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# TR PROPERTY INVESTMENT TRUST PLC

## Unaudited preliminary results for the year ended 31 March 2018

**30 May 2018**

TR Property Investment Trust plc, announces its full year results for the year ended 31 March 2018.

| Financial Highlights and Performance | Year ended 31 March 2018 | Year ended 31 March 2017 | % Change |
|---|---|---|---|
| **Balance Sheet** | | | |
| Net asset value per share | **395.64p** | 352.42p | +12.3% |
| Shareholders' funds (£'000) | **1,255,559** | 1,118,424 | +12.3% |
| Shares in issue at the end of the year (m) | **317.4** | 317.4 | +0.0% |
| Net debt | **14.6%** | 13.3% | |
| **Share Price** | | | |
| Share price | **382.50p** | 314.50 | +21.6% |
| Market capitalisation | **£1,214m** | £998m | +21.6% |

| | Year ended 31 March 2018 | Year ended 31 March 2017 | % Change |
|---|---|---|---|
| **Revenue** | | | |
| Revenue earnings per share | **13.22p** | 11.38p | +16.2% |
| **Dividends** | | | |
| Interim dividend per share | **4.65p** | 4.10p | +13.4% |
| Final dividend per share | **7.55p** | 6.40p | +18.0% |
| Total dividend per share | **12.20p** | 10.50p | +16.2% |
| **Performance: Assets and Benchmark** | | | |
| Net Asset Value total return | **+15.5%** | +8.0% | |
| Benchmark performance (total return) | **+10.2%** | +6.5% | |
| Share price total return | **+25.5%** | +9.1% | |
| **Ongoing Charges** | | | |
| Including performance fee | **1.48%** | +0.80% | |
| Excluding performance fee | **0.65%** | +0.69% | |
| Excluding performance fee and direct property costs | **0.61%** | +0.64% | |

Dividends per share are the dividends in respect of the financial year ended 31 March 2018. An interim dividend of 4.65p was paid in January 2018. A final dividend of 7.55p (2017: 6.40p) will be paid on 31 July 2018 to shareholders on the register on 22 June 2018. The shares will be quoted ex-dividend on 21 June 2018.

# Chairman's Statement

### Introduction

It has been a very good year for the Trust. Performance has been strong in both absolute and relative terms and we have enjoyed healthy revenue growth.

The Net Asset Value (NAV) total return at 15.5% was well ahead of the benchmark at 10.2%, and results in a five-year cumulative total return of 111.16%. Coupled to this revenue has increased by 16.2% for the year.

Although the first half of the year saw the sector benefit from healthier economic growth and improved political stability the overriding theme is that particular sub-markets have provided growth across all geographical regions and these include logistics, industrial and rented residential. As a result, the Trust has benefited from increased exposure not just in continental Europe, but in the UK as well, as some of the sectors with potential such as self-storage and student accommodation, are only available in the UK.

The attraction of the property sector is its ability to deliver reliable and predictable earnings. Where businesses are growing their earnings faster than inflation without increasing risk, they are attracting strong share price performance. This coupled to an expectation of higher inflation as Europe inches towards normalising monetary conditions, has led our manager to increase exposure to companies offering more index linked income and longer underlying leases, most particularly in the UK where the expectation is of slower rental growth.

Investors demand for the underlying assets has remained strong with the exception of retail property which faces structural challenges which are unlikely to abate soon. This steady investment demand has even been the case with central London offices where overseas capital in particular, has been prepared to look beyond Brexit uncertainty.

Although our physical portfolio is a small part of the Trust, it has had a very good year with returns matching the strength of the equity portfolio. Our managers have taken advantage of strong demand for industrial and well located suburban offices by selling in Plymouth and Wimbledon. Interestingly, one of these assets had less than four years on the lease and the other was a development opportunity, both providing useful indicators of the market's optimism for future tenant demand.

### NAV and Share Price performance

As mentioned earlier the NAV total return was a healthy 15.5%, well ahead of the benchmark at 10.2%. The share price total return was higher at 25.5% as the discount between the share price and the asset value narrowed materially from 10.7% to 3.2% over the year.

More detail and commentary on performance is set out in the Manager's Report.

### Revenue Results and Dividend

Earnings per share for the full year increased by 16.2% to 13.22p per share. Most of the increase occurred in the first half of the year. We reported a 22.8% increase in revenue at the interim stage while second half revenue grew by a more modest 5.0%.

As set out in the Interim Report, first half earnings were enhanced by a significant withholding tax reclaim and weaker Sterling when compared to the same period in the previous year. The second half did not have the benefit of this one-off item and the Sterling/Euro rate was stable compared to the previous period.

The Directors are recommending a final dividend of 7.55p per share resulting in a total dividend for the year of 12.20p, 16.2% ahead of the 2017 full year dividend of 10.50p per share, matching the growth in earnings.

### Revenue Outlook

Earnings in the first few months of the current financial year have been robust. The most significant factor in the strong earnings growth seen over the last two years has been the impact of weakening Sterling. With a stable currency any increase in earnings (when measured in Sterling) will be from growth in the underlying dividends and we therefore expect to return to longer term normal growth rates. Once again, I would caution that having benefited from weakening currency, there will be a negative impact on revenue when this reverses and Sterling strengthens.

### Debt

Gearing has increased from 13.6% reported at the end of September 2017 to 14.6% at the year end. Both our revolving credit facilities were renewed during the year, although in the case of the more recent renewal with RBS, the facility was reduced from £40m to £35m. We continue to actively use CFDs as a source of competitively priced gearing which does not carry non-utilisation costs if undrawn.

**Currencies**
Currency movements have been more significant to the revenue account than the capital account over the period as described above. We continue to use FX forward contracts to maintain the currency exposure of our balance sheet broadly in line with that of the benchmark. The result is significant exposure to the Euro and in absolute terms, this has had an impact, although the change in rates between the 2018 and 2017 year-end balance sheet dates has been quite modest.

**Discount and Share Repurchases**
The discount narrowed during the year from 10.7% to 3.2% at the year-end (share price discount to capital only NAV), well ahead of the 10-year average of 8.6%.

No shares were repurchased during the year.

**New Regulation**
I mentioned in my Interim Statement that a number of new regulations were due to come into effect in 2018 which would have implications for the Trust.

MiFID II which came into effect at the beginning of January has been a huge challenge for the industry introducing onerous trade reporting obligations on the Manager and a change to the way in which research from brokers is paid for. Commissions on transactions have reduced significantly, resulting in lower charges to the capital account when the Trust buys and sells shares, as the cost of research, previously covered as part of the (higher) transaction commission, is now agreed in advance through Research Agreements and charged separately to the Manager. As noted in the Management Engagement Committee report in the full Annual Report and Accounts, the Board has negotiated revised terms for the Investment Management Agreement to reflect these changes and to ensure that the research and investment capability available to the Manager remains appropriately remunerated and protected.

I would also like to draw your attention to one other regulatory requirement.

PRIIPs (Packaged Retail and Insurance-based Investment Products) regulation took effect at the beginning of the year. One of the responsibilities of our Manager under this regulation is to publish a Key Information Document (KID) which is available on our website. In our Interim Report, I highlighted that the way the information is required to be calculated and presented is prescribed by the regulations and is based purely on recent historical data. The regulations require that there is no judgement applied and the calculations take no account of forecasts or market conditions. As a consequence the Board is concerned that the investment performance scenarios which are based on such short-term recent performance, may indicate over optimistic future returns.

The AIC (Association of Investment Companies) has recently announced that as a result of research it had conducted, the Association believes that too many KIDs overstate likely future performance and understate investment risk and has called on the FCA to take steps to protect consumers.

We welcome this intervention by the AIC and hope that the FCA responds. In the meantime I feel it appropriate to remind shareholders that past performance should not be taken as a guide to the future.

**Awards**
The Trust was Highly Commended in Best Property Trust in the Money Observer Trust Awards 2018.

**Board Changes**
It has been my pleasure to welcome Tim Gillbanks who joined the Board in January.

**Outlook**
In November I noted that we remained positive about the merits of property as an income generating asset class and that we were focused on high quality businesses with strong recurring cashflows. Six months on, that statement remains valid but subject to heightened vigilance. The level of divergence between those businesses with growth prospects and those without continues to widen and the advantage of being able to consistently reduce the cost of debt is coming to an end.

Real estate continues to provide an income advantage particularly when compared to prevailing bond yields. Our manager is focusing on businesses in areas and sectors which provide the prospect of rental growth, combined with sustainable debt levels. Therefore, with the caveats referred to above, we remain confident of the attributes of the asset class.

**Hugh Seaborn**
**Chairman**
**30 May 2018**

## Manager's Report

**Performance**

The Net Asset Value total return for the year of 15.5% was ahead of the benchmark total return which was 10.2%. The Chairman has already commented on the 25.5% share price total return driven by a further reduction in the level of the discount between the share price and the net asset value.

The growth in net assets was primarily driven in the first half by our Continental European stocks. They began to benefit from both improving economic data and a broad expectation that the largest Eurozone economies of France and Germany would both gain from a new political order (Macron) and an older one (Merkel). Regional returns in the second half of the year were much closer with the UK component of the benchmark slightly outperforming, 4.1% in GBP versus Europe (ex UK) returning just 2% in EUR. However the fund's relative outperformance of the benchmark was not primarily driven by geographical focus (we were in fact overweight in the UK throughout the year) but by subsector exposure and stock selection particularly amongst our small caps.

The resounding theme of the period, which I flagged at the interim stage, and one that continues to be the case today is the huge divergence of performance (and investor sentiment) between sectors. The most extreme of these deserve to be highlighted early in this report as they were primary drivers of performance.

Retail property remains deeply unpopular whilst the other side of the online, omni-channel retailing phenomenon, namely warehousing, continues to experience stellar returns. In the UK our principal retail exposure was through Capital & Regional, whose centres focus on a local catchment and where rents remain affordable. While the stock underperformed the broader index it was the best performing UK retail stock. We remain firmly of the view that the value of prime shopping centres are on a downward glide path which is being smoothed by a lack of market transactions allowing independent valuers multiple reporting periods to get to the current market values. It is now merely a matter of time. Sharp eyed investors will notice that we have acquired a holding in Hammerson. This occurred just a few days before the year end and was entirely driven by our expectation of corporate activity which I will explain later. Intu (which we do not hold) once again 'won' the prize for poorest performing UK stock with a total return of –20.6%. Negative investor sentiment towards this particular sector is geographically agnostic and European names also suffered regardless of whether they are well run businesses exposed to premier malls (Unibail) or own secondary malls and lack management skills (Wereldhave).

Set against our retail underweight, the industrial and logistics subset remains our largest collective overweight and was a key performance driver. More on this subject later in the report.

Politics continued to have an impact. The result of the UK election last June reverberated through the market leading to relative underperformance of the UK property stocks versus their Continental cousins in the first half of the year. The London centric businesses (both large caps such as Landsec as well as the specialist developers such as Great Portland Estates) suffered from the ongoing concern that rental growth would reverse as London employment levels (particularly in financial service related businesses) dropped.

Given the underperformance of the UK, the fund's overweight to that region as mentioned earlier, requires an explanation. In summary, our exposure to alternative sectors such as student accommodation, self-storage, healthcare, budget hotels, index-linked and secure income has increased materially alongside an increased exposure to South East (ex-London) office markets. Virtually all of these investments exceeded the benchmark return with the strongest performances from McKay Securities (36.2%), CLS Holdings (36.8%) and Safestore (33.4%).

**Property Investment Markets**

Capital continues to flow into the asset class. Investors remain focused on income even as we move to a world of tightening monetary policy and a reduction in unorthodox stimulus (the ECB reduced their bond buying from €60bn to €30bn in October). Bond yields rose over the period but the 10 year Bund peaked in February at 76bps. Three quarters of 1% for 10 years and your money back not adjusting for inflation doesn't seem very appealing when the German economy is expected to grow at 2.5% this year (IMF forecast). Hence investors continue to seek alternatives.

Even London where rental growth is subdued and the economic outlook uncertain international capital flows have held yields at historically low levels, albeit this capital is focused on prime assets. Knight Frank calculated that last year 83% of all London office transactions were from overseas investors, totalling over £14bn. Transaction levels were 33% higher than the previous year although the figures were skewed by the two largest deals ever – 20 Fenchurch St ('the Walkie Talkie') and 122 Leadenhall Street (the ' Cheesegrater'). This agent's confidence for next year is underpinned by the fact that a third of all buyers for assets over £100m were making their first foray into the London market. The pool of potential purchasers appears deep. The UK capital remains a gateway for new investors and the uncertainty of Brexit doesn't seem to bother those with a much longer investment horizon.

Markets which continue to see rental growth driven by a positive demand/supply imbalance such as industrial/warehousing, residential (Germany, Spain, Sweden), and offices in Paris, Madrid, Stockholm and most major German cities have all experienced further yield compression and elevated transaction levels.

UK industrial transactions reached a £7.5bn record with an acceleration in Q4 which saw £2bn traded. MSCI/IPD report that average industrial yields tightened by 0.29% to 5.5%, another record, and are now lower than the equivalent for all retail property.

However, for assets which are experiencing serious downward pressure on rents and deep structural challenges we have seen a collapse in transaction volumes. Shopping centre sales volumes fell to £2.2bn the lowest level since the depth of the recession in 2009. Many of these transactions were acquisitions by local authorities using cheap finance from the Public Works Loan Board. This cohort's spending across all sectors exceeded £1.8bn in 2017 up from £1.2bn in 2016. Their motivation is often broader than merely financial returns as they seek to improve their own local retail environments which have suffered from under investment.

It remains our central concern that these reduced transaction volumes, particularly in retail, are holding back the downward adjustment to prices which the independent valuers need to make. They continue to cite lack of evidence when producing independent valuations, whereas the equity market already knows the direction of travel and has the shopping centre owners standing at discounts of between 15% (Unibail) and 45% (Intu) to their last reported asset values.

**Offices**

JLL report that Central London take up at 11.3m sq ft was some 11% ahead of 2016 and comfortably ahead of longer term averages. Those most concerned about the likely impact of Brexit may be surprised to read that Q4 2017 was the strongest quarter of the year for City take up with the full year figure at 6.2m sq ft, 15% ahead of the 10 year average. The West End equivalent figure was 4.4m sq ft, the highest since 2007. What is going on? Before we subject the Brexit bears to a tirade about 'Project Fear' we need to dig into the data. The flexible office space operators (led by WeWork) accounted for 28% of all take up in the last quarter and 20% of the 2017 figure. Whilst all this office space is part of the take up data it does then require real businesses to fill it who might otherwise take more traditional longer leases elsewhere. We must also remain cognisant of the fact that traditional financial services are not increasing their headcount. The loosely described 'creative' industries continue to increase their proportion of take up and rents remain most stable in their preferred locations of City fringe and Mid Town, also known as the Tech Belt. However this huge growth in serviced offices skews the data.

Investors, quite rightly, were concerned that the inevitable slowdown in employment growth ahead of the conclusion of the Brexit negotiations would meet an increase in the supply of new developments which were commenced before the Referendum vote was even a twinkle in UKIP's eye. It is pleasing to report that whilst 2017 development completions were the third highest on record, this new supply was quickly absorbed with new build vacancy at 0.6% (less than half the 10 year average). Vacancy has merely edged up from 4.8% to 4.9% in the City whilst being unchanged in the West End at 4.4%. Development completions scheduled for 2018 and 2019 are ahead of long term averages but then the 2020 delivery is significantly lower than average. We would characterise this profile as a healthy but contained level of space completion.

Paris continues to enjoy the recovery in tenant demand which we wrote about last year. Total take-up for 2017 reached 2.6m sq m, 15% ahead of the 10 year average and the highest level seen since 2007 and Q1 2018 has matched this pace. Incentives continue to fall particularly in the more central locations. Vacancy levels remain historically low in the prime CBD (Paris Centre West) at 2.9% compared to a 10 year average of 5%. La Defense is broadly in line with its long run average of 7.3%. The issue has always been around supply and whilst there are 30 projects due for completion in 2018, over half of these are in the centre of Paris which has been starved of modern, high quality space due to planning and historic building constraints. By way of example, CLS Holdings (we hold 5% of the company) will shortly complete a 2,000 sq m office close to Place des Victoires in the 1st Arr. in Paris and had little difficulty letting the building ahead of completion. Of the estimated 1.8m sq m to be delivered over the next 3 years, 50% is already pre-let.

A similar theme runs across all the major cities of Europe with employment growth translating into falling vacancy. Subdued levels of speculative development reflect the ongoing reluctance of banks to provide risk capital and this generates the virtuous circle of tenant demand meeting modest supply.

Madrid and Barcelona (despite the disruption caused by the Catalonian separatist movement) have both experienced a strong recovery in take up which has absorbed significant vacancy and driven rents higher. Madrid CBD saw rents 8% higher as incentives drop to pre-crisis levels and take up reached 560,000 sq m, 30% higher than 2016. With new space delivery at just 1.5% of current stock further rental growth is anticipated.

According to JLL, Germany's 7 top cities collectively reached an all time high take up of 4.2m sq m beating the previous 2016 record by 7%. Vacancy at 4.7% is the lowest in 15 years. Once again supply is anaemic with lower levels of new space delivery in 2017 than in 2016. The top performer in terms of rental growth was, again, Berlin (+11%) but Stuttgart, Munich and Hamburg also all saw 4%.

**Retail**

The retail sector continues to suffer from structural headwinds and retail property landlords remain out of favour. In some instances poor management decisions – principally around too much leverage – will continue to compound the pain of falling asset values and anaemic rental growth. Retailers of all shades are focusing their capital expenditure online not on stores. Almost every retailer must continue to rationalise their physical store estate. Many observers believe this just means a concentration of location and larger units. Our view is that it is much more nuanced and there is a place and a price for local everyday shopping. Landlords and valuations are adjusting to these lower rental levels. In fact it is the rents in many 'prime' centres which are becoming increasingly unaffordable as retailer margins continue to be squeezed. Lord Wolfson, the veteran retailer and CEO of Next commented that he expects, on average, all lease renewals going forward to be renegotiated at c25% below current passing rent. The current values of most centres are at yields implying growth which doesn't exist.

The moderately good news is that supply has all but dried up, particularly in the UK. Bracknell and Oxford were enhancements of existing schemes and both badly needed in wealthy catchments. Continental Europe has been slow to reduce supply but it is now happening. Cushman report 1.2m sq m of new space in H1 2017, down 11% from H1 2016. They estimate a calendar year decline of 16%.

The lack of market evidence due to the expectation gap between buyers and sellers, which is so apparent in the UK, is also a feature across Europe with investment volumes below average. However there has been more evidence of international and institutional capital continuing to pay record yields for prime assets, particularly city centre as evidenced by Eurocommercial's sale of 74 rue de Rivoli, Paris at an initial yield of 3.0% and their purchase of Woulwe, a shopping centre outside Brussels for €468m at a yield of 4.0%.

Both occupiers and landlords are still grappling with the longer term ramifications of digital sales penetration. The UK remains the bellwether with the highest level of online penetration. A year ago I commented that online sales as a percentage of all sales has reached 15%, the ONS update for March 2018 is 17.4%. It is also interesting to note that online sales of food (as a % of total sales) have grown much more slowly from 5.3% to 5.4% over the period.

Not all retailers have been able to successfully navigate these difficult times and the headline news in the UK around administrations and retailers' restructuring lease obligations through CVAs (creditor voluntary arrangements) has been a blizzard of household names – New Look, Carpetright, Byron Burger, Brantano, Jones the Bootmaker, Multiyork, House of Fraser and Toys R'Us to name a few. The CVA structure is a useful tool for tenants. It enables them to extract themselves from underperforming stores or to rebase rents back to market levels with the threat of bankruptcy (and therefore an empty store) as the alternative and less palatable course of action for a landlord.

**Distribution and Industrial**

The optimistic expectations for this sector (and our overweight position) have, if anything been exceeded. Last year I gave a range of statistics on the rate of rental growth and further yield compression. These rates have been matched or surpassed with MSCI/IPD reporting a total return of 19.6% for 2017. However, whilst investors have piled into the sector, actual take up (when Amazon's market share is stripped out) is just in line with the 5 year average. The last five years have seen extraordinary rates of growth in take up and that was at an unsustainable pace. What is encouraging and the rationale for further investor interest has been the pace of rental growth. According to LSH, rents in the UK's 60 key markets increased on average by 4.9%. Their 5 year projections average 3.5% pa versus that for all UK Property of sub 2%. Lack of availability remains the key. The threat to logistic networks posed by Brexit has deterred speculative development. UK wide availability has fallen to an all time low.

The situation across Europe is much the same. Segro's Q1 2018 trading statement included a series of record breaking statistics on leasing, take up and pre-lets. They operate across 6 European countries alongside the UK and it is very encouraging to see tenant demand across all countries and types of assets – Bigbox, last mile urban locations as well as traditional industrial users. Whilst their ERV (Estimated Rental Value) was fastest in the UK (+3.9%), Germany and Italy both recorded 1.9% on top of further overall yield compression. CBRE recorded the strongest growth in Spain with one year growth of 5% in Madrid and a staggering 8.7% in Barcelona.

Amazon continue to be at the forefront of this land grab. In April 2017, it announced that it was seeking 1,300 warehouses across Europe primarily to serve as last mile centres for its Prime service. They remain the largest acquirer of logistics space across Europe as the ability to provide same day delivery is rolled out beyond the largest cities in the UK to those in France, Italy, Spain, Germany and the Netherlands.

**Residential**

In the interim report I wrote at length about the attractions of the private rented sector (PRS) and those attributes remain in place. Following the £250m IPO of PRS REIT in May 2017, the company raised almost the same again in further primary issuance in February this year, such is the demand for the asset class.

Meanwhile, the Central London prime residential market continues to deflate under the weight of changes to stamp duty, capital gains and second home taxation as well as the inevitable expectation that Continental European buyers will defer investment decisions until they see the outcome of the Brexit negotiations.

Elsewhere in Europe we continue to see strong performance from the German listed residential businesses. These companies are effectively PRS businesses on a grand scale. The largest, Vonovia, now has 350,000 apartments following its acquisition of Buwog. Employment levels are at record highs in Germany and wage growth is assured which helps investors feel confident that tenants can continue to pay rents which are rising at c3% per annum.

The only other weak residential market, besides London, is Stockholm. It had enjoyed stellar growth over the previous 10 years however the Riksbank's macro prudential tools aimed at limiting borrowing and lowering mortgage thresholds have finally begun to bite and Swedish house prices have corrected 10% over the last year and even more in prime Stockholm.

**Debt and Equity Capital Markets**

I commented in the Interim on the amount of capital raised in the UK over the previous 12 months (£2bn) and the second half of the period saw an acceleration in that rate with a further £2bn raised in the final six months of the financial year. The previous period had been marked by a large number of IPOs focused either on assets with secure income (social housing, healthcare, supermarkets) or industrial / warehousing, the 'secteur du jour'. The Trust participated in a number of the former but none of the latter. Our industrial exposure is focused on businesses which already own the assets (and the development opportunities) as opposed to investing in blind pools of cash seeking to acquire in an increasingly heated environment.

In the latter part of the year, the largest raisings were from existing businesses with strong managements and we added to our holdings in Secure Income REIT (who raised £315m), Shaftesbury (£265m), Unite (£169m) and Assura (£173m). The largest raise was Civitas (£350m) a business investing in social housing let to a range of housing associations. We did not invest and recently one of the smaller associations has run into financial difficulties.

Our largest single participation (which was detailed in the Interim) was Supermarket Income REIT which raised £100m in July and followed that with a small additional raise of £20m in October. We anticipate further raisings and remain keen for this business to grow.

Equity capital markets were also busy across Europe with a total of €3.3bn raised. Spain and France dominated the leader board with Colonial, the Paris and Madrid office owner raising €670m to acquire Axiare and Merlin adding €150m to acquire more Madrid offices. The largest pan European raising was by the Paris office specialist Gecina who raised €1.0bn to acquire Eurosic. The resulting €15bn Paris portfolio is now twice the size of its nearest rival.

It was also another busy year in the debt capital markets. In the year to March 2018, pan European property companies raised €22.8 bn exceeding the prior year's figure of €19.3bn. Companies continue to take advantage of cheap debt and in many cases have retired existing expensive debt. Whilst there is a short term cost of this strategy we welcome managements' desire to secure long-term financing at historically record low pricing.

**Property Shares**

At the interim, I reported the stark gap in performance between Continental Europe and the UK which had reached nearly 6% in local currency terms. The second half saw the gap narrow with the twelve month performance of Continental Europe reaching a total return of 10.3% (in EUR) versus 6.6% for the UK (in GBP). The underperformance in the UK in the first half was driven by weakness in the largest companies. Landsec, British Land and Hammerson all of whom are focused on the two markets which investors are least enthused about, namely retail and Central London offices. The second half saw a recovery in sentiment towards Central London offices with Derwent London, Great Portland and British Land all rallying +10%. The laggard was Landsec which has record low leverage and is clearly positioned for a bear market.

Hammerson's performance would have been closer to Intu's -20%, if it wasn't for the approach from Klepierre which resulted in the Hammerson share price rallying 24% in the last two weeks of the financial year. For those readers who haven't been following this corporate finance calamity the briefest of summaries is as follows. In December, Hammerson and Intu announced that they reached agreement for Hammerson to acquire Intu with a mix of shares and cash. By mid March the share prices of both companies had fallen 20% from their 31st December 2017 closing prices. Investors did not like the deal. On 16th March the Board of Hammerson confirmed (in response to press speculation) that Klepierre had approached them with an indicative offer of 615p subsequently increased to 635p. The Hammerson Board rejected both bids out of court stressing its desire to continue with the Intu merger. Klepierre walked away and then on 18th April Hammerson announced that they no longer wished to pursue the deal with Intu citing changes in market conditions. In 20 years of working on the Trust I can safely say that I've never seen anything quite like this saga. The only thing we can be sure of is that this is not the end of the tale.

The sorry story of Hammerson, Intu and Klepierre temporarily overshadowed the much larger piece of retail landlord corporate activity – the takeover of Westfield by Unibail for a mix of cash and shares. Again investors are nervous about this transaction with concerns focused on price, post transaction leverage and the lack of synergies with Unibail buying into a completely new market in North America. Unibail's 12 month total return was a poor – 10.5% and the stock stands at a discount to its asset value a position it hasn't been in since the Global Financial Crisis in 2008/9. The share price weakness in shopping centre landlords was universal and whilst well run businesses such as Unibail did suffer, those with poorer balance sheets and weaker managements experienced a rout with Wereldhave down–17.4%, Deutsche Euroshop returning – 18.6% and Citycon –13.6%. None of these are held by the Trust.

As expected the strongest performances came from the industrial and logistics players with Segro, the outstanding performer returning 35.4% with London Metric a respectable 16.3%. Both are significant holdings. Tritax Bigbox, the purest play on logistics real estate underperformed the wider UK sector with a return of just 4.3%. This business is externally managed and the management team are incentivised to grow the portfolio. They have been extraordinarily successful at exceeding all expectations on that metric with nine capital raises since June 2014. However the share price return this year reflects the fact that what is good for the management team may well not be good for investors. Quite simply they raised too much capital and took too long to invest it, all against the backdrop of a market which is becoming increasingly crowded. However, we are confident that they have now learnt the requirement for capital discipline and their latest raise was much more modest.

German residential businesses returned to the top of the performance league table with the Berlin focused small cap, ADO Properties returning 37.3% whilst the larger names Deutsche Wohnen, LEG and Vonovia all returned between 22.5% and 26%. The latter continued its acquisition spree with the purchase of Buwog, the listed Austrian residential developer and owner. The Trust had a significant holding in Buwog and the deal announced in November was at a 20% premium to the undisturbed price. Germany now accounts for almost a third of all Eurozone economic output. High employment has resulted in wage inflation which is positive for all residential rental businesses where tenant affordability is crucial as rents continue to rise.

Spain continues to be a bright spot as its economy maintained its rapid growth. This year saw further M&A activity with Colonial buying Axiare for €1.5bn whilst Hispania (one of our largest overweight positions) received a bid from Blackstone, who have recently acquired a 16% position from a founder investor. We consider the offer from Blackstone at €17.45 per share to be insufficient. Hispania's total return for the year was 32.5% with the stock currently slightly higher than the offer price. Merlin, the largest listed owner of offices in Madrid and Barcelona also enjoyed a strong year returning 21.6%.

The Nordics were a microcosm of sector performance. City centre office owners, Fabege (Stockholm) and Entra (Oslo) performed well returning 26.9% and 17.9% respectively, whilst the logistics focused Catena returned 28.2%. Retail focused stocks suffered with Hufvudstaden (central Stockholm retail and offices) the only negative performer in the region returning –4.1%.

**Investment Activity**

Turnover (purchases and sales divided by two) totalled to £370m or 31.2% of the average assets over the period almost exactly in line with the 31.6% in the previous 12 months. This heightened level of activity over the last two years reflects the amount of corporate activity in our universe through primary issuance and follow on raisings, secondary placings and merger activity. Real estate equities have remained a popular source of income and raisings have enabled large wealth managers to participate fully in some relatively small companies.

The fund's overall geographical positioning between the UK and Continental Europe did not change markedly over the period with exposure to UK equities being 33.4% of assets up from 31.3% a year earlier. As I commented earlier our traditional retail exposure in the UK, for almost the entire period, has been through Capital & Regional and NewRiver Retail, as opposed to Intu and Hammerson. However I did increase our overall exposure to retail through investing in the IPO of Supermarket Income REIT. Unlike virtually all other retailing, the execution of omni-channel food retailing remains technically difficult. Consumers want the choice of going to the store, click & collect or home delivery and a decade on from the launch of 'Tesco.com' the major operators appear to have settled on using the existing store network to execute home delivery. Tesco currently use approximately 330 of their 750 stores for home delivery and have only 6 pure online fulfilment only 'dark' stores. This REIT aims to acquire only 'omni-channel' stores, i.e. those which are dominant enough to survive and thrive as the major supermarket operators' delivery network evolves. They have raised £120m and acquired four stores, with an average lease length of 18 years let to Tesco and Sainsbury's yielding 5%. The stock has a dividend yield of 5.5%. Further capital raises will be supported particularly given the inflation linked leases. The strategy of increased exposure to secure, longer leases which have an element of inflation hedging has seen increased investment in healthcare through Assura and Primary Health Properties, PRS (see below) and student accommodation through Unite. I added to our position in the appropriately named Secure Income REIT participating in the £315m raise to acquire a portfolio of long let budget hotels and the Manchester Arena leisure complex.

I maintained our Central London office positioning through Great Portland, Derwent London and Workspace. As detailed earlier global investors continue to buy London commercial property and whilst equity prices are discounting the potential issues of an unruly Brexit the reality has been much more solid tenant demand than expected. All these stocks performed well in the second half. However the real winners were our two businesses focused on suburban markets CLS Holdings and McKay Securities, both returning over 36%. The former sold its Nine Elms development site to an Asian buyer at a significant premium to book, reinvesting the proceeds in a German office portfolio whilst the latter announced the pre-let of its 58,000 sq ft Lombard St development before practical completion. Both management teams are to be congratulated on derisking almost their entire respective development programmes just as we enter the next stage of the Brexit negotiations.

Although Central London commercial values have remained robust over the period, the residential market hasn't. Capital & Counties, the owner of the huge Earls Court development site fell 5.5% over the year. It could have been a much greater fall were it not for the success of its Covent Garden retail estate. Our residential exposure is focused on PRS (the private rented sector) through our investment in The PRS REIT and Telford Homes. The latter is a London developer focused on affordable units (average apartment price £550k) who have markedly increased their exposure to PRS development.

The over exposure to European retail (countering our underweight in the UK) was a mistake. Whilst the share of online sales as a percentage of all retail sales is far below that of the UK, sentiment towards all retail property weakened over the year. At the Interim, I highlighted that I had consolidated our exposure into four businesses, Unibail and Klepierre focused on prime and Mercialys and Eurocommercial in the sub-regional space. The exit from Citycon (Finland), Wereldhave (Netherlands, France and Spain) and Deutsche Euroshop (Germany) was the correct strategy. In the second half I reduced exposure to Klepierre based on valuation and the company's reluctance to sell its long 'tail' of higher yielding, secondary assets where such disposals would damage earnings in the short run but create a better portfolio for the longer term. Klepierre's offer for Hammerson was a mix of cash and shares and the share price plunged as investors realised how much paper might need to be issued. With that saga temporarily in abeyance the shares have recovered.

Our large exposure to warehousing and industrial has been well flagged over several years. The top performing stock in this subsector was Argan, the specialist French logistics developer/owner which returned 37.6%. This company with a market cap of €700m is 50% owned by its founder and his family. For the first time this year it raised capital through buying property with newly issued shares which the property vendor then sold into the market. We acquired 15% of these new shares lifting our holding to nearly 3% of the company. Such has been the investor demand for this asset class, the warehouse/industrial companies were always amongst the top performers in every region. For example in Belgium, Warehouses de Pauw returned 20.6% whilst the EPRA Belgium Index returned just 5.3%. In Sweden, the national index returned 15.6% but Catena returned 27.5%.

The largest geographical underweights remain Switzerland and Belgium and collectively stocks in both regions underperformed the wider index.

**Revenue and Revenue Outlook**

We reported strong growth in earnings at the interim stage, driven by a combination of weaker sterling in the first half of the year in comparison to the same period of the prior year, plus the receipt of a significant withholding tax reclaim. We expected earnings in the second half to be more on a par with the prior year and this has indeed been the case. Overall this led to a 16.2% year on year increase in earnings. Over a five-year period earnings have grown by 96.14%.

There have been a number of factors contributing to this growth, most property companies have retired and refinanced debt over this period and as interest rates have fallen significantly they have received a strong boost to their revenue accounts from much lower finance costs. This process has broadly been completed. Corporate activity has led to an increase in the number of special one-off distributions as have changes in dividend payment schedules. In the last two years the weakening of sterling has had a material impact as our earnings from continental Europe have been worth more in sterling terms.

The withholding tax reclaim received this year boosted earnings by around 0.67p per share (after paying the professional fees in connection with the reclaim) and this is not expected to be repeated. We continue to make reclaims in countries where appropriate but the more recent distributions were received after the equivalent tax transparent vehicles had been established in many other countries and therefore the amounts we can attempt to reclaim are much smaller.

The underlying message is that this rate of earnings growth is not likely to continue. The debt refinancing and restructuring of the last five to ten years has strengthened balance sheets and we feel optimistic about earnings from these companies but further growth has to be generated from underlying rental growth. A recovery in sterling's fortune would have a well-flagged detrimental impact on our earnings.

Without any currency impact, our earnings may be slightly lower in the forthcoming year because the revenue account will not have the benefit of the one-off items we saw in the year to March 2018.

**Gearing and Debt**

Gearing increased a little over the year ending the period at 14.6%. As a reminder, our property portfolio represents just over 7% of our investment exposure and this is ungeared, so the gearing against our equity portfolio is quite modest. As set out in the Chairman's statement, both our loan facilities were renewed and we are also in conversation with other suitable providers. We are keen to spread the risk of our debt portfolio and are happy to have a number of sources, including the ability to invest through CFDs.

**Direct Physical Portfolio**

The physical property portfolio produced a total return of 14.6% for the twelve months to March 2018 with an income return of 3.5% and a capital return of 11.1%. This compares well to the total return from the IPD

All Property Index of 11.3% which comprised a higher income return of 5.4% but lower capital return of 5.5%.

During the year the Trust completed the sale of two properties. An industrial unit in Plymouth was sold for £4.3m following the settlement of the August 2016 rent review at a 14.4% uplift to the previous passing rent. The asset, the smallest in the portfolio, had 3.5 years to lease expiry and the tenant was not in occupation. The sale was concluded 2.6% ahead of the September 2017 valuation and 8.6% ahead of the March 2017 valuation. The sale of our office building in Wimbledon, for £5.8m, was reported at the Interim and completed as expected in November 2017. Whilst the rationale for the sale of Plymouth was the conclusion of an asset management initiative (the rent review) in line with the business plan, the sale of Wimbledon was an opportunity to crystallise profit at a specific point in the market without the need to commit further capital on a risky planning application.

At the Colonnades the lease to the restaurant operator, Babaji was completed following the successful appeal against Westminster Council's refusal to grant planning permission to amalgamate the two units. In addition, we let Unit 2 to a high-end gym operator, 1Rebel, for their 4th opening in London. They have completed their fit out and opened for business. This leaves two areas of vacancy at the Colonnades; the final and smallest retail unit and the public house. Between them they account for the vacancy rate of 5.8% for the property. Following another protracted planning application with Westminster City Council we have finally received planning consent to split the ground floor pub and the 1st floor 3 bed flat. We can now proceed with the façade improvements, internal alterations on the ground floor as well as the comprehensive refurbishment of the flat.

In the summer we concluded the letting of two industrial units at Ferrier Street, Wandsworth, taking the estate to full occupancy. In addition, we have successfully secured a change in the local planning policy to a more "mixed use" designation. We continue to develop our proposals for the redevelopment of the site, in consultation with Wandsworth Council and envisage submitting a planning application in the next 9 months.

**Regulation**

This is not a regular heading in my Report but the weight of new regulation over the last year warrants comment.

The Chairman has referred to MiFID II and the PRIIPS regulation in his report so I won't expand on that much here other than to endorse that we welcome the statement from the AIC on KIDs. There has been widespread concern across the Investment Trust industry that the investment performance scenarios which are based on short-term recent performance may indicate over optimistic future returns and this is particularly pertinent after the sustained period of strong positive performance that we have seen over recent years. The AIC warn that KIDs will encourage investors to "buy high, sell low". Due to the way the forecast returns have to be produced, KIDs will suggest to investors that after a sustained bull market they will get higher returns in the future and after a sustained bear market, that investors will get lower future returns. They have called on the FCA to take steps to protect consumers. We hope that the FCA will be quick to respond but in the meantime the Board and the Manager a keen to ensure the investors understand the nature of this document.

More recently, GDPR (General Data Protection Regulation) which came into effect on 25th May is an extension of the Data Protection Directive setting out a more rigorous data protection regime, placing more obligations on controllers and processors of personal data and providing more rights for data subjects. The Company has taken steps to comply with this new regulation and has ensured that third party suppliers are also compliant.

**Outlook**

A year ago my outlook projection was positive based on the fact that property is a pro-cyclical asset class with a core income driver. As economic growth returns market rents rise, subject to the levels of supply of available property. We also expected bond yields to rise as Europe began the process of normalising base rates. In the Interim in November, I highlighted that only those markets with rental growth would outperform rising bond yields and we therefore expected the divergence in performance between property companies exposed to markets with growth and the rest to widen even further and that has been the case.

The last quarter of the financial year proved investors are quickly spooked if monetary tightening expectations are brought forward faster than expected. However, in the last few weeks we have had sight of the Q1 economic data as well as central bank commentary from both the Bank of England and the European Central Bank. Both are again erring on the side of caution amidst signs of a slowing in the rate of growth, although it remains positive. This deceleration has been most abrupt in the UK as it moved from the top of the European growth table to the bottom (with only Italy below us) such is the 'Brexit drag' with investment and consumer confidence weakening. Our one year outlook for the UK remains jaundiced by the political back drop and the range of negotiated outcomes is still too broad to provide effective probabilities. We remain wary particularly for London offices and retail. Our additional exposure over the year has been to alternatives and longer dated indexed income from a variety of property types. This is set to continue.

Across Europe we have an opportunity to remain more optimistic, particularly given Mr Draghi's recent dovish remarks. Here we continue to focus on those sectors with the strongest rental growth prospects and we believe that the divergence in performance will persist. We continue to avoid businesses which appear attractively priced but which ultimately have weaker (or potentially negative) earnings growth. Economic growth across the region remains robust. Office rents are rising in every dominant city across the Continent, in stark contrast to Central London.

Two final investment themes to highlight. M&A activity has increased over the last year. Real estate can of course be owned publicly or privately (way more in the latter). Private companies can afford higher debt levels away from public market scrutiny and we may well find that, fuelled by the ongoing availability of cheap leverage, we see more businesses taken private. The acquisition targets are likely to be those cheaper and higher yielding businesses. Generally not the ones the Trust owns at this point in the cycle.

Whilst I have highlighted the political backdrop, particularly in the UK, we also consider the lack of progress in the development of a banking union across the Eurozone as a potential existential issue. The European Union still has much more harmonisation to complete amongst the remaining 27 countries and the initial further reform impetus of the Macron presidency appears to have met with resistance from the German Chancellor and her Finance Minister. Such issues as the ongoing indebtedness of Greece and the Italian banks' bad debts continue to simmer in the background. The ECB's careful and cautious progress in moving from quantitative easing to monetary tightening is proceeding at an appropriate pace and real estate continues to look attractive against long duration fixed income alternatives.

**Marcus Phayre-Mudge**
**Fund Manager**
**30 May 2018**

## Overview of strategy, performance measurement and risk management

Investment Objective and Benchmark
The Company's Objective is to maximise shareholders' total return by investing in the shares and securities of property companies and property related businesses internationally and also in investment property located in the UK.

The benchmark is the FTSE EPRA/NAREIT Developed Europe Capped Net Total Return Index in Sterling. The index, calculated by FTSE, is free-float based and currently has 103 constituent companies. The index limits exposure to any one company to 10% and reweights the other constituents pro-rata. The benchmark website www.epra.com contains further details about the index and performance.

Business Model
The Company's business model follows that of an externally managed investment trust.

The Company has no employees. Its wholly non-executive Board of five Directors retains responsibility for corporate strategy; corporate governance; risk and control assessment; the overall investment and dividend policies; setting limits on gearing and asset allocation and monitoring investment performance.

The Board has appointed F&C Investment Business Limited as the Alternative Investment Fund Manager with portfolio management delegated to Thames River Capital LLP. Marcus Phayre-Mudge acts as Fund Manager to the Company on behalf of Thames River Capital LLP and Alban Lhonneur is Deputy Fund Manager. George Gay is the Direct Property Manager and Joanne Elliott the Finance Manager. They are supported by a team of equity and portfolio analysts.

Further information in relation to the Board and the arrangements under the Investment Management Agreement can be found in the full Annual Report and Accounts.

In accordance with the AIFMD, BNP Paribas has been appointed as Depository to the Company. BNP Paribas also provide custodial and administration services to the Company. Company secretarial services are provided by Link Company Matters.

The specific terms of the Investment Management Agreement are set out in the full Annual Report and Accounts.

Strategy and Investment Policies
The investment selection process seeks to identify well managed companies of all sizes. The Manager generally regards future growth and capital appreciation potential more highly than immediate yield or discount to asset value.

Although the investment objective allows for investment on an international basis, the benchmark is a Pan-European Index and the majority of the investments will be located in that geographical area. Direct property investments are located in the UK only.

As a dedicated investor in the property sector the Company cannot offer diversification outside that sector, however, within the portfolio there are limitations, as set out below, on the size of individual investments held to ensure diversification within the portfolio.

Asset allocation guidelines
The maximum holding in the stock of any one issuer or of a single asset is limited to 15% of the portfolio at the point of acquisition. In addition, any holdings in excess of 5% of the portfolio must not in aggregate exceed 40% of the portfolio.

The Manager currently applies the following guidelines for asset allocation;

| | |
|---|---|
| UK listed equities | 25 – 50% |
| Continental European listed equities | 45 – 75% |
| Direct Property – UK | 0 – 20% |
| Other listed equities | 0 – 5% |
| Listed bonds | 0 – 5% |
| Unquoted investments | 0 – 5% |

Gearing
The Company may employ levels of gearing from time to time with the aim of enhancing returns, subject to an overall maximum of 25% of the portfolio value.

In certain market conditions the Manager may consider it prudent not to employ gearing on the balance sheet at all, and to hold part of the portfolio in cash.

The current asset allocation guideline is 10% net cash to 25% net gearing (as a percentage of portfolio value).

Property Valuation
Investment properties are valued every six months by an external independent valuer. Valuations of all the Group's properties as at 31 March 2018 have been carried out on a "Red Book" basis and these valuations have been adopted in the accounts.

Allocation of costs between Revenue & Capital
On the basis of the Board's expected long-term split of returns in the form of capital gains and income, the Group charges 75% of annual base management fees and finance costs to capital. All performance fees are charged to capital.

Key Performance Indicators
The Board assesses the performance of the Manager in meeting the Trust's objective against the following Key Performance Indicators ("KPIs"):

| KPI | Board monitoring and outcome |
|---|---|
| **Net Asset Value Total Return Relative to the benchmark** | • The Board reviews the performance in detail at each meeting and discusses the results and outlook with the |

<table>
<tr>
<td>The Directors regard the Company's net asset value total return performance in comparison with the benchmark as being an overall measure of value delivered to the shareholders' over the longer term.</td>
<td>Manager.
<table>
<tr><td></td><td colspan="2">Outcome</td></tr>
<tr><td></td><td>1 year</td><td>5 years</td></tr>
<tr><td>NAV Total Return* (Annualised)</td><td>15.5%</td><td>16.1%</td></tr>
<tr><td>Benchmark Total Return (Annualised)</td><td>10.2 %</td><td>11.9 %</td></tr>
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<tr>
<td>Delivering a reliable dividend which is growing over the longer term<br>The principal objective of the Company is a total return objective, however, the fund manager aims to deliver a reliable dividend with growth over the longer term.</td>
<td>
<ul><li>The Board reviews statements on income received to date and income forecasts at each meeting.</li></ul>
<table>
<tr><td></td><td colspan="2">Outcome</td></tr>
<tr><td></td><td>1 year</td><td>5 years</td></tr>
<tr><td>Compound Annual Dividend Growth</td><td>16.2%</td><td>11.8%</td></tr>
<tr><td>Compound Annual RPI</td><td>3.3 %</td><td>2.3%</td></tr>
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<td>The Discount or Premium at which the Company's shares trade compared with Net Asset Value<br>Whilst expectations of investment performance is a key driver of the share price discount or premium to the net asset value of an investment trust over the longer-term, there are periods when the discount can widen. The Board is aware of the vulnerability of a sector-specialist trust to a change of investor sentiment towards that sector and the impact that can have on the discount.</td>
<td>
<ul><li>The Board takes powers at each AGM to buy-back and issue shares. When considering the merits of share buy-back or issuance, the Board looks at a number of factors in addition to the short and longer-term discount or premium to NAV to assess whether action would be beneficial to the shareholders overall. Particular attention is paid to the current market sentiment, the potential impact of any share buy-back activity on the liquidity of the shares and on Ongoing Charges over the longer term.</li></ul>
<table>
<tr><td></td><td colspan="2">Outcome</td></tr>
<tr><td></td><td>1 year</td><td>5 years</td></tr>
<tr><td>Average discount</td><td>5.6%</td><td>5.3%</td></tr>
<tr><td>Total number of shares repurchased</td><td>Nil</td><td>525,000</td></tr>
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<tr>
<td>Level of Ongoing Charges<br>The Board is conscious of expenses and aims to deliver a balance between excellent service and costs.<br><br>The AIC definition of Ongoing Charges includes any direct property costs in addition to the management fees and all other expenses incurred in running a publicly listed company. As no other investment trusts hold part of their portfolio in direct property (they either hold 100% of their portfolio as property securities or as direct property). In addition to Ongoing Charges as defined by the AIC this statistic is shown without direct property costs to allow a clearer comparison of overall administration costs with other funds investing in securities.<br><br>, The Board monitors the Ongoing Charges, in comparison to a range of other Investment Trusts of similar size both property sector specialists and other sector specialists.</td>
<td>
<ul><li>Expenses are budgeted for each financial year and the Board reviews regular reports on actual and forecast expenses throughout the year.</li></ul>
<table>
<tr><td></td><td colspan="2">Outcome</td></tr>
<tr><td></td><td>1 year</td><td>5 years</td></tr>
<tr><td>Ongoing Charges excluding Performance Fees</td><td>0.65%</td><td>0.72%</td></tr>
<tr><td>Ongoing Charges excluding Performance Fees and Property Costs</td><td>0.61%</td><td>0.67%</td></tr>
</table>
<ul><li>The ongoing charges are competitive when compared to the peer group.</li></ul>
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| **Investment Trust Status**<br>*The Company must continue to operate in order to meet the requirements for Section 1158 of the Corporation Tax Act 2010.* | • The Board reviews financial information and forecasts at each meeting which set out the requirements outlined in Section 1158.<br>• The Directors believe that the conditions and ongoing requirements have been met in respect of the year to 31 March 2018 and that the Company will continue to meet the requirements. |

Principal Risks and Uncertainties

In delivering long-term returns to shareholders, the Board must also identify and monitor the risks that have been taken in order to achieve that return. The Board has included below details of the principal risks and uncertainties facing the Company and the appropriate measures taken in order to mitigate these risks as far as practicable.

The risks are all in line with the prior period and none are considered more or less significant than in the prior year.

| Risk Identified | Board monitoring and mitigation |
|---|---|
| **Share price performs poorly in comparison to the underlying NAV**<br>*The shares of the Company are listed on the London Stock Exchange and the share price is determined by supply and demand. The shares may trade at a discount or premium to the Company's underlying NAV and this discount or premium may fluctuate over time.* | • The Board monitors the level of discount or premium at which the shares are trading over the short and longer-term.<br>• The Board encourages engagement with the shareholders. The Board receives reports at each meeting on the activity of the Company's broker, PR agent and meetings and events attended by the Fund Manager.<br>• The Company's shares are available through the F&C share schemes and the company participates in the active marketing of these schemes. The shares are also widely available on open architecture platforms and can be held directly through the Company's registrar.<br>• The Board takes the powers to buy-back and to issue shares at each AGM. |
| **Poor investment performance of the portfolio relative to the benchmark**<br>*The Company's portfolio is actively managed. In addition to investment securities the Company also invests in commercial property and accordingly, the portfolio may not follow or outperform the return of the benchmark* | • The Manager's objective is to outperform the benchmark. The Board regularly reviews the Company's long term strategy and investment guidelines and the manager's relative positions against these.<br>• The Management Engagement Committee reviews the Managers performance annually. The Board has the powers to change the Manager if deemed appropriate. |
| **Market risk**<br>*Both share prices and exchange rates may move rapidly and adversely impact the value of the Company's portfolio.*<br><br>*Although the portfolio is diversified across a number of geographical regions, the investment mandate is focused on a single* | • The Board receives and considers a regular report from the Manager detailing asset allocation, investment decisions, currency exposures, gearing levels and rationale in relation to the prevailing market conditions.<br>• The report considers the potential impact of Brexit and the Manager's response in positioning the |

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| *sector and therefore the portfolio will be sensitive towards the property sector, as well as global equity markets more generally.*<br><br>*Property companies are subject to many factors which can adversely affect their investment performance, these include the general economic and financial environment in which their tenants operate, interest rates, availability of investment and development finance and regulations issued by governments and authorities.*<br><br>*As highlighted since the result of the UK referendum in June 2016, parts of the UK property market may be adversely affected by Brexit. The negotiations are still in progress and the implications are unclear together with the impact on occupation across each sector.* | portfolio. |
| **The Company is unable to maintain dividend growth**<br>*Lower earnings in the underlying portfolio putting pressure on the Company's ability to grow the dividend could result from a number of factors;*<br><br>• *lower earnings and distributions in investee companies*<br>• *prolonged vacancies in the direct property portfolio*<br>• *strengthening sterling reducing the value of overseas dividend receipts in sterling terms*<br>• *adverse changes in the tax treatment of dividends or other income received by the company*<br>• *changes in the timing of dividend receipts from investee companies.*<br><br>*The Company has seen a material increase in the level of earnings in the last two years. A significant factor in this has been the weakening of sterling following the Brexit decision. This may reverse in the near or medium term as the negotiations progress, leading to a fall in earnings.* | • The Board receives and considers regular income forecasts.<br><br>• Income forecast sensitivity to changes in FX rates is also monitored.<br><br>• The Company has revenue reserves which can be drawn upon when required. |
| **Accounting and operational risks**<br>*Disruption or failure of systems and processes underpinning the services provided by third parties and the risk that these suppliers provide a sub-standard service.* | • Third party service providers produce periodic reports to the Board on their control environments and business continuation provisions on a regular basis.<br><br>• The Management Engagement Committee considers the performance of each of the service providers on a regular basis and considers their ongoing appointment and their terms and conditions.<br><br>• The Custodian and Depository are responsible for the safeguarding of assets. In the event of a loss of assets the Depository must return assets of an |

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| | identical type or corresponding amount unless able to demonstrate that the loss was the result of an event beyond their reasonable control. |
| **Financial risks**<br>*The Company's investment activities expose it to a variety of financial risks which include, counterparty credit risk, liquidity risk and the valuation of financial instruments.* | • Details of these risks together with the policies for managing these risks are found in the Notes to the Financial Statements in the full Annual Report and Accounts. |
| **Loss of Investment Trust Status**<br>*The Company has been accepted by HM Revenue & Customs as an investment trust, subject to continuing to meet the relevant eligibility conditions. As such the Company is exempt from capital gains tax on the profits realised from the sale of investments.*<br><br>*Any breach of the relevant eligibility conditions could lead to the Company losing investment trust status and being subject to corporation tax on capital gains realised within the company's portfolio.* | • The Investment Manager monitors the investment portfolio, income and proposed dividend levels to ensure that the provisions of CTA 2010 are not breached. The results are reported to the Board at each meeting.<br><br>• The income forecasts are reviewed by the Company's tax advisor through the year who also reports to the Board on the year-end tax position and reports on CTA 2010 compliance. |
| **Legal, regulatory and reporting risks**<br>*Failure to comply with the London Stock Exchange Listing Rules and Transparency and Disclosure rules; failure to meet the requirements under the Alternative Investment Funds Directive, the provisions of the Companies Act 2006 and other UK, European and overseas legislation affecting UK companies. Failure to meet the required accounting standards or make appropriate disclosures in the Interim and Annual Reports.* | • The Board receives regular regulatory updates from the Manager, Company Secretary, legal advisors and Auditors. The Board considers these reports and recommendations and takes action accordingly.<br><br>• The Board receives an annual report and update from the Depository.<br><br>• Internal checklists and review procedures are in place at service providers.<br><br>• External auditors review Interim & Annual Reports and audit year end Financial Statements. |
| **Inappropriate use of gearing**<br>*Gearing, either through the use of bank debt or through the use of derivatives may be utilised from time to time. Whilst the use of gearing is intended to enhance the NAV total return, it will have the opposite effect when the return of the Company's investment portfolio is negative.* | • The Board receives regular reports from the Manager on the levels of gearing in the portfolio. These are considered against the gearing limits set in the Investment Guidelines and also in the context of current market conditions and sentiment. |
| **Personnel changes at Investment Manager**<br>*Loss of portfolio manager of other key staff.* | • The Chairman conducts regular meetings with the Fund Management team.<br><br>• The fee basis protects the core infrastructure and depth and quality resources. The fee structure incentivises good performance and is fundamental in the ability to retain key staff. |

**Statement of directors' responsibilities in relation to the Group financial statements**

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

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare both the group and the parent company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have 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 responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Responsibility Statement**

Each of the directors confirms that to the best of their 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 of the Group and Company and the undertakings included in the consolidation taken as a whole; and;
- the Annual Report, includes a fair review of the development and performance of the business and the position of the Trust, together with a description of the principal risks and uncertainties that it faces; and
- the accounting records have been properly maintained; and
- the Annual Report, taken as a whole, is fair, balanced and understandable and provides the necessary information for shareholders to assess the company's position and performance, business model and strategy.

## Group Statement of Comprehensive Income

### For the year ended 31 March 2018

| | Year ended 31 March 2018 | | | Year ended 31 March 2017 | | |
|---|---|---|---|---|---|---|
| | **Revenue Return £'000** | **Capital Return £'000** | **Total £'000** | Revenue Return £'000 | Capital Return £'000 | Total £'000 |
| **Income** | | | | | | |
| Investment income | **40,267** | **-** | **40,267** | 35,574 | - | 35,574 |
| Other operating income | **495** | **-** | **495** | 62 | - | 62 |
| Gross rental income | **3,971** | **-** | **3,971** | 3,781 | - | 3,781 |
| Service charge income | **1,397** | **-** | **1,397** | 1,549 | - | 1,549 |
| Gains on investments held at fair value | **-** | **140,470** | **140,470** | - | 52,693 | 52,693 |
| Net movement on foreign exchange; investments and loan notes | **-** | **(2,845)** | **(2,845)** | - | (1,130) | (1,130) |
| Net movement on foreign exchange; cash and cash equivalents | **-** | **921** | **921** | - | 2,450 | 2,450 |
| Net returns on contracts for difference | **4,624** | **6,358** | **10,982** | 4,457 | (1,487) | 2,970 |
| **Total Income** | **50,754** | **144,904** | **195,658** | 45,423 | 52,526 | 97,949 |
| **Expenses** | | | | | | |
| Management and performance fees | **(1,389)** | **(14,355)** | **(15,744)** | (1,314) | (5,092) | (6,406) |
| Direct property expenses, rent payable and service charge costs | **(1,947)** | **-** | **(1,947)** | (2,078) | - | (2,078) |
| Other administrative expenses | **(1,308)** | **(558)** | **(1,866)** | (1,213) | (546) | (1,759) |
| **Total operating expenses** | **(4,644)** | **(14,913)** | **(19,557)** | (4,605) | (5,638) | (10,243) |
| Operating profit | **46,110** | **129,991** | **176,101** | 40,818 | 46,888 | 87,706 |
| Finance costs | **(772)** | **(2,070)** | **(2,842)** | (621) | (1,842) | (2,463) |
| **Profit from operations before tax** | **45,338** | **127,921** | **173,259** | 40,197 | 45,046 | 85,243 |
| Taxation | **(3,383)** | **2,326** | **(1,057)** | (4,080) | 1,822 | (2,258) |
| **Total comprehensive income** | **41,955** | **130,247** | **172,202** | 36,117 | 46,868 | 82,985 |
| **Earnings per Ordinary share** | **13.22p** | **41.04p** | **54.26p** | 11.38p | 14.76p | 26.14p |

The Total column of this statement represents the Group's Statement of Comprehensive Income, prepared in accordance with IFRS. The Revenue Return and Capital Return columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies. All items in the above statement derive from continuing operations.

The Group does not have any other income or expense that is not included in the above statement therefore "Total comprehensive income" is also the profit for the year.

All income is attributable to the shareholders of the parent company.

## Group and Company Statement of Changes in Equity

### Group

| For the year ended 31 March 2018 | Share Capital Ordinary £'000 | Share Premium Account £'000 | Capital Redemption Reserve £'000 | Retained Earnings Ordinary £'000 | Total £'000 |
|---|---|---|---|---|---|
| **At 31 March 2017** | **79,338** | **43,162** | **43,971** | **951,953** | **1,118,424** |
| Net profit for the year | **-** | **-** | **-** | **172,202** | **172,202** |
| Dividends paid | **-** | **-** | **-** | **(35,067)** | **(35,067)** |
| **At 31 March 2018** | **79,338** | **43,162** | **43,971** | **1,089,088** | **1,255,559** |

### Company

| For the year ended 31 March 2018 | Share Capital Ordinary £'000 | Share Premium Account £'000 | Capital Redemption Reserve £'000 | Retained Earnings Ordinary £'000 | Total £'000 |
|---|---|---|---|---|---|
| **At 31 March 2017** | **79,338** | **43,162** | **43,971** | **951,953** | **1,118,424** |
| Net profit for the year | **-** | **-** | **-** | **172,202** | **172,202** |
| Dividends paid | **-** | **-** | **-** | **(35,067)** | **(35,067)** |
| **At 31 March 2018** | **79,338** | **43,162** | **43,971** | **1,089,088** | **1,255,559** |

### Group

| For the year ended 31 March 2017 | Share Capital Ordinary £'000 | Share Premium Account £'000 | Capital Redemption Reserve £'000 | Retained Earnings Ordinary £'000 | Total £'000 |
|---|---|---|---|---|---|
| **At 31 March 2016** | 79,375 | 43,162 | 43,934 | 898,948 | 1,065,419 |
| Net profit for the period | - | - | - | 82,985 | 82,985 |
| Share repurchased | (37) | - | 37 | (459) | (459) |
| Dividends paid | - | - | - | (29,521) | (29,521) |
| **At 31 March 2017** | 79,338 | 43,162 | 43,971 | 951,953 | 1,118,424 |

## Company

| For the year ended 31 March 2017 | Share Capital Ordinary £'000 | Share Premium Account £'000 | Capital Redemption Reserve £'000 | Retained Earnings Ordinary £'000 | Total £'000 |
|---|---|---|---|---|---|
| **At 31 March 2016** | 79,375 | 43,162 | 43,934 | 898,948 | 1,065,419 |
| Net profit for the period | - | - | - | 82,985 | 82,985 |
| Share repurchased | (37) | - | 37 | (459) | (459) |
| Dividends paid | - | - | - | (29,521) | (29,521) |
| **At 31 March 2017** | 79,338 | 43,162 | 43,971 | 951,953 | 1,118,424 |

## Group and Company Balance Sheets as at 31 March 2018

| | **Group 2018 £'000** | **Company 2018 £'000** | Group 2017 £'000 | Company 2017 £'000 |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Investments held at fair value | **1,316,046** | **1,316,046** | 1,144,776 | 1,144,776 |
| Investments in subsidiaries | **-** | **50,470** | - | 50,531 |
| | **1,316,046** | **1,366,516** | 1,144,776 | 1,195,307 |
| Deferred taxation asset | **243** | **243** | 243 | 243 |
| | **1,316,289** | **1,366,759** | 1,145,019 | 1,195,550 |
| **Current assets** | | | | |
| Debtors | **32,574** | **32,452** | 38,809 | 38,687 |
| Cash and cash equivalents | **18,114** | **18,110** | 6,445 | 6,420 |
| | **50,688** | **50,562** | 45,254 | 45,107 |
| **Current liabilities** | **(52,543)** | **(102,887)** | (14,081) | (64,465) |
| **Net current (liabilities) /assets** | **(1,855)** | **(52,325)** | 31,173 | (19,358) |
| **Total assets less current liabilities** | **1,314,434** | **1,314,434** | 1,176,192 | (1,176,192) |
| **Non-current liabilities** | **(58,875)** | **(58,875)** | (57,768) | (57,768) |
| **Net assets** | **1,255,559** | **1,255,559** | 1,118,424 | 1,118,424 |
| **Capital and reserves** | | | | |
| Called up share capital | **79,338** | **79,338** | 79,338 | 79,338 |
| Share premium account | **43,162** | **43,162** | 43,162 | 43,162 |
| Capital redemption reserve | **43,971** | **43,971** | 43,971 | 43,971 |
| Retained earnings | **1,089,088** | **1,089,088** | 951,953 | 951,953 |

| | | | | |
|---|---|---|---|---|
| **Equity shareholders' funds** | **1,255,559** | **1,255,559** | 1,118,424 | 1,118,424 |
| **Net Asset Value per:** | | | | |
| Ordinary share | **395.64p** | **395.64p** | 352.42p | 352.42p |

## Group and Company Cash Flow Statements as at 31 March 2018

| | **Group 2018 £'000** | **Company 2018 £'000** | Group 2017 £'000 | Company 2017 £'000 |
|---|---|---|---|---|
| **Reconciliation of profit from operations before tax to net cash inflow from operating activities** | | | | |
| Profit from operations before tax | **173,259** | **173,259** | 85,243 | 85,050 |
| Finance costs | **2,842** | **2,842** | 2,463 | 3,455 |
| Gains on investments and derivatives held at fair value through profit or loss | **(146,828)** | **(146,767)** | (51,206) | (48,671) |
| Net movement on foreign exchange; cash and cash equivalents and loan notes | **186** | **186** | 669 | 669 |
| Decrease/(increase) in accrued income | **218** | **218** | (624) | (1,016) |
| Net (purchases)/sales of investments | **(19,446)** | **(19,446)** | 4,606 | 4,606 |
| Decrease/(increase) in sales settlement debtor | **8,288** | **8,288** | (5,591) | (5,591) |
| Decrease in purchase settlement creditor | **(5,869)** | **(5,869)** | (3,216) | (3,216) |
| Increase in other debtors | **(2,710)** | **(2,710)** | (1,595) | (1,602) |
| Increase/(decrease) in other creditors | **9,194** | **9,154** | (1,575) | (4,237) |
| Scrip dividends included in investment income and net returns on contracts for difference | **(4,920)** | **(4,920)** | (1,450) | (1,450) |
| **Net cash inflow from operating activities before interest and taxation** | **14,214** | **14,235** | 27,724 | 27,997 |
| Interest paid | **(2, 774)** | **(2, 774)** | (2,437) | (3,042) |
| Taxation paid | **(1,625)** | **(1,625)** | (4,066) | (3,746) |
| **Net cash inflow from operating activities** | **9,815** | **9,836** | 21,221 | 21,209 |
| **Financing activities** | | | | |
| Equity dividends paid | **(35,067)** | **(35,067)** | (29,521) | (29,521) |
| Drawdown/(repayment of loans) | **36,000** | **36,000** | (10,000) | (10,000) |
| Repurchase of shares | **-** | **-** | (459) | (459) |
| Net cash from/(used) in financing activities | **933** | **933** | (39,980) | (39,980) |
| **Increase/(decrease) in cash** | **10,748** | **10,769** | (18,759) | (18,771) |
| Cash and cash equivalents at start of year | **6,445** | **6,420** | 22,754 | 22,741 |
| Net movement in foreign exchange; cash and cash equivalents | **921** | **921** | 2,450 | 2,450 |
| **Cash and cash equivalents at end of year** | **18,114** | **18,110** | 6,445 | 6,420 |
| **Note** | | | | |
| Dividends received | **42,097** | **42,097** | 35,834 | 35,820 |
| Interest received | **484** | **484** | 41 | 41 |

**Notes to the Preliminary Announcement**

## 1 Accounting Policies

The financial statements for the year ended 31 March 2018 have been prepared on a going concern basis, in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the International Accounting Standards Board (IASB), together with interpretations of the International Accounting Standards and Standing Interpretations Committee approved by the International Accounting Standards Committee (IASC) that remain in effect, to the extent that they have been adopted by the European Union and as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006. The financial statements have also been prepared in accordance with the Statement of Recommended Practice (SORP), "Financial Statements of Investment Trust Companies and Venture Capital Trusts," to the extent that it is consistent with IFRS.

The Group and Company financial statements are expressed in Sterling, which is their functional and presentational currency. Sterling is the functional currency because it is the currency of the primary economic environment in which the Group operates. Values are rounded to the nearest thousand pounds (£'000) except where otherwise indicated.

## 2 Investment income

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Dividends from UK listed investments | **3,658** | 2,660 |
| Dividends from overseas listed investments | **24,806** | 26,018 |
| Scrip dividends from listed investments | **4,623** | 935 |
| Interest from listed investments | **-** | 21 |
| Property income distributions | **7,180** | 5,940 |
| | **40,267** | 35,574 |

## 3 Earnings per share

### Earnings per Ordinary share

The earnings per Ordinary share can be analysed between revenue and capital, as below.

| | Year ended 31 March 2018 £'000 | Year ended 31 March 2017 £'000 |
|---|---|---|
| Net revenue profit | **41,955** | 36,117 |
| Net capital profit | **130,247** | 46,868 |
| Net total profit | **172,202** | 82,985 |
| Weighted average number of shares in issue during the year | **317,350,980** | 317,435,090 |
| | **pence** | pence |
| Revenue earnings per share | **13.22** | 11.38 |
| Capital earnings per share | **41.04** | 14.76 |
| Earnings per Ordinary share | **54.26** | 26.14 |

## 4 Net asset value per Ordinary share

Net asset value per Ordinary share is based on the net assets attributable to Ordinary shares of £1,255,559,000 (2017: £1,118,424,000) and on 317,350,980 (2017: 317,350,980) Ordinary shares in issue at the year end.

## 5 Share capital changes

During the year, the Company made no market purchases for cancellation of Ordinary shares of 25p each (2017: 150,000). In the prior year the aggregate consideration paid by the Company for the shares was £459,000.

Since 31 March 2018 no Ordinary shares have been purchased and cancelled.

## 6 Status of preliminary announcement

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 March 2018 or 2017. The financial information for 2017 is derived from the statutory accounts for 2017 which have been delivered to the registrar of companies. The auditor has reported on the 2017 accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The statutory accounts for 2018 will be finalised on the basis of the financial information presented by the directors in this preliminary announcement and will be delivered to the registrar of companies in due course.

## 7 Fair value of financial assets and financial liabilities

Financial assets and financial liabilities are carried in the Balance Sheet either at their fair value (investments) or the balance sheet amount is a reasonable approximation of fair value (due from brokers, dividends and interest receivable, due to brokers, accruals and cash at bank).

*Fair value hierarchy disclosures*

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset as follows:

Level 1 – valued using quoted prices in an active market for identical assets.
Level 2 – valued by reference to valuation techniques using observable inputs other than quoted prices within Level 1.
Level 3 – valued by reference to valuation techniques using inputs that are not based on observable market data.

The valuation techniques used by the Group are explained in the accounting policies in the full Annual Report and Accounts.

The table below sets out fair value measurements using IFRS 13 fair value hierarchy.

*Financial assets at fair value through profit or loss*

| **At 31 March 2018** | **Level 1 £'000** | **Level 2 £'000** | **Level 3 £'000** | **Total £'000** |
|---|---|---|---|---|
| Equity investments | **1,217,882** | **–** | **153** | **1,218,035** |
| Investment properties | **–** | **–** | **98,011** | **98,011** |
| Contracts for difference | **–** | **495** | **–** | **495** |
| Foreign exchange forward contracts | **–** | **644** | **–** | **644** |
| | **1,217,882** | **1,139** | **98,164** | **1,317,185** |

| **At 31 March 2017** | **Level 1 £'000** | **Level 2 £'000** | **Level 3 £'000** | **Total £'000** |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| Equity investments | **1,047,470** | **–** | **2** | **1,047,472** |
| Investment properties | **–** | **–** | **97,304** | **97,304** |
| Contracts for difference | **–** | **2,146** | **–** | **2,146** |
| | **1,047,470** | **2,146** | **97,306** | **1,146,922** |

The table above represents the Group's fair value hierarchy. The Company's fair value hierarchy is identical except for the inclusion of the fair value of the investment in Subsidiaries which at 31 March 2018 was £50,470,000 (2017: £50,531,000) these have been categorised as level 3 in both years. The total financial assets at fair value for the Company at 31 March 2018 was £1,367,655,000 (2017: £1,197,453,000).

The movement in the year of £61,000 is the depreciation (2017: £2,521,000, £421,000 depreciation and £2,100,000 reclassification to a subsidiary intercompany account) in the period.

*Reconciliation of movements in financial assets categorised as level 3*

| | 31 March 2017 £'000 | Purchases £'000 | Sales £'000 | Appreciation / (Depreciation) £'000 | **31 March 2018 £'000** |
|---|---|---|---|---|---|
| Unlisted equity investments | 2 | – | – | 151 | **153** |
| Investment Properties | | | | | |
| – Mixed use | 53,087 | 91 | (992) | 1,194 | **53,380** |
| – Industrial | 31,269 | 429 | (4,290) | 8,399 | **35,807** |
| – Offices | 12,948 | 410 | (5,800) | 1,266 | **8,824** |
| | 97,304 | 930 | (11,082) | 10,859 | **98,011** |
| | 97,306 | 930 | (11,082) | 11,010 | **98,164** |

All appreciation/(depreciation) as stated above relates to unlisted equity investments and investment properties held at 31 March 2018. The Group held one unquoted investment at 31 March 2018.

*Transfers between hierarchy levels*

There were no transfers during the year between level 1 and level 2 nor between levels 1 or 2 and level 3.

Key assumptions used in value in use calculations are explained in the accounting policies in the full Annual Report and Accounts.

*Sensitivity information*

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy of investment properties are:

- Estimated rental value: £5-£50 per sq ft (2017: £4-£50 per sq ft)
- Capitalisation rates: 3.20%-9.00% (2017: 3.50%-9.75%)

Significant increases (decreases) in estimated rental value and rent growth in isolation would result in a significantly higher (lower) fair value measurement. A significant increase (decrease) in long-term vacancy rate in isolation would result in a significantly lower (higher) fair value measurement.

## 8 Business segment reporting

| | Valuation 31 March 2017 £'000 | Net additions/ (disposals) £'000 | Net appreciation/ (depreciation) £'000 | **Valuation 31 March 2018 £'000** | **Gross revenue 31 March 2018 £'000** | **Gross revenue 31 March 2017 £'000** |
|---|---|---|---|---|---|---|
| Listed investments | 1,047,470 | 40,952 | 129,460 | **1,217,882** | **40,267** | **35,574** |
| Unlisted investments | 2 | – | 151 | **153** | **28** | **–** |
| Direct property | 97,304 | (10,152) | 10,859 | **98,011** | **5,368** | **5,330** |
| | 1,144,776 | 30,800 | 140,470 | **1,316,046** | **45,663** | **40,904** |
| Contracts for difference | 2,146 | (8,009) | 6,358 | **495** | **4,624** | **4,457** |
| | 1,146,922 | 22,791 | 146,828 | **1,316,541** | **50,287** | **45,361** |

In seeking to achieve its investment objective, the Company invests in the shares and securities of property companies and property related businesses internationally and also in investment property located in the UK. The Company therefore considers that there are two distinct reporting segments, listed investments and direct property, which are used for evaluating performance and allocation of resources. The Board, which is the principal decision maker, receives information on the two segments on a regular basis. Whilst revenue streams and direct property costs can be attributed to the reporting segments, general administrative expenses cannot be split to allow a profit for each segment to be determined. The assets and gross revenues for each segment are shown above.

The property costs are £1,947,000 (2017: £2,078,000) and deducting these costs from the direct property gross revenue above would result in net income of £3,421,000 (2017: £3,252,000) for the direct property reporting segment.

## 9 Dividends

An interim dividend of 4.65p was paid in January 2018. A final dividend of 7.55p (2017: 6.40p) will be paid on 31 July 2018 to shareholders on the register on 22 June 2018. The shares will be quoted ex-dividend on 21 June 2018.

## 10 Annual Report and AGM

The Annual Report will be posted to shareholders in June 2018 and will be available thereafter from the Company Secretary at the Registered Office, 11 Hanover Street, London, W1S 1QY. The Annual General Meeting of the Company will be held at Royal Automobile Club, 89/91 Pall Mall, London SW1Y 5HS on 24 July 2018 at 2pm.

This announcement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the securities referred to herein in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration, exemption from registration or qualification under the securities law of any such jurisdiction.

The contents of this announcement include statements that are, or may be deemed to be "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "anticipates", "expects", "intends", "may", "will" or "should". They include the statements regarding the target aggregate dividend. By their nature, forward- looking statements involve risks and uncertainties and readers are cautioned that any such forward-looking statements are not guarantees of future performance. The Company's actual results and performance may differ materially from the impression created by the forward-looking statements. The Company undertakes no obligation to publicly update or revise forward-looking statements, except as may be required by applicable law and regulation (including the Listing Rules). No statement in this announcement is intended to be a profit forecast.

For further information please contact:

**Marcus Phayre-Mudge**
**Fund Manager**
TR Property Investment Trust plc
Telephone: 020 7011 4711