2017, Mattioli Woods increased its holdings in the Company to 8,137,559 representing 3.4 per cent of voting rights.

There have been no other changes notified to the Company in respect of the above holdings, and no new holdings notified 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 reviewed detailed cash flow, income and expense projections in order to assess the Company's ability to pay its operational expenses, bank interest and dividends. The Directors have examined significant areas of possible financial risk including cash and cash requirements and the debt covenants, in particular those relating to loan to value and interest cover. The Directors have not identified any material uncertainties which cast significant doubt on the Company's ability to continue as a going concern for a period of not less than 12 months from the date of the approval of the financial statements. The Board believes it is appropriate to adopt the going concern basis in preparing the financial statements. The Company's longer term viability is considered in the Viability Assessment and Statement on page 11.

#### Annual General Meeting

The Notice of the Annual General Meeting, to be held on 22 November 2017 is set out on pages 64 and 65.

#### Directors' Authority to Allot Shares

The Company issued 2,000,000 Ordinary Shares during the year. The aggregate net proceeds were £1.985 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 12 therefore, gives the Directors, for the period until the conclusion of the Annual General Meeting in 2018 or, if earlier, on the expiry of 15 months from the passing of Resolution 12, 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 £481,411. This is equivalent to 20 per cent of the issued Ordinary Share capital of the Company as at 20 September 2017. 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. 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 13, 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 2018 and the Annual General Meeting in 2018. 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.

### 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 each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### Auditor

PricewaterhouseCoopers CI LLP have expressed their willingness to continue in office as the Company's auditor and a resolution proposing their re-appointment will be submitted at the Annual General Meeting.

### Individual Savings Accounts ('ISAs')

The Company's shares are qualifying investments as defined by HM Revenue & Customs' regulations for ISAs. It is the current intention of the Directors that the Company will continue to conduct its affairs to satisfy this requirement.

### 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, the Annual Report and Consolidated Accounts are fair, balanced and understandable and provide 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.

### Recommendation

The Directors consider that the passing of each of the resolutions to be proposed at the Annual General Meeting is in the best interests of the Company and its shareholders as a whole and they unanimously recommend that all shareholders vote in favour of these resolutions.

### On behalf of the Board

V Lall  
Chairman

20 September 2017

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# Corporate Governance Statement

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The Company is obliged to comply with the UK Corporate Governance Code ('the Code') issued by the Financial Reporting Council in April 2016, 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 July 2016 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](http://www.theaic.co.uk). The UK Corporate Governance Code is available on the Financial Reporting Council's website, [www.frc.org.uk](http://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 2017. 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 2018.

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](http://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 2017. 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
Number of meetings	4	4	3	1	1
A Gulliford <sup>(1)</sup>	4	4	n/a	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	4	4	3	1	1

In addition to the scheduled meetings detailed above, there were a further 16 Board Meetings and 2 Board Committee meetings held during the year.

<sup>(1)</sup> A Gulliford is not a member of the Audit Committee.

### 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 is chaired by Mr David Ross and comprises the full Board.

The committee reviews the appropriateness of the Manager's continuing appointment together with the terms and conditions thereof on a regular basis. It 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.

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 22 November 2017 is set out on pages 64 and 65. 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

20 September 2017



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# Report of the Audit Committee

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## Role of the 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 is chaired by Ms Henderson. 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, PricewaterhouseCoopers CI LLP ("PwC"). This was PwC's first year as the Company's auditor.

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 course of its duties, the Committee had direct access to PwC 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 PwC, their remuneration and terms of engagement;
- the policy on the engagement of PwC to supply non-audit services;
- the implications of proposed new accounting standards and regulatory changes;
- the receipt of Report on Internal Controls in accordance with AAF (01/06) for the period 1 November 2015 to 31 October 2016 from the Manager; and
- whether the Annual Report is fair, balanced and understandable.

## External audit process

As part of its review of the scope and results of the audit, during the year the Audit Committee considered and approved PwC's plan for the audit of the financial statements for the year ended 30 June 2017. At the conclusion of the audit, PwC 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. PwC issued an unqualified audit report which is included on pages 32 to 37.

## Non-audit services

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. PwC did not receive any non-audit fees for the year ended 30 June 2017.

## Auditor assessment, independence and appointment

The Audit Committee reviews the re-appointment of the auditor every year. As part of the review of auditor independence and effectiveness, PwC have confirmed that they are independent of the Group and have complied with relevant auditing standards. In evaluating PwC, 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 PwC in respect of the year end Annual Report and Consolidated Accounts. The Committee remains satisfied that PwC provide effective independent challenge in carrying out its responsibilities. On the basis of this assessment, the Audit Committee has recommended the re-appointment of PwC to the Board. PwC's performance will continue to be reviewed annually taking into account all relevant guidance and best practice.

## Internal Controls and Risk Management

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. From this, the Board identified the Company's principal risks and 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.

The Board also monitors the investment performance of the Company against its stated objective and comparable companies. The Board also review the Company'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 the guidelines. In addition, the Board receives quarterly reports from the Company Secretary in respect of compliance matters and duties performed on behalf of the Company.

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 year 1 November 2015 to 31 October 2016 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. 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.

These 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.

The Board has reviewed the need for an internal audit function. It has decided that the systems and procedures employed by the Manager and the Company Secretary, including their internal audit functions and the work carried out by the Company's external auditor, provide sufficient assurance that a sound system of internal control, which safeguards the Company's assets, is maintained. An internal audit function specific to the Company is therefore considered unnecessary.

A Henderson  
Chairman of the Audit Committee

20 September 2017

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

Matter	Action
<b>Valuation and ownership of the Investment Property Portfolio</b> The Group's property portfolio accounted for 93.8 per cent of its total assets as at 30 June 2017. 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 PwC on this matter. PwC also attended the year end meeting with the independent valuers.
<b>Loan Arrangements</b> The Group has a £110 million loan facility: £90 million with Canada Life and £20 million with Barclays Bank of which £106 million was drawn down at 30 June 2017. 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.
<b>Income Recognition</b> 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

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 2017, are shown below. No major decisions or substantial changes relating to Directors' remuneration were made during the year.

## Directors' Remuneration Policy

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 Directors' responsibilities and skills, 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.

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 and be subject to re-election at the Annual General Meeting. There is no notice period and no provision for compensation upon early termination of appointment.

The Board has not received any direct communications from the Company's shareholders in respect of the levels of Directors' remuneration.

## Future Policy Report

An increase in remuneration of 7.3 per cent has been agreed, which reflects the fact that Directors' remuneration has remained unchanged since 2014 and is well below what is paid elsewhere in the immediate peer group. This increase is effective for the 2018 financial year.

	2018 £	2017 <sup>†</sup> £
A Gulliford	29,500	27,500
V Lall	35,000	32,500
D Ross	29,500	27,500
M Carpenter	29,500	27,500
A Henderson	30,500	28,500
Total	154,000	143,500

<sup>†</sup> Actual Directors' remuneration for the year ended 30 June 2017.

## Voting at Annual General Meeting

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



## 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:

	Fees (audited)	
	2017 £	2016 £
Q Spicer <sup>(1)</sup>	–	13,071
A Gulliford	27,500	27,500
V Lall <sup>(2)</sup>	32,500	30,902
D Ross	27,500	27,500
M Carpenter	27,500	27,500
A Henderson <sup>(3)</sup>	28,500	15,102
<b>Total</b>	<b>143,500</b>	<b>141,575</b>

<sup>(1)</sup> Retired from the Board on 25 November 2015.

<sup>(2)</sup> Appointed as Chairman on 25 November 2015.

<sup>(3)</sup> 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:

	2017 £	2016 £	Change %
Aggregate Directors' Remuneration	143,500	141,575	+1.4
Management fee and other expenses*	3,979,000	3,967,000	+0.3
Aggregate Shareholder Distributions	11,986,000	11,867,000	+1.0

\* 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:

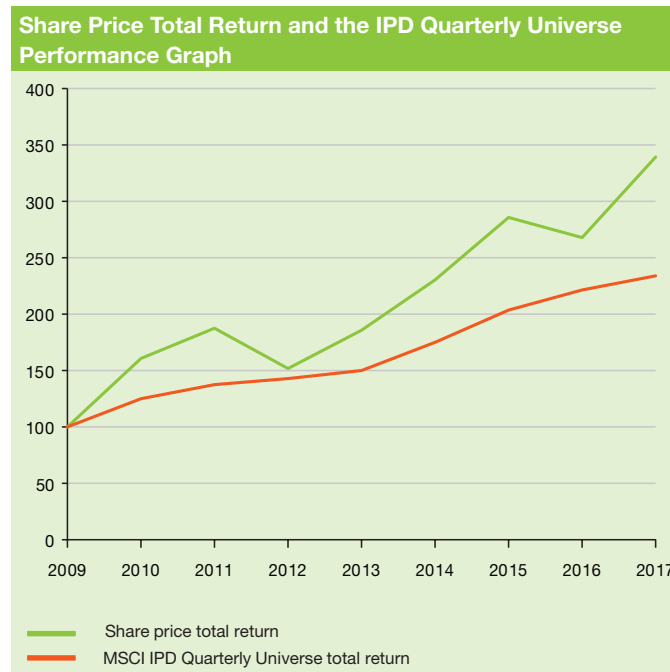
	2017 Ordinary Shares	2016 Ordinary Shares
A Gulliford	75,000	75,000
V Lall	143,765	143,765
D Ross	120,000	120,000
M Carpenter	20,000	20,000
A Henderson <sup>(1)</sup>	–	–

<sup>(1)</sup> Appointed to the Board on 21 December 2015.

Between 30 June 2017 and 20 September 2017 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 pages 21 and 22. The graph below compares, for the eight financial years ended 30 June 2017, the total return (assuming all dividends are reinvested) to ordinary shareholders compared with the total return on a notional investment from the MSCI 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 2017 is given in the Chairman's Statement and Manager's Review.



### Voting at Annual General Meeting

At the Company's last Annual General Meeting, held on 30 November 2016, shareholders approved the Directors' Remuneration Report in respect of the year ended 30 June 2016. 99.3 per cent of votes were in favour of the resolution and 0.7 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

20 September 2017

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# Directors' Responsibilities

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## 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 (as amended). 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 Guidance 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 (as amended); and
- the Strategic Report (including the Chairman's Statement, Business Model and Strategy, Key Performance Indicators, Viability Assessment and Statement, Manager's Review and Property Portfolio) includes 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; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy; and
- the financial statements and Directors' Report include details of related party transactions.

On behalf of the Board

V Lall  
Chairman

20 September 2017







# Independent Auditor's Report

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

### Report on the audit of the consolidated financial statements

#### Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of F&C UK Real Estate Investments Limited (the "Company") and its subsidiaries (together "the Group") as at 30 June 2017, and of their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and have been properly prepared in accordance with the requirements of The Companies (Guernsey) Law, 2008.

#### What we have audited

The Group's consolidated financial statements comprise:

- the consolidated balance sheet as at 30 June 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.


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

#### Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

#### Our audit approach

##### Overview

	<b>Materiality</b> <ul style="list-style-type: none"><li>• Overall group materiality was £3.5 million which represents 1% of group total assets.</li></ul>
	<b>Audit scope</b> <ul style="list-style-type: none"><li>• We conducted our audit of the financial statements from information provided by BMO REP Property Management Limited ("the property manager") to whom the board of directors has delegated the provision of certain functions.</li><li>• We also had significant interaction with BMO Global Asset Management ("the manager") in completing certain aspects of the audit work.</li><li>• We carried out our audit work in Guernsey and London. We tailored the scope of our audit taking into account the types of investments within the Group, the accounting processes and controls and the industry in which the Group operates in.</li></ul>
	<b>Key audit matters</b> <ul style="list-style-type: none"><li>• Valuation of Investment Properties</li><li>• Risk of fraud in Revenue Recognition</li></ul>

### Audit scope

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Our understanding of the controls environment was informed by our review of the controls report available on the property manager and inquiries made of management, however our approach remained predominantly substantive in nature.

The group is based in Guernsey and the financial statements are a consolidation of the parent company and two subsidiaries which hold investments in property in the UK. Our group scoping was based on total assets, consistent with our approach to materiality and resulted in a full audit of the complete financial statements of each subsidiary

We engaged the internal PwC Real Estate team to review the valuation of investment properties as internal experts. Their findings are documented in the Key Audit Matter *Valuation of Investment Properties* below.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	£3.5 million
How we determined it	1% of Total Assets
Rationale for the materiality benchmark applied	<p>We believe that total assets is the primary measure used by the shareholders in assessing the performance of the Group.</p> <p>We did not apply a separate specific materiality to the statement of comprehensive income. Our overall materiality was of a level sufficient to address the risk of material misstatement in the statement of comprehensive income.</p>

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £175,000, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
<p><b>Valuation of Investment Properties</b></p> <p>The Group's Investment Properties comprise retail, office and industrial portfolios and, at £330.8 million, represent the majority of the assets as at 30 June 2017. Please see Note 8 to the financial statements.</p> <p>The valuation of the Group's property portfolio is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rental income for that particular property.</p> <p>The existence of significant estimation uncertainty, coupled with the fact that only a small percentage difference in an individual property valuation assumptions, when aggregated, could result in a material misstatement, is why we have given specific audit focus and attention to this area.</p> <p>The valuations of the Group's property portfolio were carried out by the third party valuer Cushman and Wakefield (the "Valuer"). The Valuer was engaged by the Group, and performed its work in accordance with the Global RICS Valuation – Professional Standards January 2014 and the RICS UK valuation standards, appendices and guidance notes December 2014. The Valuer used by the Group is a well-known chartered surveyor, with experience in the markets in which the Group operates.</p> <p>In determining a property's valuation, the Valuer takes into account property specific current information such as the current tenancy agreements and rental income earned by the property. They then apply assumptions in relation to capitalisation rates and current market rent and growth, based on available market data and transactions, to arrive at a range of valuation outcomes, from which they derive a point estimate. Due to the unique nature of each property, the assumptions applied take into consideration the individual property characteristics at a tenant level, as well as the qualities of the property as a whole. Comparable market information is available for the Group's properties. The Group has adopted the assessed values determined by the Valuers.</p>	<p><b>Objectivity and experience of the Valuer</b></p> <p>We assessed the Valuer's qualifications and expertise and read their terms of engagement with the Group to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations upon their work. We found no evidence to suggest that the objectivity of the Valuer in their performance of the valuations was compromised.</p> <p><b>External valuations</b></p> <p>We attended the initial valuation meeting between the Valuer and the Investment Manager to observe the process and initial discussions covering key developments in the property portfolio. Furthermore, we analysed movements between the draft and final valuation figures to determine where there was evidence of undue influence on the Valuer's conclusions for each property. No evidence of management bias was identified.</p> <p>We read the valuation reports for all properties and discussed the reports with the Valuer. We confirmed that the valuation approach for each property was in accordance with professional valuation standards and suitable for use in determining the fair value of Investment Properties at 30 June 2017.</p> <p>It was evident from our discussions with management and the Valuer and our work surrounding the valuation reports that close attention had been paid to each property's individual characteristics and its overall quality, geographic location and marketability as a whole.</p> <p>We agreed the property specific information supplied to the Valuers by the Group to supporting documentation on a sample basis, whether it reflected the underlying property records held by the Group. No issues were identified.</p> <p><b>Assumptions</b></p> <p>Our work over the assumptions encompassed all properties in the portfolio. We engaged our own internal valuation expert to critique and challenge the work performed and assumptions used by the Valuer. In particular, we compared the valuation metrics used by the Valuer to recent market activity. We challenged management on significant movements in the valuations.</p> <p>Due to the subjectivity involved in determining valuations for individual properties and the existence of alternative assumptions and valuation methods, we determined a range of values that were considered reasonable to evaluate the independent property valuations used by management. We determined that the assumptions used in the valuations were supportable in light of available and comparable market evidence.</p>
<p><b>Risk of Fraud in Revenue Recognition</b></p> <p>There exists a risk that management may be incentivised to manipulate reported revenue in order to artificially overstate the perceived yield of the Group to investors. This risk is increased in market traded companies due to market pressure to deliver results in line with market expectations.</p>	<p><b>Substantive testing</b></p> <p>We obtained a sample of lease agreements and checked that the associated revenue recognised in the financial statements was consistent with the contractual terms therein. We reperformed the accuracy of rent straight-lining calculations resulting from rent free periods and other lease incentives.</p>



Key audit matter	How our audit addressed the Key audit matter
There is a large number of individual lease agreements held by the Group with diverse lease terms. This creates a level of inherent complexity in the calculation of lease incentives which may increase the opportunity for a fraud to be committed.	We tested manual journal entries made in the preparation of the financial statements at year end and manual journals to revenue nominal accounts throughout the year by agreeing them to supporting documentation to check the accuracy and validity of the journal entry.
The Group utilises an administrator, which is under common control with the Investment Manager, and hence this implies reduced inherent segregation within the structure, increasing the opportunity for fraud to occur at the property manager and financial reporting level through the posting of manual journal entries.	Our work did not indicate the existence of management bias or material misstatement due to fraud.

### Other information

The directors are responsible for the other information. The other information comprises the Company Summary, the Financial Highlights 2017, the Performance Summary, the Chairman's Statement, the Business Model and Strategy, the Key Performance Indicators, the Viability Assessment and Statement, the Manager's Review, the Property Portfolio, the Board of Directors, the Report of the Directors, the Corporate Governance Statement, the Report of the Audit Committee, the Directors' Remuneration Report, the Directors' Responsibilities, the Shareholder Information, the Historical Record, the Glossary of Terms, the Alternative Performance Measures, How to Invest and the Corporate Information (but does not include the consolidated financial statements and our auditor's report thereon).

Other than as specified in our report, our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of Directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, the requirements of Guernsey law and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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### Auditor's responsibilities for the audit of the consolidated financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Report on other legal and regulatory requirements

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

- we have not received all the information and explanations we require for our audit;
- proper accounting records have not been kept; or
- the consolidated financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

We have nothing to report in respect of the following matters which we have reviewed:

- the directors' statement set out on page 22 in relation to going concern. As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern;
- the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit; and
- the part of the Corporate Governance Statement relating to the Group's compliance with the ten further provisions of the UK Corporate Governance Code specified for our review.

This report, including the opinion, has been prepared for and only for the members as a body in accordance with Section 262 of The Companies (Guernsey) Law, 2008 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### Evelyn Brady

For and on behalf of PricewaterhouseCoopers CI LLP  
Chartered Accountants and Recognised Auditor  
Guernsey, Channel Islands

20 September 2017



# Consolidated Statement of Comprehensive Income

For the year ended 30 June			
Notes		2017	2016
		£'000	£'000
	<b>Revenue</b>		
	Rental income	19,191	19,562
	<b>Total revenue</b>	<b>19,191</b>	<b>19,562</b>
	<b>Gains on investment properties</b>		
8	Gains/(losses) on sale of investment properties realised	781	(144)
8	Unrealised gains on revaluation of investment properties	2,008	4,951
	<b>Total income</b>	<b>21,980</b>	<b>24,369</b>
	<b>Expenditure</b>		
2	Investment management fee	(2,013)	(2,084)
3	Other expenses	(1,966)	(1,883)
	<b>Total expenditure</b>	<b>(3,979)</b>	<b>(3,967)</b>
	<b>Net operating profit before finance costs and taxation</b>	<b>18,001</b>	<b>20,402</b>
	<b>Net finance costs</b>		
	Interest receivable	4	9
4	Finance costs	(3,598)	(4,455)
13	Gain on redemption of interest rate swap	–	1,485
		<b>(3,594)</b>	<b>(2,961)</b>
	<b>Net profit from ordinary activities before taxation</b>	<b>14,407</b>	<b>17,441</b>
5	Taxation on profit on ordinary activities	(306)	(264)
	<b>Profit for the year</b>	<b>14,101</b>	<b>17,177</b>
	<b>Other comprehensive income</b>		
	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
	<b>Total other comprehensive income</b>	<b>–</b>	<b>(192)</b>
	<b>Total comprehensive income for the year, net of tax</b>	<b>14,101</b>	<b>16,985</b>
7	<b>Basic and diluted earnings per share</b>	<b>5.9p</b>	<b>7.2p</b>

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 23 are an integral part of the financial statements.

# Consolidated Balance Sheet

As at 30 June			
Notes		2017	2016
		£'000	*Restated £'000
	<b>Non-current assets</b>		
8	Investment properties	330,834	333,798
11	Trade and other receivables	3,894	5,333
		334,728	339,131
	<b>Current assets</b>		
11	Trade and other receivables	1,291	1,681
12	Cash and cash equivalents	16,565	11,931
		17,856	13,612
	<b>Total assets</b>	<b>352,584</b>	<b>352,743</b>
	<b>Non-current liabilities</b>		
13	Interest-bearing bank loans	(105,061)	(108,845)
14	Trade and other payables	(352)	(832)
		(105,413)	(109,677)
	<b>Current liabilities</b>		
14	Trade and other payables	(6,023)	(6,040)
	Tax payable	(306)	(284)
		(6,329)	(6,324)
	<b>Total liabilities</b>	<b>(111,742)</b>	<b>(116,001)</b>
	<b>Net assets</b>	<b>240,842</b>	<b>236,742</b>
	<b>Represented by:</b>		
15	Share capital	2,407	2,387
	Special distributable reserve	177,161	175,367
	Capital reserve	61,274	58,485
	Revenue reserve	—	503
	<b>Equity shareholders' funds</b>	<b>240,842</b>	<b>236,742</b>
16	<b>Net asset value per share</b>	<b>100.1p</b>	<b>99.2p</b>

The accounts were approved and authorised for issue by the Board of Directors on 20 September 2017 and signed on its behalf by:

**V Lall**, Director

**A Henderson**, Director

The accompanying notes 1 to 23 are an integral part of the financial statements.

\* See notes 11 and 14.

# Consolidated Statement of Changes in Equity

## For the year ended 30 June 2017

Notes	Share Capital £'000	Special Distributable Reserve £'000	Capital Reserve £'000	Other Reserve £'000	Revenue Reserve £'000	Total £'000
At 1 July 2016	2,387	175,367	58,485	–	503	236,742
Profit for the year	–	–	–	–	14,101	14,101
Total comprehensive income for the year	–	–	–	–	14,101	14,101
15 Issue of ordinary shares	20	1,965	–	–	–	1,985
6 Dividends paid	–	–	–	–	(11,986)	(11,986)
Transfer in respect of gains on investment properties	–	–	2,789	–	(2,789)	–
Transfer to revenue reserve	–	(171)	–	–	171	–
At 30 June 2017	2,407	177,161	61,274	–	–	240,842

## 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
15 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

The accompanying notes 1 to 23 are an integral part of the financial statements.



# Consolidated Statement of Cash Flows

For the year ended 30 June			
Notes		2017 £'000	2016 £'000
	<b>Cash flows from operating activities</b>		
	Net profit for the year before taxation	14,407	17,441
	Adjustments for:		
8	(Gains)/losses on sale of investment properties realised	(781)	144
8	Unrealised gains on revaluation of investment properties	(2,008)	(4,951)
	Decrease/(increase) in operating trade and other receivables	1,829	(153)
	Decrease in operating trade and other payables	(497)	(40)
	Interest received	(4)	(9)
4	Finance costs	3,598	4,455
13	Gain on redemption of interest rate swap	–	(1,485)
		16,544	15,402
	Taxation paid	(284)	(58)
	<b>Net cash inflow from operating activities</b>	<b>16,260</b>	<b>15,344</b>
	<b>Cash flows from investing activities</b>		
8	Purchase of investment properties	(450)	–
8	Capital expenditure	(1,257)	(636)
8	Sale of investment properties	7,460	3,519
	Interest received	4	9
	<b>Net cash inflow from investing activities</b>	<b>5,757</b>	<b>2,892</b>
	<b>Cash flows from financing activities</b>		
15	Shares issued (net of costs)	1,985	4,795
6	Dividends paid	(11,986)	(11,867)
	Bank loan interest paid	(3,382)	(2,057)
	Interest on interest rate swap arrangement	–	(2,561)
13	Redemption of interest rate swap arrangement	–	(5,294)
	Bank loan repaid – Lloyds Loan	–	(102,000)
	Bank loan drawn down, net of costs – Canada Life Loan	–	88,503
	Bank loan (repaid)/drawn down, net of costs – Barclays Loan	(4,000)	19,520
	<b>Net cash outflow from financing activities</b>	<b>(17,383)</b>	<b>(10,961)</b>
	Net increase in cash and cash equivalents	4,634	7,275
	Opening cash and cash equivalents	11,931	4,656
	<b>Closing cash and cash equivalents</b>	<b>16,565</b>	<b>11,931</b>

The accompanying notes 1 to 23 are an integral part of the financial statements.

# Notes to the Accounts

## 1. 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 as adopted by the EU ('IFRS'), interpretations issued by the IFRS Interpretations Committee, applicable legal and regulatory requirements of the Companies (Guernsey) Law, 2008 (as amended) 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') 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 preparation*

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

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

#### (iii) *Going concern*

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 the next twelve months. 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, forecast rental income and other forecast cash flows. The Group has agreements relating to its borrowing facilities with which it has complied during the year. 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 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.

#### (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. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The most significant areas of estimation uncertainty and critical judgements with preparing these financial statements relate to the carrying value of investment properties, which are stated at fair value. The Group uses external professional valuers to determine the relevant amounts. The policy for the fair value valuations is set out in notes 1(f) and 8 and further information on Board procedures is contained in the Report of the Audit Committee.

#### (v) *Changes in accounting policies*

The accounting policies adopted are consistent with those of the previous financial year, except that the following annual improvements to IFRSs have been adopted in the current year:

- 'Annual Improvements to IFRSs 2012-2014 Cycle'. The adoption of these amendments did not have any impact on the current period or any prior period.

#### (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'.

## 1. 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 July 2018), 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.

# Notes to the Accounts (continued)

## 1. 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.

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 arrangements 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.

Surrender premiums received by the Group following the break of a lease are recognised in the Statement of Comprehensive Income to the extent that there are no obligations directly related to that surrender.

Interest income is accounted for on an accruals basis.



## 1. 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

The tax expense represents the sum of the tax currently payable and deferred tax.

Tax payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

#### *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, 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.

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# Notes to the Accounts (continued)

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## 1. Accounting policies (continued)

### *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.

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 and deductions for purchase costs.

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.

Any investment properties on which contracts for sale have been exchanged but which had not completed at the period end are disclosed as properties held for sale and stated at fair value.

### (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 13. 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.

## 1. Accounting policies (continued)

### (h) Derivative financial instruments

Up until 13 November 2015, 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. Fair value is determined by a model using market values for similar instruments. Transaction costs are expensed immediately.

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 Statement of Changes in Equity.

### (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.

### (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.

# Notes to the Accounts (continued)

## 1. Accounting policies (continued)

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

	2017 £'000	2016 £'000
Investment management fee	2,013	2,084

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.

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 2017 (2016: none).



## 2. Fees (continued)

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

	2017 £'000	2016 £'000
Direct operating expenses of let rental property	825	752
Direct operating expenses of vacant property	107	269
Bad debts	194	(12)
Valuation and other professional fees	265	227
Directors' fees	144	142
Administration fee payable to the Manager	102	102
Auditor's remuneration for:		
– statutory audit	60	57
– tax compliance services*	–	39
– tax advisory services*	–	12
– liquidation of a subsidiary	–	10
Other	269	285
	<b>1,966</b>	<b>1,883</b>

\* PwC were appointed as the Company's auditor for the year ended 30 June 2017. In the previous year, EY were the Company's auditor and EY are also the Company's tax advisers.

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

	2017 £'000	2016 £'000
Interest on interest-bearing bank loans	3,364	2,700
Interest in respect of interest rate swap arrangement	–	1,555
Amortisation of loan set up costs	234	153
Other interest/fees	–	47
	<b>3,598</b>	<b>4,455</b>

# Notes to the Accounts (continued)

## 5. Taxation

	2017 £'000	2016 £'000
Adjustment to provision for prior years	–	(22)
Corporation tax charge in respect of distributions to holders of excessive rights	306	286
Total tax charge	306	264
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	14,407	17,441
UK tax at an effective rate of 19.8 per cent (2016: 20.0 per cent)	2,853	3,488
Effects of:		
UK REIT exemption on net income	(2,301)	(2,230)
Capital gains on investment properties not taxable	(552)	(961)
Utilisation of brought forward and current year losses	–	(297)
Adjustment to provision for prior years	–	(22)
Corporation tax charge in respect of distributions to holders of excessive rights	306	286
Total tax charge	306	264

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.

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.

**6. Dividends and property income distributions gross of income tax**

	2017 £'000	2016 £'000
<b>Non Property Income Distributions:</b>		
Fourth interim for the prior year of nil pence per share (2015: 0.56 pence)	–	1,310
<b>Property Income Distributions:</b>		
Fourth interim for the prior year of 1.25 pence per share paid on 30 September 2016 (2015: 0.69 pence)	2,984	1,613
First interim of 1.25 pence per share paid on 30 December 2016 (2015: 1.25 pence)	2,984	2,976
Second interim of 1.25 pence per share paid on 31 March 2017 (2016: 1.25 pence)	3,009	2,984
Third interim of 1.25 pence per share paid on 30 June 2017 (2016: 1.25 pence)	3,009	2,984
	<b>11,986</b>	<b>11,867</b>

A fourth interim dividend totalling 1.25 pence per share will be paid on 29 September 2017 to shareholders on the register on 8 September 2017. Although this payment of £3,009,000 relates to the year ended 30 June 2017, under IFRS it will be accounted for in the year ending 30 June 2018.

**7. Earnings per share**

The basic and diluted earnings per Ordinary Share are based on the net profit for the year of £14,101,000 (2016: £17,177,000) and on 239,568,005 (2016: 237,264,306) Ordinary Shares, being the weighted average number of shares in issue during the year.

**8. Investment properties**

	2017 £'000	2016 £'000
<b>Freehold and leasehold properties</b>		
Opening market value	339,150	337,490
Capital expenditure and purchase of investment properties	1,707	636
Sales – net proceeds	(7,460)	(3,519)
– losses on sale	(2,404)	(868)
Unrealised losses realised during the year	3,185	724
Unrealised gains on investment properties	13,344	10,184
Unrealised losses on investment properties	(11,336)	(5,233)
Movement in lease incentive receivable	(836)	(264)
Closing market value	335,350	339,150
Adjustment for lease incentives	(4,516)	(5,352)
Balance sheet carrying value	<b>330,834</b>	<b>333,798</b>

# Notes to the Accounts (continued)

## 8. Investment properties (continued)

	2017 £'000	2016 £'000
Losses on sale	(2,404)	(868)
Unrealised losses realised during the year	3,185	724
Gains/(losses) on sale of investment properties realised	781	(144)
	2017 £'000	2016 £'000
Unrealised gains on investment properties	13,344	10,184
Unrealised losses on investment properties	(11,336)	(5,233)
Unrealised gains on revaluation of investment properties	2,008	4,951

All the Group's investment properties were valued as at 30 June 2017 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 2017 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 £335,350,000 (2016: £339,150,000), however an adjustment has been made for lease incentives of £4,516,000 (2016: £5,352,000) 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.

The Group has entered into leases on its property portfolio as lessor (See note 20 for further information). All leasehold investment properties have more than 60 years remaining on the lease term. All of the properties per fair value band are shown on page 17.

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 18. There is also uncertainty in respect of valuations as detailed in market price risk, note 18.

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.



## 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*	2017 Weighted Average	Range*	2016 Weighted Average
Retail	£64,640 (2016: £69,175)	All Risks Yield	Current Net Rental Income per square foot ('psf') per annum	£0–£122	£36	£(4)-£122	£33
			Estimated Net Rental Value psf per annum	£10–£122	£39	£10-£122	£36
			Net Initial Yield	(0.4)%–8.4%	4.9%	(3.0)%-6.8%	4.5%
			Equivalent Yield	3.7%–9.2%	5.3%	3.9%-9.4%	5.4%
Retail Warehouse	£75,200 (2016: £78,400)	All Risks Yield	Current Net Rental Income psf per annum	£7–£40	£17	£7-£35	£16
			Estimated Net Rental Value psf per annum	£7–£35	£16	£7-£35	£16
			Net Initial Yield	4.9%–7.0%	6.1%	5.0%-6.7%	5.9%
			Equivalent Yield	5.1%–7.0%	6.0%	5.0%-6.9%	5.8%
Office	£89,545 (2016: £95,950)	All Risks Yield	Current Net Rental Income psf per annum	£0–£66	£30	£3-£71	£31
			Estimated Net Rental Value psf per annum	£4–£77	£34	£4-£78	£32
			Net Initial Yield	0%–17.2%	5.8%	3.5%-10.6%	5.9%
			Equivalent Yield	3.6%–11.4%	5.7%	3.8%-13.4%	5.9%
Industrial	£105,965 (2016: £95,625)	All Risks Yield	Current Net Rental Income psf per annum	£4–£8	£7	£(1)-£10	£7
			Estimated Net Rental Value psf per annum	£6–£10	£8	£6-£10	£8
			Net Initial Yield	2.4%–5.9%	4.8%	(0.6)%-6.5%	4.8%
			Equivalent Yield	4.8%–5.9%	5.3%	5.1%-7.5%	5.6%

\* 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.

# Notes to the Accounts (continued)

## 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 2017 arising from:	Retail £'000	Retail Warehouses £'000	Offices £'000	Industrial £'000	Total £'000
Increase in rental value by 5%	3,232	3,760	4,477	5,298	16,767
Decrease in rental value by 5%	(3,232)	(3,760)	(4,477)	(5,298)	(16,767)
Increase in initial yield by 0.25%	(3,111)	(2,981)	(3,687)	(5,290)	(15,069)
Decrease in initial yield by 0.25%	3,442	3,238	4,017	5,877	16,574

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

This represents the Group's best estimate of a reasonable possible shift in passing rental values and net initial yield, having regard to historical volatility of the value and yield.

## 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.

## 10. Voluntary liquidation of F&C UK Real Estate Finance 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.

The completion meeting of the liquidation was held on 29 June 2017.

## 11. Trade and other receivables

	2017 £'000	Restated 2016 £'000
<b>Non-current</b>		
Capital and rental lease incentive	3,542	4,501
Cash deposits held for tenants	352	832
	<b>3,894</b>	<b>5,333</b>
<b>Current</b>		
Capital and rental lease incentive	975	850
Cash deposits held for tenants	61	230
Rents receivable (net of provision for bad debts)	502	597
Other debtors and prepayments	(247)	4
	<b>1,291</b>	<b>1,681</b>

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
<b>2017</b>	<b>638</b>	<b>471</b>	<b>11</b>	<b>20</b>	<b>31</b>	<b>105</b>
2016	614	593	4	—	5	12

In the previously issued financial statements of the Company for the year ended 30 June 2016, lease incentives of £5,352,000 and cash deposits held for tenants of £1,062,000 were classified as current assets. In the comparative figures of the current year financial statements, £4,501,000 for lease incentives and £832,000 for tenant deposits has been reclassified to non-current assets. The Directors have considered the impact on the previously issued financial statements of the Company and have noted that no adjustment is required to the previously reported total assets, liabilities or equity of the Company. On this basis, the Directors do not consider the above reclassification between current and non-current assets to be material to the users of the financial statements.

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 2017 is £136,000 which is the total amount receivable over 90 days (2016: £17,000).

## 12. 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.

# Notes to the Accounts (continued)

## 13. Interest-bearing loans

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 interest rate swap 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 for the year ended 30 June 2016.

	2017 £'000	2016 £'000
<b>Canada Life loan</b>		
Principal amount outstanding	90,000	90,000
Set up costs	(1,497)	(1,497)
Accumulated amortisation of set up costs	223	86
Accrued variable rate interest on bank loan	597	596
<b>Total due</b>	<b>89,323</b>	<b>89,185</b>
	2017 £'000	2016 £'000
<b>Barclays loan</b>		
Principal amount outstanding	16,000	20,000
Set up costs	(480)	(480)
Accumulated amortisation of set up costs	157	61
Accrued variable rate interest on bank loan	61	79
<b>Total due</b>	<b>15,738</b>	<b>19,660</b>
<b>Total interest-bearing bank loans</b>	<b>105,061</b>	<b>108,845</b>

### £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 2017, 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 £97,695,000. 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.



### 13. Interest-bearing loans (continued)

#### £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. 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. IPTH repaid £4 million of the loan during the year and as at 30 June 2017 £16 million of the RCF was drawn down (30 June 2016: £20 million drawn down).

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 2017.

### 14. Trade and other payables

	2017 £'000	Restated 2016 £'000
<b>Non-current</b>		
Rental deposits	352	832
<b>Current</b>		
Rental income received in advance	3,738	3,925
Rental deposits	61	230
VAT payable	465	778
Manager's fees payable	531	544
Other payables	1,228	563
	<b>6,023</b>	<b>6,040</b>

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

In the previously issued financial statements of the Company for the year ended 30 June 2016, rental deposits of £1,062,000 were classified as current liabilities. In the comparative figures of the current year financial statements, £832,000 of this balance has been reclassified as non-current liabilities. The Directors have considered the impact on the previously issued financial statements of the Company and have noted that no adjustment is required to the previously reported total assets, liabilities or equity of the Company. On this basis, the Directors do not consider the above reclassification between current and non-current assets to be material to the users of the financial statements.

# Notes to the Accounts (continued)

## 15. Share capital and reserves

	£'000
<b>Allotted, called-up and fully paid</b>	
238,705,539 Ordinary Shares of 1 pence each in issue at 30 June 2016	2,387
Issue of 2,000,000 Ordinary Shares of 1 pence each	20
240,705,539 Ordinary Shares of 1 pence each in issue at 30 June 2017	2,407

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

The Company issued 2,000,000 Ordinary Shares during the year (2016: 4,850,000) for a consideration of £1,985,000 (2016: £4,795,000). The surplus of net proceeds received from the issue of new shares over the par value of such shares is £1,965,000 (2016: £4,747,000) 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 13.

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 2017 or 30 June 2016.

## 16. Net asset value per share

The net asset value per Ordinary Share is based on net assets of £240,842,000 (2016: £236,742,000) and 240,705,539 (2016: 238,705,539) Ordinary Shares, being the number of Ordinary Shares in issue at the year-end.

## 17. Related Parties and Transactions with the Manager

The following are considered related parties: the Board of Directors. The Directors of the Company received fees for their services and dividends from their shareholdings in the Company. No fees remained payable at the year end.

Transactions between the Company and the Manager are detailed in note 2 on management fees and note 14 on fees owed to the Manager at the balance sheet date. The existence of an independent Board of Directors demonstrates that the Company is free to pursue its own financial and operating policies and therefore, under the AIC SORP, the Manager is not considered to be a related party.

## 18. 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, interest-bearing loans and payables that arise directly from its operations.

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 2017 or 30 June 2016 as assets and liabilities are maintained in Sterling.

## 18. Financial instruments and investment property (continued)

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.

At the reporting date, the Group's current financial assets exposed to credit risk amounted to the following:

#### Financial assets

	2017 £'000	2016 £'000
Cash	16,565	11,931
Rent receivable (net of provision for bad debts)	502	597
Other debtors	61	230
	<b>17,128</b>	<b>12,758</b>

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.

The Group has a diversified tenant portfolio. The maximum credit risk from the rent receivables of the Group at 30 June 2017 is £502,000 (2016: £597,000). The maximum credit risk is stated after deducting the bad debt provision of £136,000 (2016: £17,000).

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 2017 the provision was £136,000 (2016: £17,000). Of this amount £99,000 was subsequently written off and £10,000 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 order to mitigate liquidity risk the Group aims to have sufficient cash balances (including the expected proceeds of any property sales) to meet its obligations for a period of at least twelve months.

# Notes to the Accounts (continued)

## 18. Financial instruments and investment property (continued)

In certain circumstances, the terms of the Group's bank loans (detailed in note 13) 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 2017

	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	102,768	117,798
Barclays bank loan <sup>†</sup>	16,061	–	–	–	16,061
Trade and other payables	1,229	591	292	60	2,172
	18,608	2,756	11,839	102,828	136,031

<sup>†</sup> At 30 June 2017, this loan is contractually due within three months but the Company has the right to extend the facility until the termination date.

### Financial liabilities 2016

	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
Canada Life bank loan	1,318	2,165	11,547	105,655	120,685
Barclays bank loan <sup>†</sup>	20,080	–	–	–	20,080
Trade and other payables	564	773	363	469	2,169
	21,962	2,938	11,910	106,124	142,934

<sup>†</sup> 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.

### 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.



## 18. Financial instruments and investment property (continued)

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 2017

	Total £'000	Fixed rate £'000	Variable rate £'000	Weighted average interest rate %
<i>Financial assets</i>				
Cash	16,565	–	16,565	0.00
<i>Financial liabilities</i>				
Barclays loan	(15,738)	–	(15,738)	2.25
Canada Life loan	(89,323)	(89,323)	–	3.36

As at 30 June 2016

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

In addition, tenant deposits are held in interest-bearing bank accounts and the interest rate on these accounts was nil 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 increased net assets by £3,000 (2016: decreased by £40,000). A decrease of 0.5 per cent would have reduced net assets by £3,000 (2016: increased by £40,000). 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 2017 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.

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 page 17. A 10 per cent increase in the value of the investment properties held as at 30 June 2017 would have increased net assets available to shareholders and increased the net income for the year by £33.1 million (2016: £33.4 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.

# Notes to the Accounts (continued)

## 19. Capital commitments

The Group had no capital commitments as at 30 June 2017 (2016: £nil).

## 20. 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):

	2017 £'000	2016 £'000
Less than one year	18,727	19,043
Between one and five years	50,654	58,267
Over five years	55,739	63,346
Total	125,120	140,656

The largest single tenant at the year end accounted for £1.3 million and 6.5 per cent of the current annual rental income (2016: £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 5.6 per cent at the year-end (2016: 4.2 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 15 and 16.

## 21. 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.

## 22. Securities financing transactions ("SFT")

The Company has not, in the year to 30 June 2017 (2016: same), participated in any: repurchase transactions; securities lending or borrowing; buy-sell back transactions; margin lending transactions; or total return swap transactions (collectively called SFT). As such, it has no disclosure to make in satisfaction of the EU regulations on transparency of SFT, issued in November 2015.

## 23. Subsequent events

Since the year end, the Company has agreed terms to purchase a freehold, single let distribution unit located in the South East for a sum of approximately £10 million at a yield of approximately 5.2 per cent.

# 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 2017 are shown below:

Leverage exposure	Gross method	Commitment method
Maximum limit	400%	400%
Actual	137%	144%

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.fcfe.co.uk](http://www.fcfe.co.uk)

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# Notice of Annual General Meeting

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Notice is hereby given that the thirteenth 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 22 November 2017 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 2017 be received and approved.
2. That the Directors' Remuneration Policy be approved.
3. That the Directors' Annual Report on Remuneration be approved.
4. That the dividend policy as set out in the Annual Report be approved.
5. That Mr V Lall, who retires annually, be re-elected as a Director.
6. That Mr A Gulliford, who retires annually, be re-elected as a Director.
7. That Mr D Ross, who retires annually, be re-elected as a Director.
8. That Mr M Carpenter, who retires annually, be re-elected as a Director.
9. That Ms A Henderson, who retires annually, be re-elected as a Director.
10. That PricewaterhouseCoopers CI LLP, be re-appointed as Auditor until the conclusion of the next Annual General Meeting.
11. That the Directors be authorised to determine the Auditor's Remuneration.

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

12. 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 £481,411 being 20 per cent of the issued share capital of the Company, as at 20 September 2017.
13. 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 2018 or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2018, 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.

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

20 September 2017

#### 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 20 November 2017.
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 your proxy appointment to Computershare Investor Services (Guernsey) Limited, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY not later than 12 noon on 20 November 2017. 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 close of business on 20 November 2017. 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. The Articles of Incorporation and the Directors' letters of appointment will also be available for inspection for fifteen minutes prior to the Annual General Meeting and during the meeting itself.
6. As at 20 September 2017, the latest practicable date prior to publication of this document, the Company had 240,705,539 Ordinary Shares in issue with a total of 240,705,539 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 Guidance and Transparency Rules.

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# Shareholder Information

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## 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:

[fcre.co.uk](http://fcre.co.uk)

[fcre.gg](http://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 <sup>†</sup>	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	346,419	236,742	99.2	88.5	(10.8)	7.2	5.00	1.3
30 June 2017	346,255	240,842	100.1	106.8	6.7	5.9	5.00	1.3

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

<sup>†</sup> 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/consumers/scams](http://www.fca.org.uk/consumers/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**.

# Alternative Performance Measures

The Company uses the following Alternative Performance Measures ('APMs'). APMs do not have a standard meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other entities.

**Discount or Premium** – The share price of an Investment Company is derived from buyers and sellers trading their shares on the stock market. If the share price is lower than the NAV per share, the shares are trading at a discount. This usually indicates that there are more sellers than buyers. Shares trading at a price above the NAV per share, are said to be at a premium.

**Dividend Cover** – The percentage by which Profits for the year (less Gains/losses on investment properties) cover the dividend paid.

A reconciliation of dividend cover is shown below:

	2017 £'000	2016 £'000
Profit for the year	14,101	17,177
Add back: Realised (gains)/losses	(781)	144
Unrealised gains	(2,008)	(4,951)
Gain on redemption of swap	–	(1,485)
Profit before investment gains and losses	11,312	10,885
Dividends	11,986	11,867
Dividend Cover percentage	94.4	91.7

**Dividend Yield** – The annualised dividend divided by the share price at the year end. An analysis of dividends is contained in note 6 to the accounts.

**Net Gearing** – Borrowings less net current assets divided by value of investment properties.

**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 property costs and the costs of buying back or issuing Ordinary Shares.

**Portfolio (Property) Capital Return** – The change in property value during the period after taking account of property purchase and sales and capital expenditure, calculated on a quarterly time-weighted basis.

**Portfolio (Property) Income Return** – The income derived from a property during the period as a percentage of the property value, taking account of direct property expenditure, calculated on a quarterly time-weighted basis.

**Portfolio (Property) Total Return** – Combining the Portfolio Capital Return and Portfolio Income Return over the period, calculated on a quarterly time-weighted basis.

**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, respectively, on the date on which they were quoted ex-dividend.

# 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](http://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 MSCI 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.

**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 borrowings). 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 12 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.



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# Glossary of Terms (continued)

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**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.

**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 2017 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.

## 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.

# How to Invest

One of the most convenient ways to invest in F&C UK Real Estate Investments Limited is through one of the savings plans run by F&C Investments.

## F&C Investment Trust ISA

You can use your ISA allowance to make an annual tax-efficient investment of up to £20,000 for the 2017/18 tax year with a lump sum from £500 or regular savings from £50 a month per Trust. You can also transfer any existing ISAs to us whilst maintaining the tax benefits.

## F&C Junior ISA (JISA)\*

You can invest up to £4,128 for the tax year 2017/18 from £500 lump sum or £30 a month per Trust, or a combination of both. Please note, if your child already has a Child Trust Fund (CTF), then you cannot open a separate JISA, however you can transfer the existing CTF (held either with F&C or another provider) to an F&C JISA.

## F&C Child Trust Fund (CTF)\*

If your child has a CTF you can invest up to £4,128 for the 2017/18 tax year, from £100 lump sum or £25 a month per Trust, or a combination of both. You can also transfer a CTF from another provider to an F&C CTF. Please note, the CTF has been replaced by the JISA and is only available to investors who already hold a CTF.

## F&C Private Investor Plan (PIP)

This is a flexible way to invest in our range of Investment Trusts. There are no maximum contributions, and investments can be made from £500 lump sum or £50 a month per Trust. You can also make additional lump sum top-ups at any time from £250 per Trust.

## F&C Children's Investment Plan (CIP)

This is a flexible way to save for a child in our range of Investment Trusts. There are no maximum contributions, and the plan can easily be set up under bare trust (where the child is noted as the beneficial owner) or kept in your name if you wish to retain control over the investment. Investments can be made from a £250 lump sum or £25 a month per Trust. You can also make additional lump sum top-ups at any time from £100 per Trust.

\*The CTF and JISA accounts are opened in the child's name and they have access to the money at age 18.

\*\*Calls may be recorded or monitored for training and quality purposes.

## Charges

Annual management charges and other charges apply according to the type of plan.

### Annual account charge

ISA: £60+VAT

PIP: £40+VAT

JISA/CIP/CTF: £25+VAT

You can pay the annual charge from your account, or by direct debit (in addition to any annual subscription limits).

### Dealing charges

ISA: 0.2%

PIP/CIP/JISA: postal instructions £12, online instructions £8 per Trust.

Dealing charges apply when shares are bought or sold but not on the reinvestment of dividends or the investment of monthly direct debits for the PIP, CIP and JISA.

There are no dealing charges on a CTF but a switching charge of £25 applies if more than two switches are carried out in one year.

Government stamp duty of 0.5% also applies on the purchase of shares (where applicable).

There may be additional charges made if you transfer a plan to another provider or transfer the shares from your plan.

For full details of our savings plans and charges, please read the Key Features and Terms and Conditions of the plan – available on our website [fandc.co.uk](http://fandc.co.uk).

## How to Invest

To open a new F&C savings plan, apply online at [fandc.com/apply](http://fandc.com/apply)

Note, this is not available if you are transferring an existing plan with another provider to F&C, or if you are applying for a new plan in more than one name.

### New Customers

Call: **0800 136 420\*\***  
(8.30am – 5.30pm, weekdays)

Email: [info@fandc.com](mailto:info@fandc.com)

### Existing Plan Holders

Call: **0345 600 3030\*\***  
(9.00am – 5.00pm, weekdays)

Email: [investor.enquiries@fandc.com](mailto:investor.enquiries@fandc.com)

By post: [F&C Plan Administration Centre](#)  
[PO Box 11114](#)  
[Chelmsford CM99 2DG](#)

You can also invest in the trust through online dealing platforms for private investors that offer share dealing and ISAs. Companies include: [Alliance Trust Savings](#), [Barclays Stockbrokers](#), [Halifax](#), [Hargreaves Lansdown](#), [HSBC](#), [Interactive Investor](#), [Lloyds Bank](#), [Selftrade](#), [TD Direct Investing](#), [The Share Centre](#).

The value of investments can go down as well as up and you may not get back your original investment. Tax benefits depend on your individual circumstances and tax allowances and rules may change. Please read our Key Features Document before you invest and this can be found on our website [fandc.co.uk](http://fandc.co.uk). F&C cannot give advice on the suitability of investing in our investment trust or savings plans. If you have any doubt as to the suitability of an investment, please contact a professional financial adviser.

**BMO**  | A part of BMO Financial Group

#### F&C Management Limited

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# Corporate Information

## Directors (all non-executive)

Vikram Lall (Chairman)<sup>‡</sup>  
 Andrew Gulliford<sup>§</sup>  
 Mark Carpenter  
 David Ross<sup>†</sup>  
 Alexa Henderson<sup>\*</sup>

## 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  
 Quatermile 4  
 7a Nightingale Way  
 Edinburgh EH3 9EG  
 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

<sup>‡</sup> Chairman of the Nomination Committee

<sup>§</sup> Chairman of the Property Valuation Committee

<sup>†</sup> Chairman of the Management Engagement Committee

<sup>\*</sup> Chairman of the Audit Committee

## Auditor

PricewaterhouseCoopers CI LLP  
 Royal Bank Place  
 1 Glatigny Esplanade  
 St. Peter Port  
 Guernsey GY1 4ND

## 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

## Depository

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

## Website:

fcre.co.uk  
 fcre.gg

# F&C UK Real Estate Investments Limited

## Annual Report and Accounts 2017

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### **Registered Office**

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

### **Registrars**

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Jersey  
Channel Islands JE1 1ES