Custodian

REIT PLC

Annual Report and Accounts 2020

Normanton, Industrial
63,000 sq ft,
Yesss Electrical

Custodian REIT plc ("Custodian REIT" or "the Company"[1]) is a UK real estate investment trust ("REIT") with a portfolio comprising properties predominantly let to institutional grade tenants throughout the UK, principally characterised by properties with individual values of less than £10m at acquisition.

Diverse
Diversification of tenant, location and lease expiry profile with a relatively high exposure to industrial and alternative sectors and low exposure to office and high street retail

Secure
Low net gearing and high quality buildings and locations with institutional grade tenants minimising voids

Returns
Committed to paying dividends on a sustainable basis fully covered by net rental income

1. References to the Company in the Strategic report include the Company and its non-trading subsidiaries: Custodian Real Estate Limited, Custodian Real Estate (JMP4) Limited, Custodian Real Estate BL Limited, Custodian Real Estate (Beaumont Leys) Limited and Custodian Real Estate (Leicester) Limited.

For more information, visit:
custodianreit.com

STRATEGIC REPORT

GOVERNANCE

FINANCIAL STATEMENTS

FINANCIAL HIGHLIGHTS AND PERFORMANCE SUMMARY

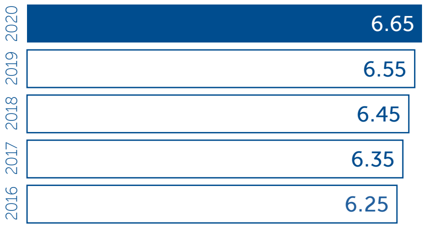
OUR PERFORMANCE OVER THE YEAR

RETURN

DIVIDENDS PER SHARE[2,*]

6.65p (2019: 6.55p)

↑1.5%

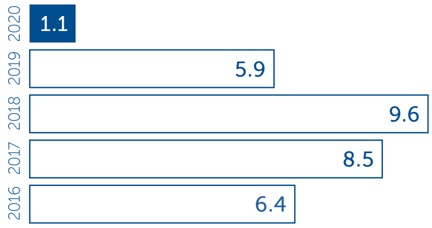


- Target dividends per share[*] for the first half of the year ending 31 March 2021 of no less than an aggregate **1.5p** (2020: 3.325p)

NAV PER SHARE TOTAL RETURN[3,*]

1.1% (2019: 5.9%)

↓4.8%

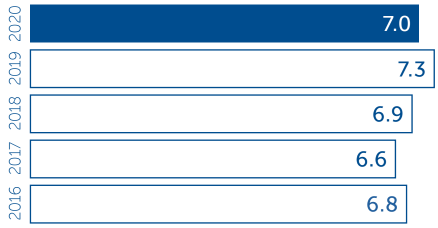


- NAV total return per share[3,*] of **1.1%** (2019: 5.9%) comprising 6.2% dividends (2019: 6.1%) and a 5.1% capital decrease (2019: 0.2% capital decrease)
- NAV of **£426.7m** (2019: £426.6m)
- NAV per share[*] of **101.6p** (2019: 107.1p)

EPRA[4] EARNINGS PER SHARE[5,*]

7.0p (2019: 7.3p)

↓4.1%



- Basic and diluted earnings per share[6] of **0.5p** (2019: 6.0p)

CAPITAL VALUES

PROPERTY VALUE

£559.8m (2019: £572.7m)

↓2.3%

Subject to a 'material uncertainty' clause in line with prevailing RICS guidance:

- **£25.8m** aggregate valuation decrease (4.7% of property portfolio value) comprising a £6.1m property valuation uplift from successful asset management initiatives and £31.9m of valuation decreases, primarily due to decreases in the estimated rental value ("ERV") of high street retail properties, negative market sentiment for retail assets and the impact of the COVID-19 pandemic

- Disposal of two properties at valuation[7] for aggregate headline consideration of **£15.7m[8]**
- **£24.6m[9]** invested in eight property acquisitions
- **£2.8m** capital expenditure incurred primarily on three significant refurbishments
- Significant impact of the COVID-19 pandemic, with a **£12.5m** (2.2% of property portfolio) valuation decrease in the final quarter of the year and 70% of rent collected relating to the quarter ending 30 June 2020[10,*] both largely attributable to the pandemic

NEW EQUITY RAISED

£25.3m[11]

- **£25.3m[11]** of new equity raised at average premium of 11% to dividend adjusted NAV[*]
- Share price total return[12,*] down **9.2%** to (5.0%) (2019: 4.2%)
- Share price[*] of **99.0p** (2019: 111.2p)
- Market capitalisation[*] decreased to **£415.9m** (2019: £442.8m)
- Discount/premium of share price to NAV per share decreased to a **2.6%** discount (2019: 3.8% premium)
- Net gearing[13,*] decreased to **22.4%** (2019: 24.1%)

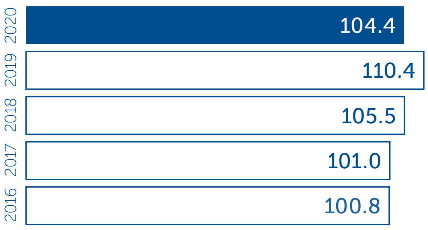
2. Dividends paid and approved for the year.
3. Net Asset Value ("NAV") movement including dividends paid and approved for the year on shares in issue at 31 March 2019.
4. The European Public Real Estate Association ("EPRA").
5. Profit after tax excluding net gains or losses on investment property and one-off costs divided by weighted average number of shares in issue.
6. Profit after tax divided by weighted average number of shares in issue.
7. Before disposal costs of £0.2m.
8. Before rental top-ups and cost guarantees of c. £0.3m.
9. Before acquisition costs of £0.6m.
10. Rent receipts relating to 25 March to 24 June 2020 English rent quarter invoicing, April-June 2020 monthly invoicing and a pro-rata allocation of the 28 February – 28 August 2020 Scottish quarterly invoicing.
11. Before costs and expenses of £0.3m.
12. Share price movement including dividends paid and approved for the year.
13. Gross borrowings less cash (excluding rent deposits), divided by property portfolio value.

COSTS

DIVIDEND COVER[14]

104.4% (2019: 110.4%)

↓6.0%

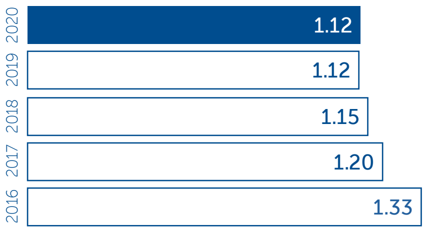


- Profit before tax down 91% to **£2.1m** (2019: £23.6m) primarily due to a £25.8m aggregate property valuation decrease[15]

OCR EXCLUDING DIRECT PROPERTY EXPENSES[16*]

1.12% (2019: 1.12%)

→0.0%



- Ongoing charges ratio[17,*] ("OCR") **1.55%** (2019: 1.53%)

	2020	2019	change
EPRA performance measures*			
EPRA EPS (p)	**7.0**	7.3	(4.1%)
EPRA NAV per share (p)	**101.6**	107.1	(5.1%)
EPRA net initial yield ("NIY")	**6.2%**	6.2%	0.0%
EPRA 'topped up' NIY	**6.6%**	6.4%	0.2%
EPRA vacancy rate	**4.1%**	4.1%	0.0%
EPRA cost ratio (including direct vacancy costs)	**16.6%**	16.1%	0.5%
EPRA cost ratio (excluding direct vacancy costs)	**14.5%**	14.5%	0.0%
EPRA capital expenditure (£m)	**2.80**	2.53	10.7%
EPRA like-for-like rental growth (£m)	**40.0**	39.1	2.3%

*Alternative performance measures

The Company reports the following alternative performance measures ("APMs") to assist stakeholders in assessing performance alongside the Company's results on a statutory basis: quarterly rent collection, NAV per share total return, new equity raised, target dividend per share, share price total return, dividend cover, NAV per share, share price, market capitalisation, discount/premium to NAV per share, net gearing, ongoing charges ratios and EPRA Best Practice Recommendations. APMs are among the key performance indicators used by the Board to assess the Company's performance and are used by research analysts covering the Company.

EPRA Best Practice Recommendations have been disclosed to facilitate comparison with the Company's peers through consistent reporting of key real estate specific performance measures. Certain other APMs may not be directly comparable with other companies' adjusted measures, and APMs are not intended to be a substitute for, or superior to, any IFRS measures of performance. Supporting calculations for APMs and reconciliations between APMs and their IFRS equivalents are set out in Note 21.

14. Profit after tax, excluding net gains or losses on investment property and one-off costs, divided by dividends paid and approved for the year.
15. Comprising £6.1m of valuation uplift from successful asset management initiatives less £31.9m of other valuation decreases and £0.6m of acquisition costs.
16. Expenses (excluding operating expenses of rental property) divided by average quarterly NAV.
17. Expenses (excluding operating expenses of rental property recharged to tenants) divided by average quarterly NAV.

CUSTODIAN AT A GLANCE

OUR BUSINESS

COMPANY PURPOSE

The Company seeks to provide investors with an attractive level of income and the potential for capital growth, becoming the REIT of choice for private and institutional investors seeking high and stable dividends from well diversified UK real estate.

INVESTMENT STRATEGY

- UK property portfolio diversified by sector, geography and tenant
- Income focused strategy
- High residual value, low obsolescence properties
- £2m to £10m lot sizes at the point of acquisition
- Diverse tenants, region and sector mix
- Balanced investment portfolio, with a relatively high exposure to industrial and to alternative sectors and low exposure to office and high street retail; and
- Low levels of net debt with target net gearing of 25% LTV

Read more about our investment strategy on page 70

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OUR PORTFOLIO

Office
£52.6m

High street retail
£52.8m

Other
£87.4m
See sub-sector split on page 5

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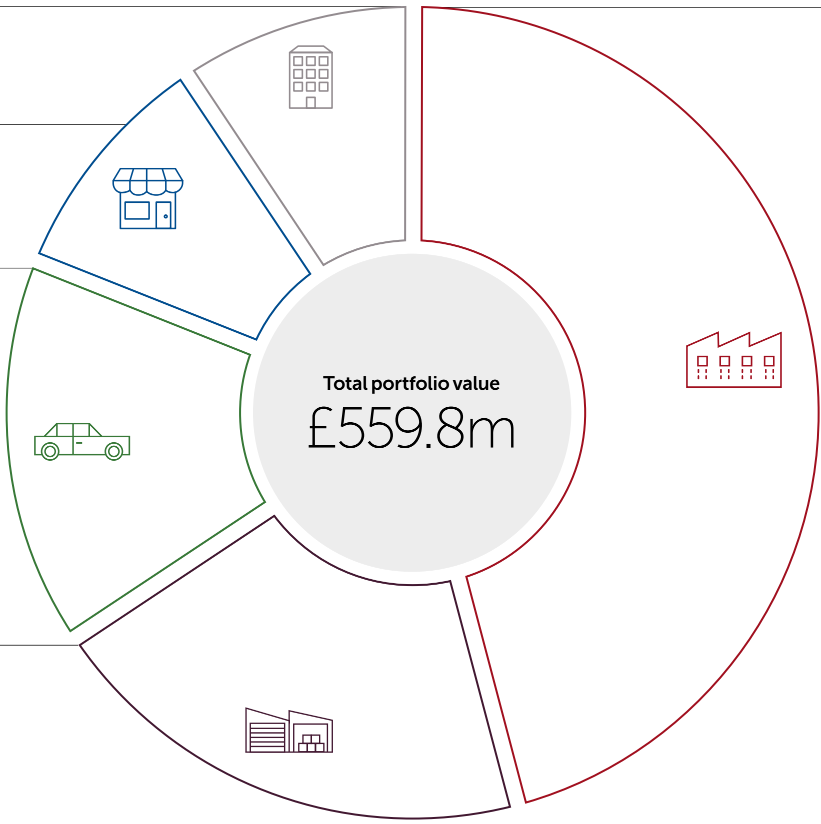
Retail warehouse
£109.7m

Industrial
£257.3m



FINANCIAL AND OPERATIONAL RESILIENCE

Diverse assets
A diverse and high-quality asset and tenant base comprising 161 assets valued at £559.8m, with over 200 typically 'institutional grade' tenants across all commercial sectors with an occupancy rate of more than 95%.

Read more about our diverse portfolio of assets on page 18

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Experienced leadership
Reflecting the growth of the Company since inception we were delighted to welcome Hazel Adam to the Board as our fifth Non-Executive Director on 12 December 2019. Hazel brings a range of experience including buy side and sell side investment experience, strategies and markets. These skills and experience complement those of the existing Directors and offer scope to add value for the benefit of the Company.

See our Board of Directors' experience on page 78

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Low levels of net debt
Low levels of net debt, with £25m of cash and gross borrowings of £150m at 31 March 2020 resulting in low net gearing, with no short-term refinancing risk and a weighted average debt facility maturity of seven years.

For more on our capital structure see page 121

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Pre-emptive interest cover covenant waivers
Pre-emptive interest cover covenant waivers in place for at least the June 2020 and September 2020 quarter-ends with all our lenders, recognising that covenants on individual facilities may come under some short-term pressure due to curtailed rent collections.

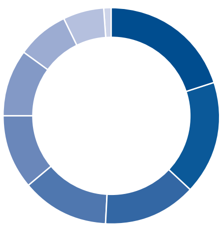
FINANCIAL STRENGTH

Debt facility average maturity
7.8 years

Loan to value
22.4%

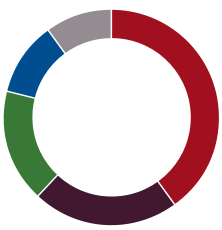
Cash
£25.4m

Portfolio income split by region



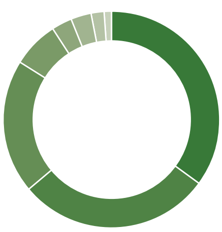
- West Midlands: **20%**
- North-West: **17%**
- East Midlands: **14%**
- South-East: **13%**
- South-West: **11%**
- North-East: **10%**
- Scotland: **8%**
- Eastern: **6%**
- Wales: **1%**

Sector income split



- Industrial: **40%**
- Retail Warehouse: **22%**
- Other: **17%**
- Retail: **11%**
- Office: **10%**

Other sub-sector income split



- Motor Trade: **35%**
- Leisure: **29%**
- Restaurant: **20%**
- Trade Counter: **7%**
- Hotel: **3%**
- Health Care: **3%**
- Nursery: **2%**
- Place of Worship: **1%**

EFFECTIVE GOVERNANCE

Our activities are shaped by external benchmarks and guidance and our own ESG targets.

OUR ESG OBJECTIVES

Minimising our environmental impact
Seek to reduce pollution and comply with all relevant environmental legislation, gather and analyse data on the environmental performance of our properties and set targets for the environmental performance of our properties.

Engaging with our stakeholders
The Board and Investment Manager ensure ESG progress is discussed and embedded across all work done. The Investment Manager liaises closely with tenants to understand consumption trends and data and understand where we can upgrade and optimise buildings for tenant well-being and environmental impact reductions.

Read about our approach to ESG on page 73

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Supporting local communities
The Company is committed to engaging constructively with central and local government to ensure we support the wider community through local economic and environmental plans and strategies and play our part in providing the real estate fabric of the economy, giving employers a place of business.

Transparent disclosure
Sustainability is a key priority and the Investment Manager has been working with Carbon Intelligence to put in place an environmental vision and strategy including the development and implementation of key performance indicators and long-term emissions targets.

CHAIRMAN'S STATEMENT

DAVID HUNTER
Chairman

AN UNREMITTING FOCUS ON INCOME SUPPORTING A RELATIVELY HIGH SUSTAINABLE DIVIDEND

Until the outbreak of the COVID-19 pandemic, Custodian REIT had delivered on its objectives for the financial year, despite a struggling retail sector which contributed the majority of £13.3m of property valuation decreases for the first three quarters of the financial year. However, the COVID-19 pandemic is taking effect, leading to a £12.5m property valuation decrease in the final quarter of the financial year, giving a total fall for the year of £25.8m after asset management gains of £6.1m.

COVID-19 OUR RESPONSE

The health and safety of colleagues, tenants and our wider stakeholders remains the Company's top priority. Our current operational focus is on managing liquidity to mitigate the risks associated with the uncertainty created by the global health emergency, working with our tenants to optimise rental income and maintaining a level of distributions to investors broadly linked to net rental receipts.

Acknowledging the importance of income for shareholders, the Company intends to pay the next two quarterly dividends at a minimum of 0.75p per share regardless of rent collection rates, with support from prior years' undistributed reserves if required. Should rent collections in the June and September quarters allow, more generous dividends may be possible. Over the course of the financial year, as deferred rents are collected, the Board hopes it will be possible to restore the dividend to a sustainable long-term level akin to previous years.

Read more about our response to COVID-19 in the Principal risks and uncertainties section of the Strategic report on page 60

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These have been testing times which have necessitated an exceptional effort from the Investment Manager, both in pursuing rents and in operating remotely as a team, and I would like to acknowledge the positive tangible results of that. I should also thank my fellow Board members who have been flexible and supportive during a period which has required numerous formal and informal additional Board meetings.

During the year £25.3m was raised from the issue of new shares and £15.7m[18] was raised from property disposals. These sums funded property acquisitions and capital expenditure of £27.4m, primarily the £24.6m acquisition of eight distribution units ("the Menzies Portfolio") through a sale and leaseback to Menzies Distribution Limited. This transaction was effected by a corporate acquisition which reduced purchase costs such that the agreed price of £24.6m reflected a net initial yield[19] ("NIY") of 6.4%, supporting our objective to deliver strong income returns from a property portfolio principally of smaller lots in strong, regional markets.

Financial and operational resilience

The Company remains in a strong financial position to address the extraordinary circumstances imposed by COVID-19, having:

- A diverse and high-quality asset and tenant base comprising 161 assets valued at £559.8m, with over 200 typically 'institutional grade' tenants across all commercial sectors with an occupancy rate[20] of more than 95%;
- Low levels of net debt, with £25m of cash and gross borrowings of £150m at 31 March 2020 resulting in low net gearing, with no short-term refinancing risk and a weighted average debt facility maturity of seven years;
- Significant headroom on lender covenants at 31 March 2020, with the maximum 35% loan to value ("LTV") and minimum 250% interest cover[21] covenants comparing to net gearing of 22.4% LTV and aggregate three-month interest cover on borrowings of more than 600% for the three months ended 31 March 2020. With further reductions in rent collections expected in the first quarter of the new financial year we have put pre-emptive interest cover covenant waivers in place for at least the June 2020 and September 2020 quarter-ends with all our lenders, recognising that covenants on individual facilities may come under some short-term pressure; and
- An annual contractual rent roll of £40.7m, with interest costs on drawn loan facilities of only c.£4.7m per annum.

Borrowings

The Company operates four loan facilities, each of which has a discrete allocation of the Company's individual properties over which the relevant lender has security. Each loan has covenants over the LTV and interest cover related to each discrete security pool. In the expectation that interest cover covenants on some individual loans at 30 June 2020 may come under short-term pressure, the Company has agreed waivers of certain covenants for the next two quarters in return for depositing cash amounts equivalent to the interest payable for that period into charged accounts.

LTV covenants are not currently a concern. The Company has approximately £184.8m (33% of the property portfolio) of unencumbered assets which could be charged to the security pools to enhance the LTV on individual loans to cure any potential covenant breaches.

The weighted average cost of the Company's agreed debt facilities at 31 March 2020 was 3.0% (2019: 3.2%) with a Weighted Average Maturity ("WAM") of 7.8 years (2019: 7.9 years) and 77% (2019: 84%) of the Company's drawn debt facilities are now at fixed rates. This high proportion of fixed rate debt significantly mitigates long-term interest rate risk for the Company and provides shareholders with a beneficial margin between the fixed cost of debt and income returns from the property portfolio.

18. Before rental top-ups and cost guarantees of £0.3m.
19. Passing rent divided by property valuation plus purchaser's costs.
20 Passing rent of let property divided by passing rent of let property plus estimated rental value of vacant property.
21. Historical rental income received and projected contractual rental income receivable less certain property expenses divided by interest and fees payable to its lenders.

NET ASSET VALUE

The NAV of the Company at 31 March 2020 was £426.7m, approximately 101.6p per share, a decrease of 5.5p (5.1%) since 31 March 2019:

	Pence per share	£m
NAV at 31 March 2019	107.1	426.6
Issue of equity in the year (net of costs)	0.4	25.0
	107.5	451.6
Valuation movements relating to:		
• Asset management activity	1.5	6.1
• Other valuation movements	(7.7)	(31.9)
Valuation decrease before acquisition costs	(6.2)	(25.8)
Impact of acquisition costs	(0.1)	(0.6)
Valuation decrease including acquisition costs	(6.3)	(26.4)
Loss on disposal of investment property	–	(0.1)
Net valuation movement	(6.3)	(26.5)
Revenue	9.7	40.9
Expenses and net finance costs	(2.9)	(12.3)
Dividends paid[22]	(6.4)	(27.0)
NAV at 31 March 2020	**101.6**	**426.7**

The net valuation decrease of £25.8m was primarily driven by high street retail, retail warehouse and 'other' sector valuations falling by £14.4m, £15.3m and £7.8m respectively, further detailed in the Investment Manager's report, due to:

- The impact of COVID-19, with the Company's valuers assuming a three-month rent deferral and overall increase in yield to all assets let to tenants which have ceased or significantly curtailed trading, in line with current RICS advice to valuers;
- A reduction in retail ERVs;
- A worsening of investment market sentiment towards retail; and
- Two Company Voluntary Arrangements ("CVAs") and two company Administrations impacting the valuation of assets in Shrewsbury, Grantham and Colchester.

However, the retail valuation declines were partially offset by industrial asset valuations increasing due to latent rental growth and continued investor demand, again demonstrating the benefit of a diversified property portfolio. Custodian REIT's investment strategy continues to be weighted towards regional industrial and logistics assets, which has stood the Company in good stead again this year, with valuation gains of £12.5m (5.6%) in this sector.

Since the year end the proposed CVAs of Travelodge, The Restaurant Group, Poundstretcher and JTF Wholesale have impacted the Company's assets in Portishead, Perth, Grantham, Evesham and Warrington, which if passed could reduce the Company's rent roll by c. 2.5%.

22. Dividends totalling 6.625p per share (1.6375p relating to the prior year and 4.9875p relating to the year) were paid on shares in issue throughout the year. Dividends paid on shares in issue at the year end averaged 6.4p per share due to new shares being issued after the first ex-dividend date.

Leeds, offices
36,000 sq ft
Enact Conveyancing

CHAIRMAN'S STATEMENT CONTINUED

Returns

The recent turmoil in markets has emphasised the importance of having a well-diversified, income focused property portfolio.

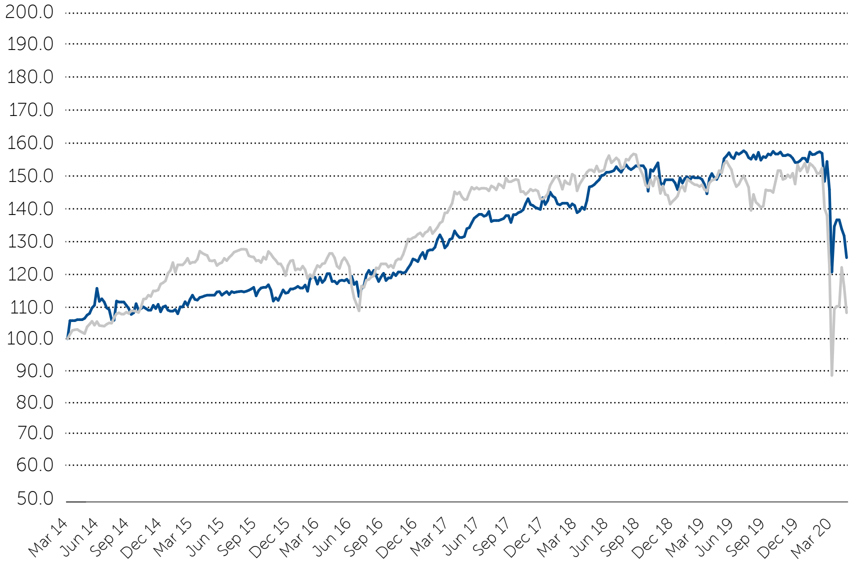
In the year ended 31 March 2020 Custodian REIT delivered a NAV per share total return of 1.1% (2019: 5.9%) with dividends of 6.65p per share supporting a positive, if low, NAV total return despite the negative valuation impact of the COVID-19 pandemic in the final quarter.

The Company paid one of the highest fully covered dividends amongst its peer group of listed property investment companies[23] for the year ended 31 March 2020, while minimising 'cash drag' on the issue of new shares by taking advantage of the flexibility offered by the Company's revolving credit facility ("RCF"). During the year the Company increased the total funds available under the RCF to £50m, agreeing a new three year term and a reduction in margin above three month LIBOR from 2.45% to between 1.5% and 1.8%, determined by reference to the prevailing LTV ratio of a discrete security pool. The revised facility has reduced finance costs and will provide additional capacity to exploit acquisition opportunities whilst maintaining the flexibility to minimise cash drag from equity issuance once markets stabilise.

In common with our peers and many commercial property landlords, we are experiencing an inevitable disruption to cash collection in the quarter ending 30 June 2020 as a number of tenants seek to defer rental payments to protect their own cash flows due to the effect of the COVID-19 pandemic on their business. Acknowledging the importance of income for shareholders, the Company intends to pay the next two quarterly dividends at a minimum of 0.75p per share regardless of rent collection rates, with support from prior years' undistributed reserves if required. Should rent collections in the June and September quarters allow, more generous dividends may be possible. Over the course of the financial year, as deferred rents are collected, the Board hopes it will be possible to restore the dividend to a sustainable long-term level akin to previous years.

The Company's relatively stable share price performance in a volatile market during the first 11 months of the year ended 31 March 2020 allowed the Board to issue equity at an average premium of 11% above dividend adjusted NAV, more than covering the costs of issue and deployment.

TOTAL SHAREHOLDER RETURN



Peers: BCPT, BREI, PCTN, SREI, SLI, UKCM, EPIC

The market

During the first 11 months of the year ended 31 March 2020 Custodian REIT's shares traded consistently at a premium to NAV while much of the property sector had moved to a discount and since the start of the COVID-19 pandemic, the Company's shares have experienced lower volatility and traded at a lower discount to NAV than most in the sector. However, we believe the Company's shareholders share our view that NAV-related metrics alone are not sufficient to assess a property investment company's prospects. We believe that the Company's share price performance reflects investors' awareness of the merits of diversification of tenant, lease expiry profile, spread of asset type, net gearing level, debt profile, property location and the ability of the management team to generate future income from the assets.

The Company enjoys the support of a wide range of shareholders with the majority classified as private client or discretionary wealth management investors. The Company's investment and dividend strategy is well suited to investors looking for a close proxy to direct real estate investment but in a managed and liquid structure. The structure of our shareholder base has, in turn, helped to reduce volatility as our shareholders are typically long-term holders looking for relatively stable income-driven returns.

As a long-term investment, any measure of performance from real estate should be considered over a period greater than 12 months. Over the last six years, shareholders have benefitted from positive share price total return, with lower volatility relative to the Company's peer group. This has been particularly noticeable at times of market stress, such as the impact of the EU referendum in June 2016 and more recently with the COVID-19 pandemic, illustrated above.

We believe a large part of the Company's positive absolute return and lower volatility is due to our unremitting focus on income, supporting the relatively high dividend.

Another key metric, alongside price and volatility, is liquidity of the stock and I am pleased to report that Custodian REIT recorded an average daily trading volume of over £0.5m throughout the last 12 months[23].

23. Source: Numis Securities Limited.

Investment Manager
Custodian Capital Limited ("the Investment Manager") is appointed under an investment management agreement ("IMA") to provide property management and administrative services to the Company. The performance of the Investment Manager is reviewed each year by the Management Engagement Committee ("MEC"). During the year the Investment Manager charged the Company £4.0m (2019: £4.0m) in respect of annual management, administrative and marketing fees. Further details of fees payable to the Investment Manager are set out in Note 18.

The Board is pleased with the performance of the Investment Manager, particularly the timely deployment of the proceeds from property disposals and new equity on high quality assets. The Board also welcomes the Investment Manager's continuing successful asset management which has contributed to both capital values and income.

The MEC has reviewed, in detail, the arrangements with the Investment Manager following expiry of the three year term of the current Investment Management Agreement ("IMA") on 31 May 2020. In light of the positive performance of the Company the Board and the Investment Manager have agreed a further three year term to the Investment Manager's ongoing engagement, from 1 June 2020, with fees payable to the Investment Manager under the IMA amended to include:

- A step down in the annual management fees[24] from 0.65% to 0.55% of NAV applied to NAV in excess of £750m; and
- A step down in the administrative fee from 0.05% to 0.03% of NAV applied to NAV in excess of £750m.

All other key terms of the IMA remain unchanged. The Board considers these amendments to the IMA to be in the best interests of the Company's shareholders because:

- Further growth in NAV, particularly above £500m, will further reduce the Company's OCR and increase dividend capacity; and
- Another three year term provides the Investment Manager with security of tenure and allows further investment in the dedicated systems and people providing its services under the IMA.

Dividends
Income is a major component of total return. The Company paid aggregate dividends of 6.625p per share during the year, comprising the fourth interim dividend of 1.6375p per share relating to the year ended 31 March 2019 and three interim dividends of 1.6625p per share relating to the year ended 31 March 2020.

The Company paid a fourth interim dividend of 1.6625p per share for the quarter ended 31 March 2020 on 29 May 2020 totalling £7.0m, meeting the Company's target of paying a total dividend relating to the year of 6.65p per share (2019: 6.55p), totalling £27.5m (2019: £25.8m). Dividends relating to the year ended 31 March 2020 were 104.4% covered by net recurring income of £28.7m, as calculated in Note 21.

Board expansion
Reflecting the growth of the Company since inception we were delighted to welcome Hazel Adam to the Board as our fifth Non-Executive Director on 12 December 2019. Hazel brings a range of experience including buy side and sell side investment experience, strategies and markets. These skills and experience complement those of the existing Directors and offer scope to add value for the benefit of the Company.

Environmental policy
The majority of the Company's investment properties are let on full repairing and insuring leases, meaning its day-to-day environmental responsibilities are limited because properties are controlled by their tenants. However, the Board adopts sustainable principles and actively seeks opportunities to make environmentally beneficial improvements to its property portfolio where possible. The Company recently engaged Carbon Intelligence, specialist environmental consultants, to review the Company's environmental, social and governance ("ESG") policy, identify and prioritise opportunities for environmental improvements and recommend how to best manage risks. As a result we have committed to:

- Seek to minimise pollution and comply with all relevant environmental legislation;
- Gather and analyse data on our environmental performance across our property portfolio; and
- Set targets of environmental performance for our properties and monitor achievements as a commitment to continuous improvement.

The Company is reporting sustainability indicators for the first time using the EPRA sustainability best practice indicators, set out in the Sustainability disclosures section of the Annual Report, and in accordance with the Mandatory Greenhouse Gas ("GHG") Reporting Regulations, detailed in the Directors' report. The Company will also make its first Global Real Estate Sustainability Benchmark ("GRESB") submission in 2020, which is one of the most widely used sustainability benchmarks in the real estate sector. The Board expects the results of this submission to provide a valuable insight into the Company's current sustainability performance and identify areas for improvement in the next financial year.

Details of the Company's environmental policy are contained within the Business model and strategy section of the Strategic report.

Outlook
The outlook for real estate investment and more particularly for Custodian REIT is likely to become clearer and potentially more positive as lockdown eases and most sectors of the economy have the opportunity to re-open. At the time of writing the country is at the start of becoming 'unlocked'.

Real estate is likely to remain a key asset for investors looking for income and as rent collection stabilises and deferred rents are recovered, the ability to pay dividends at more meaningful levels will return.

Property yields are currently showing a circa 6% margin over UK 10 year gilts, which is the widest margin on record. In expectation of continued low gilt rates this margin is likely to support real estate pricing despite a recent decline in capital values.

The combination of resilient capital values and an anticipated return to relatively high dividends should lend support to Custodian REIT's objective to be the REIT of choice for private and institutional investors seeking high and stable dividends from well-diversified UK real estate.

DAVID HUNTER
Chairman
22 June 2020

24. Annual management fees comprise property management services fees and investment management services fees.

INVESTMENT MANAGER'S REPORT

RICHARD SHEPHERD-CROSS
Investment Manager

WE CONTINUE TO FOCUS ON MAINTAINING OCCUPANCY WHILE SECURING CASH FLOW

The financial year ended 31 March 2020 was dominated by two significant headwinds: retail malaise and political uncertainty. The fourth quarter started with increased confidence in commercial property investment following the General Election and reduced uncertainty around Brexit. Sadly, all talk of confidence has been eclipsed by the COVID-19 pandemic and the widespread impact on the UK and global economies.

OPERATIONAL HIGHLIGHTS

- During the year the Company met its objective to provide shareholders with an attractive relative level of income by paying dividends fully covered by net rental receipts, with earnings providing 104.4% cover of the 6.65p per share total dividend and delivering a NAV total return of 1.1%
- Our continued focus on asset management including rent reviews, new lettings, lease extensions and the retention of tenants beyond their contractual break clauses resulted in a £6.1m valuation increase in the year
- In October 2019 we acquired the Menzies Portfolio for £24.6m through a sale and leaseback transaction with Menzies Distribution Limited comprising eight logistics/distribution units spread across the UK with a current passing rent of £1.6m reflecting a NIY of 6.4%

Read more about our Menzies acquisition on page 22

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- After focused pre-sale asset management, two properties were sold at valuation during the year for a headline consideration of £15.7m, with a further sale post year end for £2.8m, 23% ahead of 31 March 2020 valuation.

The UK property market
Our response has been to prioritise protecting cash flow and to secure the balance sheet. As a result the Company withdrew from two regional office acquisitions on which terms had been agreed. In addition, to address the current difficulty of collecting rents in a timely manner, exacerbated by the statutory protections for commercial tenants introduced by the UK Government, the Company has put in place pre-emptive waivers on interest cover covenants for at least the June 2020 and September 2020 quarter-ends to provide the flexibility to collect rent in the most advantageous way for medium/long-term income security while supporting tenants and minimising vacancies.

It is too early to assess the long-term impact of COVID-19 on the commercial property market but we believe it may accelerate pre-existing trends in the use of, and investment in, commercial property. We expect to see a further deterioration in occupational demand and investment appetite for secondary retail, an increase in occupational demand for flexible office space (both traditional offices, fitted out and leased flexibly, as well as serviced offices) and a continuation of the growth of logistics and distribution.

The country has been in lockdown since the Company's financial year end and hence transactional activity has been much reduced. Many transactions have been renegotiated and in some cases pricing has reflected forced, or at least unwilling, sellers. While these transactions have led to a decline in valuations, the lockdown period does not represent a normal market.

Looking back across the year, we saw retailers resorting to CVAs to reduce their liability for rent and property related costs, at the expense of their landlords. While there has been gathering resistance from landlords, we expect further CVAs while they remain legitimate practice. The impact of the COVID-19 pandemic may lead to yet more CVAs if the Government's support package proves insufficient, particularly for retailers.

We believe that in core retail locations the key impact of the COVID-19 pandemic and CVAs will be to hasten a fall in rental values coupled with some inevitable vacancies. However, retailers are likely to want to retain a presence in prime destination locations where retail and leisure combine to create an attractive environment. Such an environment is most likely to be found in major regional city centres or tourist 'hot spots'.

Recent experience has demonstrated the importance of multi-channel retailing where those retailers with a more developed online presence and the associated infrastructure to deal with deliveries and returns have continued to trade. In more normal times, research shows that where retailers have a physical store, they are likely to see higher levels of online sales through a higher profile, click and collect or the ability of shoppers to make returns more conveniently. Online sales alone do not appear to be a panacea for retailers. There are significant costs associated with home delivery and returns, therefore retailers prefer click and collect. This puts location of the store into sharp focus for retailers who are likely to favour core destinations in the centre of large, affluent populations or the ease and convenience of an out of town retail park.

In the out of town retail market there is an important distinction to make between DIY, homewares and value retailers (such as B&M) and the fashion-focused out of town parks. Fashion-focused parks have enjoyed rental growth for a number of years but the contraction in sales and the competition from online is now making many fashion-focused park rents potentially unaffordable. Meanwhile DIY, homewares and value retailers that see online sales as complementary to their stores pay much lower rents, which are likely to remain affordable, and in turn should support occupancy levels.

In key regional office markets rental growth potential has been a principal determinant of capital value growth. This growth has been a function of a number of variables: modest levels of speculative development limiting new supply; conversion of secondary offices to alternative uses reducing existing supply; high levels of employment and some decentralisation from London and the South East which has boosted demand. The jury is out on the future of offices, especially with the number of people now working from home, but we expect that offices will continue to be an important real estate investment asset.

Industrial and logistic assets have performed well during the year. While the focus of the market has been on large format logistics properties, where pricing is at its keenest, asset management across the smaller assets in the Custodian REIT portfolio has secured high levels of occupancy, rental growth and capital value growth. Accordingly, this sector was the focus of acquisitions for the Company during the year.

The competing pressures of declining sentiment towards retail and improving prospects for industrial and logistics set in an economic environment driven by Brexit, the General Election and more recently the COVID-19 pandemic has had a net negative impact on commercial property values.

Of more importance than the NAV derived from current valuations in the near-term is the absolute focus on rent collection, future cash flow, ongoing asset management and the affordability of future dividends which are all underpinned by the Company's low ongoing charges ratio (excluding direct property expenses) of 1.12% and low cost of debt of 3.0% (£4.7m interest per annum in aggregate).

Rent collection

As Investment Manager Custodian Capital invoices and collects rent directly allowing it to hold conversations promptly with most tenants regarding the payment of rent through the early stages of the COVID-19 pandemic. Some of these conversations have led to positive asset management outcomes, including the extension of leases in return for rent concessions, providing short-term cash flow relief for occupiers and longer-term income security for the Company. Importantly, at this stage, the Company has not waived or cancelled any contractual rent thus all contractual rent remains due over time.

The Company's rent invoicing profile comprises quarterly in advance (on both English and Scottish quarter days) and monthly in advance. Following negotiations regarding the April – June 2020 quarter rent, the Company has agreed that a number of tenants move from quarterly in advance to monthly in advance rent payments, or a deferral of the April – June 2020 quarter's rent with a full recovery over the next 12-18 months. Some tenants have yet to agree a payment profile but we remain in active discussions with these tenants to agree payment plans for the balance of outstanding rent.

Given the varied profile of the Company's rental invoicing, reporting quarterly rent receipts best reflects the prevailing level of income generation from the Company's property portfolio. To date, 70% of rent due relating to invoicing for the quarter ending 30 June 2020 has been collected, 12% has been deferred by agreement (and is therefore no longer due in the quarter) to be paid either monthly in arrears or to be recovered through a payment plan within existing lease terms over the next 12-18 months and 18% remains the subject of discussion with tenants.

Investment objective

The Company's key objective is to provide shareholders with an attractive relative level of income by paying dividends fully covered by net rental receipts with a conservative level of net gearing. We are pleased to have continued to achieve these objectives with earnings providing 104.4% cover of the total dividend payable relating to the year of 6.65p per share and a net gearing ratio of 22.4% at the year end.

The Board remains committed to a strategy principally focused on regional properties with individual values of less than £10m at acquisition with a weighting towards regional industrial and logistics. Diversification of property type, tenant, location and lease expiry profile continues to be at the centre of the strategy together with maximising cash flow by taking a flexible approach to tenants' requirements and retaining tenants wherever possible.

Property portfolio balance

The property portfolio is split between the main commercial property sectors in line with the Company's objective to maintain a suitably balanced investment portfolio. The Company has a relatively low exposure to office and high street retail combined with a relatively high exposure to industrial and to alternative sectors, often referred to as 'other' in property market analysis. The current sector weightings are:

PROPERTY PORTFOLIO BALANCE

Sector	Valuation 31 March 2020 £m	Weighting by income[25] 31 March 2020	Valuation 31 March 2019 £m	Weighting by income 31 March 2019	Valuation movement before acquisition costs £m	Valuation movement including acquisition costs £m	Weighting by value 31 March 2020	Weighting by value 31 March 2019
Industrial	257.3	40%	224.3	38%	12.5	12.0	46%	39%
Retail warehouse	109.7	22%	123.4	22%	(15.3)	(15.3)	20%	21%
Other[26]	87.4	17%	95.7	17%	(7.8)	(7.9)	16%	17%
High street retail	52.8	11%	68.6	12%	(14.4)	(14.4)	9%	12%
Office	52.6	10%	60.7	11%	(0.8)	(0.8)	9%	11%
Total	559.8	100%	572.7	100%	(25.8)	(26.4)	100%	100%

25. Current passing rent plus ERV of vacant properties.
26. Includes car showrooms, petrol filling stations, children's day nurseries, restaurants, health and fitness units, hotels and healthcare centres.

INVESTMENT MANAGER'S REPORT CONTINUED

Property portfolio balance continued
During the year we have experienced a net decline in the portfolio valuation that broadly reflects the market trends in the differing sectors. Industrial and logistics values have strengthened by 5.6% while office values have been broadly flat. Amongst its far-reaching impacts, the pandemic has deepened the challenges facing the retail sector causing further declines in retail values, although with a greater percentage decline in high street locations (-21.0%) compared to out of town retail warehousing (-12.4%). This lower decline for out of town is perhaps a reflection of the stock selection in the Custodian REIT portfolio where retail warehouse occupiers are predominantly value retailers and homewares/DIY, many of whom have remained open for trading during the COVID-19 pandemic lockdown, even if at restricted levels. Furthermore, the average rent across the retail warehouse portfolio is only £14.31 per sq ft which represents an affordable rent for most occupiers.

The 31 March 2020 valuation is reported on the basis of 'material valuation uncertainty' in accordance with the current RICS valuation standards. This basis does not invalidate the valuation but, in the current extraordinary circumstances, implies that less certainty can be attached to the valuation than otherwise would be the case. There is a body of market evidence to support the valuations in the usual way but, in addition, the valuers have reflected market sentiment in their reported numbers. From 12 June 2020, RICS approved removal of the 'material valuation uncertainty' clause for all industrial assets and standalone supermarkets.

Industrial and logistics property remains a very good fit with the Company's strategy where it is possible to acquire modern, 'fit-for-purpose' buildings. One of the advantages of smaller lot-size industrial has been the relative lack of development in recent years. Such industrial development has been focused on large format 'big box' logistics units, where returns have been highest and occupier demand has supported development. The demand for smaller lot-sized units is very broad, from manufacturing, urban logistics, online traders and owner occupiers. This demand supports high residual values (where the vacant possession value is closer to the investment value than in other sectors) and drives rental growth.

Despite the challenges in retail highlighted above, we believe that retail warehousing remains an important asset class for the Company. We expect that well-located retail warehouse units, let off low rents, located on retail parks which are considered dominant in their area will continue to be in demand from retailers. The importance of convenience, free parking, the capacity to support click and collect and the relatively low cost compared to the high street should continue to support occupational demand for the Company's retail warehouse assets. In addition, the out of town retail warehouse market benefits from a restricted supply.

Regional offices will remain an interesting sector for the Company but the focus will be on dominant regional centres, high environmental standards and accessibility to a skilled workforce. There is latent rental growth in many regional offices so value enhancing opportunities still exist.

For details of all properties in the portfolio please see **custodianreit.com/property/portfolio.**

WAULT
At 31 March 2020 the property portfolio's weighted average unexpired lease term to first break or expiry ("WAULT") was 5.3 years (2019: 5.6 years) with the completion of asset management initiatives during the year substantially offsetting the natural one year decline due to the passage of time.

We have recommended to the Board that shareholders' approval should be sought for an amendment to the Company's investment objectives at the Annual General Meeting ("AGM") on 1 September 2020 to remove the Company's existing WAULT objective which states:

'The Company will seek to minimise rental voids and enhance the WAULT of the portfolio by managing lease expiries and targeting property acquisitions which will in aggregate be accretive to WAULT at the point of acquisition, on a rolling 12-month basis.'

While much-quoted and often considered a proxy for risk, we no longer consider WAULT is a key measure of risk. The increasing demand for flexible leases and the pressures imposed on tenants from the new International Financial Reporting Standard requiring all lease liabilities to be recognised on balance sheet (IFRS 16), is driving tenants to seek shorter leases. Real security comes from the quality of building and location which will ensure that properties are re-let and voids are minimised. Shorter leases, where a greater proportion of the purchase price is in the underlying real estate rather than the lease, should also reduce valuation volatility.

Wolverhampton – sold for £6.6m

Westerham – sold for £2.8m

Edinburgh – sold for £9.1m

Disposals

Owning the right properties at the right time is one key element of effective property portfolio management, which necessarily involves periodically selling some properties to balance the property portfolio. Custodian REIT is not a trading company, but identifying opportunities to dispose of assets significantly ahead of valuation or that no longer fit within the Company's investment strategy is important.

After focused pre-sale asset management, the following two properties were sold at valuation[27] during the year for a headline consideration of £15.7m:

- In Wolverhampton a 119,600 sq ft industrial unit was sold for £6.6m, in line with the 30 June 2019 valuation. The property was purchased in June 2016 for £4.5m as part of a three-property portfolio; and
- In Edinburgh a 39,279 sq ft city centre office and retail unit was sold for £9.1m, in line with the 30 June 2019 valuation, having been acquired as part of a portfolio in January 2016 for £9.0m.

We used the proceeds from these disposals to help fund the Menzies Portfolio acquisition which was considered better aligned to the Company's long-term investment strategy.

Since the year-end we disposed of an industrial unit in Westerham for £2.8m, £0.5m (23%) ahead of the 31 March 2020 valuation, representing a net initial yield of 4.50%.

Acquisitions

On 1 October 2019 we acquired the Menzies Portfolio for £24.6m through a sale and leaseback transaction with Menzies Distribution Limited ("MDL"). MDL is one of the UK's leading print media logistics companies servicing 1,700 routes per day from over 50 sites across the UK and Ireland. The Menzies Portfolio comprises eight logistics/distribution units spread across the UK with a current passing rent of £1.6m reflecting a NIY of 6.4%.

The Company acquired the Menzies Portfolio by purchasing the issued share capital of Custodian Real Estate (JMP4) Limited (formerly John Menzies Property 4 Limited), the trade and assets of which were subsequently hived up into Custodian REIT plc. All eight properties are let on new 10 year leases with one unit having a second-year break option. The leases provide for a 13% fixed rental uplift at year five.

The Menzies Portfolio is strongly aligned to Custodian REIT's investment strategy and complementary to the Company's existing property portfolio. The pricing benefit of pursuing a smaller lot-size regional strategy is evident when compared with pricing in the highly competitive market for logistics assets. The acquisition of the Menzies Portfolio enhanced the Company's lease expiry profile, supplemented regional diversification and provides secure contractual revenues with fixed rental uplifts in 2024.

Following this transaction, MDL became Custodian REIT's largest tenant, but still represents only 3.8% of the Company's rent roll. No one property from the Menzies Portfolio accounts for more than 0.7% of the Company's rent roll supporting the continued drive to mitigate risk through diversification and stock selection. We are very pleased to enter into a long-term relationship with MDL which offers a strong covenant.

The corporate transaction offered compelling economic benefits to both the Company and the vendor compared to acquiring the properties directly.

Read about the Menzies acquisition on page 22

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27. Before disposal costs of £0.2m.

INVESTMENT MANAGER'S REPORT CONTINUED

Asset management
Our continued focus on asset management including rent reviews, new lettings, lease extensions and the retention of tenants beyond their contractual break clauses resulted in a £6.1m valuation increase in the year. Key asset management initiatives completed during the year include:

1. Completing a new five year lease with Ascott Transport Limited in Burton upon Trent with annual passing rent of £500k following the surrender of the incumbent tenant's lease due to its Administration, increasing valuation by £1.1m;
2. An outstanding rent review with JTF Wholesale on a trade counter in Warrington, increasing passing rent by 20% to £586k and increasing valuation by £0.9m;
3. A 10 year reversionary lease with five year break option with VP Packaging on an industrial unit at Venture Park, Kettering, with fixed rental increases which over time will increase passing rent by more than 20%, increasing valuation by £0.5m;
4. Re-gearing a lease with H&M in Winsford by moving the 2020 break option to 2022 and increasing rent from £400k to £625k, increasing valuation by £0.4m;
5. Re-gearing a lease with JB Global (t/a Oak Furniture Land) in Plymouth, extending the term by five years and increasing rent from £235k to £250k, increasing valuation by £0.4m;
6. A five year reversionary lease with Vertiv Infrastructure on an industrial unit at Priory Business Park, Bedford, extending the lease to August 2027 and increasing valuation by £0.4m;
7. Agreeing a five year extension to a lease with Turpin Distribution at an industrial unit in Biggleswade, increasing annual rent by 10% to £330k and increasing valuation by £0.4m;


1 – Burton upon Trent


2 – Warrington


3 – Kettering


4 – Winsford


5 – Plymouth


6 – Bedford


7 – Biggleswade

8 – Colchester

8 Completing a lease renewal with H Samuel in Colchester where the tenant has taken a five year lease, with annual passing rent falling from £77k to £70k, increasing valuation by £0.3m;

9 A new 10 year reversionary lease with Arkote on an industrial unit in Sheffield, extending the lease to February 2034 and increasing valuation by £0.2m;

10 A five year lease renewal with Wienerberger on offices at Cheadle Royal Business Park with expiry now in March 2025 and rent increasing by 10%, increasing valuation by £0.2m;

11 A five year lease renewal with a 2.5 year tenant only break option with Poundland on a high street retail unit in Portsmouth, with rent decreasing by 50% to match the ERV, increasing valuation by £0.2m;

12 Completed a 10 year lease extension, subject to a fifth year tenant only break option, with Equinox Aromas in Kettering with no change to annual passing rent, increasing valuation by £0.2m;

13 A five year lease renewal with a 2.5 year tenant only break option with DHL on an industrial unit at Glasgow Airport, with rent increasing by 17% and valuation increasing by £0.2m;

14 A 10 year lease with five year break to Raven Valley on an industrial unit at Metro Riverside in Gateshead at a passing rent of £52k per annum in line with ERV, increasing valuation by £0.2m;

15 A five year lease renewal with Holland & Barrett on a high street retail unit in Shrewsbury with passing rent decreasing by 25% to £75k per annum in line with ERV, increasing valuation by £0.1m;

9 – Sheffield


10 – Cheadle

11 – Portsmouth


12 – Kettering


13 – Glasgow


14 – Gateshead


15 – Shrewsbury

INVESTMENT MANAGER'S REPORT CONTINUED

16 Completing a new lease with Brooks Taverner at Cirencester where the tenant has taken a 10 year lease with an annual passing rent of £37k, increasing valuation by £0.1m;

17 Completing a new lease with Mtor Limited (t/a Trugym) at Gateshead where the tenant has taken a 10 year lease with annual passing rent of £125k, increasing valuation by £0.1m;

18 Completing a lease renewal with Specsavers in Norwich which has taken a 10 year lease with a fifth year tenant only break option at £126k against an ERV of £125k, increasing valuation by £0.1m;

19 Retained Waterstones in Scarborough beyond its contractual lease expiry on a flexible lease arrangement whilst the unit is re-marketed, with annual passing rent falling from £93k to £45k, increasing valuation by £0.1m;

20 Completing a 5.5 year lease to Systra Limited at Lancaster House, Birmingham at a rent of £100k per annum, with no increase in valuation; and

21 Completing 16 electric vehicle charging point leases to InstaVolt across a number of retail warehouse sites within the property portfolio, generating an additional £24k in annual contracted rent on 15 year leases.

Growth in rents and positive asset management outcomes have been tempered by business failures in the retail and other sectors of the property portfolio during the year end and since the year end, with Cotswold Outdoor, Paperchase, Travelodge, The Restaurant Group, Poundstretcher and JTF Wholesale entering into or proposing CVAs and Laura Ashley, Thomas Cook and JB Global (t/a Oak Furniture Land) entering Administration, potentially affecting tenancies representing 5.3% of the rent roll.

Since the year-end we have completed a surrender of a lease to Hydro Extrusions UK Limited at Ravensbank Drive, Redditch where the tenant was not in occupation of the property. Rent has been received to the 30 April 2020 contractual lease expiry date and a £95k dilapidations settlement was also agreed. Due to the strong demand in the West Midlands for good quality industrial/warehouse units with vacant possession, we expect to pursue a freehold sale of this property.

16 – Cirencester


17 – Gateshead

18 – Norwich

19 – Scarborough


20 – Birmingham

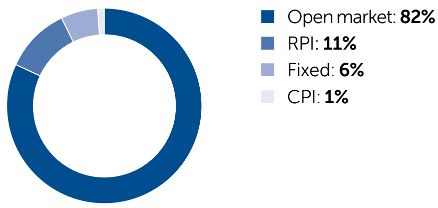
21 – InstaVolt

PROPERTY PORTFOLIO RISK

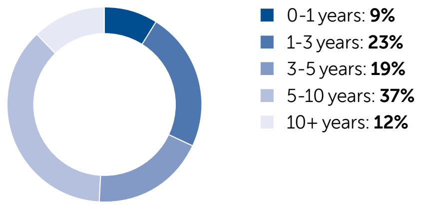
We have managed the property portfolio's income expiry profile through successful asset management activities with only 51% of aggregate income expiring within five years at 31 March 2020 (2019: 50%). Short-term income at risk is a relatively low proportion of the property portfolio's income, with only 32% expiring in the next three years (2019: also 32%) and our experience suggests that even in the current uncertain climate, the majority of tenants do not exit at break or expiry.

Aggregate income expiry	31 March 2020	31 March 2019
0-1 years	9%	10%
1-3 years	23%	22%
3-5 years	19%	18%
5-10 years	37%	38%
10+ years	12%	12%
	100%	100%

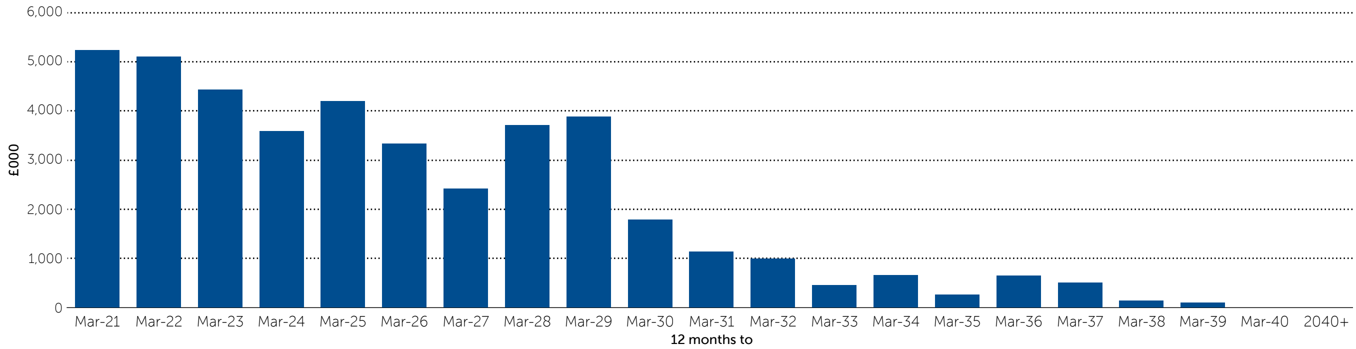
Rent review analysis



Income at risk



LEASE EXPIRY PROFILE



Outlook

A simple return to pre-COVID-19 pandemic normality by early 2021 appears unlikely. Nevertheless, we still regard commercial real estate as an important and necessary asset for occupiers.

Our experience pre-lockdown was that retailers wanted to continue trading from their core destination locations, albeit at lower rents, and we expect this to remain the case. Rent reductions will support occupancy levels as stores remain affordable. Through this difficult market we have focused on maintaining occupancy whilst securing cash flow. We have worked with tenants to retain them in occupation following CVAs, at lease expiry or at break opportunities and also in response to the pressing challenges of the COVID-19 pandemic, resulting in c.96% occupancy across our high street retail assets.

Over the course of the next 12 months there may be opportunities in retail warehousing if market sentiment continues to weaken and pricing over-compensates. Strong locations should still see demand from retailers and retail warehouse parks could yet make for a compelling investment, benefiting from large sites close to town centres with free car parking for customers and easy loading and servicing for retailers. These factors should make the stores complementary to online shopping and suitable for use as urban logistics hubs for the retailers.

Good quality offices in regional markets that can offer flexible accommodation, especially on flexible lease terms, are likely to be attractive to occupiers. The COVID-19 pandemic lockdown has shown a real benefit to employees, both commercially and socially, of an office providing collaborative space and a hub for doing business. However, the increased ability to work from home, with enhanced connectivity from video conferencing and document sharing, has opened up the possibility of more remote working. It is too early to tell which of these trends will have more impact but going forward we expect in-demand offices to fall into two categories, much the same as retail: prime, town centre offices offering meeting rooms, collaborative spaces and flexible hot desking combined with widespread remote working; or out of town, conveniently located, well-connected, lower cost space. We are conscious that obsolescence can be a real cost of office ownership, which can negatively impact cash flow and be at odds with the Company's relatively high target dividend. The need to provide either good value out of town space or flexible town centre space could be a cost to landlords and this will need to be reflected in either price or rent.

Industrial and logistics properties have been the best performers in real estate markets and the Company's weighting of 46%, by value, to the sector has supported returns during the year. We expect this sector to remain in sharp focus and believe there is still some rental growth potential and refurbishment opportunities, such as those carried out on our Warrington asset during the year, that can enhance value.

The COVID-19 pandemic has shone a light on the everyday rent collection and asset management of the Custodian REIT property portfolio. In ordinary times rent collection and asset management are rightly taken for granted by shareholders but the importance of the close relationships between manager and tenant and the manager's ability to influence the outcome of negotiations has come to the fore.

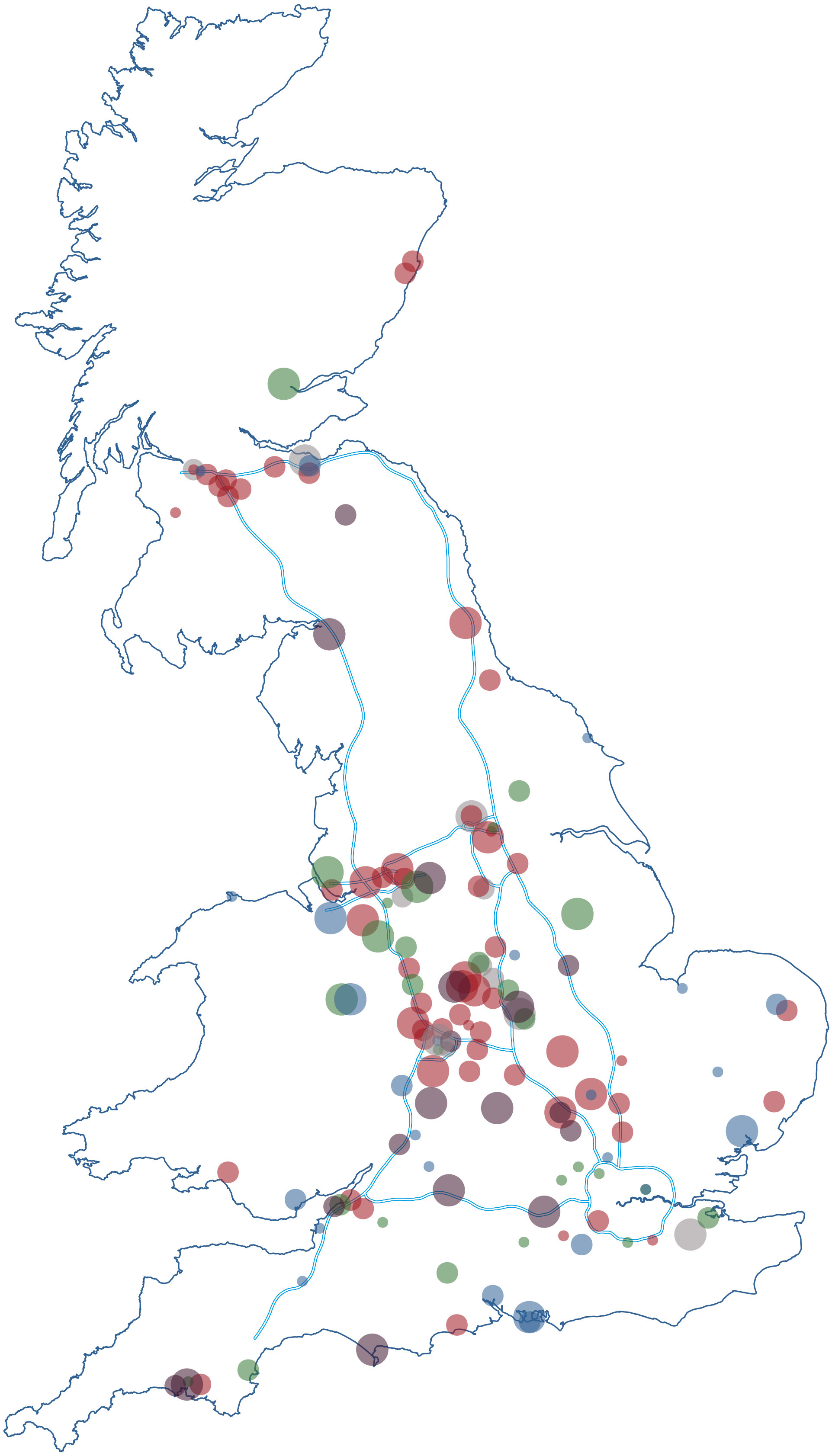
Once rent collections return to normal and the free cash and undrawn debt of the Company can be deployed, we expect to take advantage of the re-pricing that is likely to be a feature of the market and deliver positive returns to shareholders.

RICHARD SHEPHERD-CROSS
for and on behalf of
Custodian Capital Limited
Investment Manager
22 June 2020

OUR PORTFOLIO

A DIVERSIFIED PORTFOLIO

A diverse portfolio consisting of properties let to institutional-grade tenants throughout the UK.



PROPERTY INCOME

<£100k

£101-350k

>350k

INDUSTRIAL

Read more on this portfolio sector on page 20
20

RETAIL WAREHOUSE

Read more on this portfolio sector on page 34
34

OTHER

Read more on this portfolio sector on page 40
40

HIGH STREET RETAIL

Read more on this portfolio sector on page 48
48

OFFICE

Read more on this portfolio sector on page 56
56

PROPERTY PORTFOLIO

Property portfolio value

£559.8m*

(31 March 2019: £572.7m)

Separate tenancies

280*

(31 March 2019: 269)

EPRA occupancy rate

95.8%*

(31 March 2019: 95.9%)

Assets

161*

(31 March 2019: 155)

WAULT

5.3 years*

(31 March 2019: 5.6 years)

NIY

6.8%*

(31 March 2019: 6.6%)

* As at 31 March 2020.

OUR PORTFOLIO CONTINUED

OUR PORTFOLIO BY SECTOR: INDUSTRIAL

Industrial at a glance

Portfolio weighting by income

40%

2019: 37%

Number of properties

69

2019: 62

Valuation

£257.3m

2019: £224.3m

Ashby-de-la-Zouch
Teleperformance,
71,000 sq ft

OUR PORTFOLIO CONTINUED

MENZIES PORTFOLIO ACQUISITION
INDUSTRIAL

DIVERSE

The Company's portfolio should be diversified by sector, location, tenant and lease term, but not exceed a maximum weighting to any one property sector, or to any geographic region, of greater than 50%.

Menzies properties distributed throughout the UK

1. Norwich
2. Aberdeen
3. Stockton
4. Weybridge
5. Ipswich
6. Glasgow
7. Edinburgh
8. Swansea

HIGHLIGHTS

Tenant
Menzies Distribution

Annual passing rent
£1.61m

Headline price
£24.65m

Tenant proportion of rent roll
3.8%

Length of leases
10 years[28]

Rental uplifts
13.1%
Fixed uplifts in 2024

Net initial yield
6.4%

28. The Weybridge unit has a second-year break option.

The Menzies Portfolio is strongly aligned to Custodian REIT's investment strategy and complementary to the Company's existing property portfolio. The pricing benefits of pursuing a smaller lot-size, regional strategy is evident when compared with pricing in the highly competitive market for logistics assets.

Following this transaction, MDL became Custodian REIT's largest tenant, but MDL still represents only 3.8% of the rent roll. No one property accounts for more than 0.7% of the rent roll, supporting the continued drive to mitigate risk through diversification and stock selection. We are very pleased to enter into a long-term relationship with MDL, which offers a strong covenant.


Menzies
MENZIESPARCELS.COM
JYL

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Menzies

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Menzies
DISTRIBUTION

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OUR PORTFOLIO CONTINUED

INDUSTRIAL


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9. **Warrington**
   JTF Wholesale
10. **Ashby**
   Teleperformance
11. **Burton**
   ATL Transport
12. **Salford**
   Restore
13. **Bedford**
   Elma Electronics
   Vertiv Infrastructure
14. **Hilton**
   Daher Aerospace
15. **Winsford**
   H&M
16. **Stone**
   Revlon International
17. **Eurocentral**
   Next
18. **Warrington**
   VACANT
19. **Tamworth**
   ICT Express
20. **Doncaster**
   Silgan Closures
21. **Redditch**
   Amco Services


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OUR PORTFOLIO CONTINUED


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22. **Normanton**
    Yesss Electrical
23. **Biggleswade**
    Turpin Distribution Services
24. **Kettering**
    Multi-let
25. **Warrington**
    Procurri Europe
    Synertec
26. **Daventry**
    Cummins
27. **Redditch**
    Hydro Extrusions
28. **Gateshead**
    Multi-let
29. **Cannock**
    HellermannTyton
30. **Milton Keynes**
    Massmould
31. **West Bromwich**
    OyezStraker
32. **Gateshead - Team Valley**
    Worthington Armstrong
33. **Bellshill**
    Yodel
34. **Nuneaton**
    DX


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OUR PORTFOLIO CONTINUED

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35. Milton Keynes
Saint-Gobain

36. Plymouth
Sherwin Williams

37. Avonmouth
Superdrug

38. Bedford
Heywood Williams Components

39. Bristol
BSS Group

40. Coventry
Royal Mail Group

41. Hamilton
Ichor Systems

42. Stevenage
Morrison Utility Services

43. Livingston
A Share & Sons (t/a SCS)

44. Manchester
Unilin Distribution

45. Oldbury
Sytner

46. Aberdeen
DHL Supply Chain

47. Christchurch
Interserve Project Services

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MAERSK
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OUR PORTFOLIO CONTINUED


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48. Cambuslang
Brenntag

49. Warrington
Dinex Exhausts

50. Warwick
Semcon

51. Farnborough
VACANT

52. Leeds
Sovereign Air Movements
Tricel Composites (GB)

53. Coalville
MTS Logistics

54. Erdington
West Midlands Ambulance Service

55. Langley Mill
Warburton

56. Irlam
Northern Commercials (Mirfield)

57. Castleford
Bunzl

58. Sheffield Parkway
Synergy Health

59. Liverpool, Speke
Powder Systems


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OUR PORTFOLIO CONTINUED


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60. Westerham
Aqualisa Products

61. Sheffield
Arkote

62. Sheffield
ITM Power
River Island

63. Kettering
Sealed Air

64. Atherstone
North Warwickshire
Borough Council

65. Liverpool, Speke
DHL International

66. Huntingdon
PHS

67. Glasgow
DHL Global
Forwarding (UK)

68. Normanton
Acorn Web Offset

69. Kilmarnock
Royal Mail Group


66


67


68


69

INDUSTRIAL

Tenant	Location	% portfolio income
Menzies Distribution	Various	**3.8%**
JTF Wholesale	Warrington	**1.4%**
Teleperformance	Ashby	**1.3%**
ATL Transport	Burton	**1.2%**
Restore	Salford	**1.1%**
Daher Aerospace	Hilton	**0.9%**
H&M	Winsford	**0.9%**
Revlon International	Stone	**0.9%**
Next	Eurocentral	**0.9%**
ICT Express	Tamworth	**0.8%**
Silgan Closures	Doncaster	**0.8%**
Amco Services	Redditch	**0.8%**
Yesss Electrical	Normanton	**0.8%**
Turpin Distribution Services	Biggleswade	**0.8%**
Royal Mail Group	Coventry/ Kilmarnock	**0.8%**
Cummins	Daventry	**0.7%**
Hydro Extrusions	Redditch	**0.7%**
HellermannTyton	Cannock	**0.7%**
Massmould	Milton Keynes	**0.6%**
OyezStraker	West Bromwich	**0.6%**
Worthington Armstrong	Gateshead - Team Valley	**0.6%**
Yodel	Bellshill	**0.6%**
DX	Nuneaton	**0.6%**
Saint-Gobain	Milton Keynes	**0.6%**
Sherwin Williams	Plymouth	**0.6%**
Superdrug	Avonmouth	**0.6%**

Tenant	Location	% portfolio income
Heywood Williams Components	Bedford	**0.6%**
BSS Group	Bristol	**0.6%**
Elma Electronics	Bedford	**0.5%**
Ichor Systems	Hamilton	**0.5%**
Morrison Utility Services	Stevenage	**0.5%**
A Share & Sons (t/a SCS)	Livingston	**0.5%**
Unilin Distribution	Manchester	**0.5%**
Sytner	Oldbury	**0.5%**
Vertiv Infrastructure	Bedford	**0.5%**
DHL Supply Chain	Aberdeen	**0.5%**
Interserve Project Services	Christchurch	**0.5%**
Brenntag	Cambuslang	**0.5%**
Procurri Europe	Warrington	**0.5%**
Dinex Exhausts	Warrington 1	**0.4%**
Semcon	Warwick	**0.4%**
MTS Logistics	Coalville	**0.4%**
West Midlands Ambulance Service	Erdington	**0.4%**
Warburton	Langley Mill	**0.4%**
Northern Commercials (Mirfield)	Irlam	**0.4%**
VP Packaging	Kettering	**0.4%**
Bunzl	Castleford	**0.3%**
Synergy Health	Sheffield Parkway	**0.3%**
Powder Systems	Liverpool, Speke	**0.3%**
WH Partnership	Gateshead	**0.3%**

Tenant	Location	% portfolio income
Aqualisa Products	Westerham	**0.3%**
Arkote	Sheffield	**0.3%**
Sealed Air	Kettering	**0.3%**
North Warwickshire Borough Council	Atherstone	**0.3%**
DHL International	Liverpool, Speke	**0.3%**
PHS	Huntingdon	**0.3%**
Synertec	Warrington	**0.3%**
DHL Global Forwarding (UK)	Glasgow	**0.3%**
Acorn Web Offset	Normanton	**0.3%**
ITM Power	Sheffield	**0.2%**
Tricel Composites (GB)	Leeds	**0.2%**
Sovereign Air Movements	Leeds	**0.2%**
Boots	Gateshead	**0.2%**
Rapid Vehicle Repairs	Kettering	**0.1%**
Rexel	Gateshead	**0.1%**
The Human Office	Gateshead	**0.1%**
Equinox Aromas	Kettering	**0.1%**
Nital Training Academy	Kettering	**0.1%**
River Island	Sheffield	**0.1%**
Other smaller tenants		**0.1%**
VACANT		**1.3%**
		40.3%

OUR PORTFOLIO CONTINUED

OUR PORTFOLIO BY SECTOR: RETAIL WAREHOUSE

Retail warehouse at a glance

Portfolio weighting by income

22%

2019: 22%

Number of properties

20

2019: 20

Valuation

£109.7m

2019: £123.4m

Ashton-under-Lyne, B&M, 30,000 sq ft unit with 9,000 sq ft outdoor garden centre

OUR PORTFOLIO CONTINUED

RETAIL WAREHOUSE

1


2


3


4

1. **Evesham**
   Multi-let
2. **Carlisle**
   Multi-let
3. **Weymouth**
   B&Q
   Halfords
   Sports Direct
4. **Burton**
   CDS
   Wickes
5. **Winnersh**
   Pets at Home
   Wickes
6. **Swindon**
   B&M
   Go Outdoors
   InstaVolt
7. **Leicester**
   Matalan
8. **Plymouth**
   A Share & Sons (t/a SCS)
   JB Global (t/a Oak Furniture Land)
9. **Banbury**
   B&Q
10. **Ashton-under-Lyne**
   B&M

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MATALAN
7


ScS
ScS
Sofa · Carpet · Specialist
Welcome to ScS
Oak
furnitureland
sofa
store
SALE
SALE
8


B&Q
9


10

OUR PORTFOLIO CONTINUED


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11. **Plymouth**
    B&M
    Magnet
    InstaVolt
12. **Gloucester**
    Magnet
    Smyths Toys
    InstaVolt
13. **Sheldon**
    Multi-let
14. **Leighton Buzzard**
    Homebase
15. **Milton Keynes**
    VACANT
16. **Grantham**
    Multi-let
17. **Galashiels**
    B&Q
18. **Leicester**
    Magnet
19. **Torpoint**
    Sainsburys
20. **Portishead**
    TJ Morris
    (t/a Homebargains)
    Majestic Wine Warehouse


16

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19


20

RETAIL WAREHOUSE

Tenant	Location	% property income
B&Q	Banbury/Galashiels/Weymouth	**3.2%**
B&M	Ashton-under-Lyne/ Plymouth/Carlisle	**2.9%**
Wickes	Burton/Winnersh	**1.9%**
Matalan	Leicester	**1.2%**
Magnet	Gloucester/ Leicester/Plymouth	**1.1%**
JB Global (t/a Oak Furniture Land)	Carlisle/ Plymouth	**0.9%**
Halfords	Carlisle/Sheldon/ Weymouth	**0.8%**
Homebase	Leighton Buzzard	**0.8%**
Go Outdoors	Swindon	**0.8%**
Smyths Toys	Gloucester	**0.6%**
A Share & Sons (t/a SCS)	Plymouth	**0.5%**

Tenant	Location	% property income
M&S	Evesham	**0.5%**
Poundstretcher	Evesham/Grantham	**0.5%**
Sainsburys	Torpoint	**0.5%**
Pets at Home	Sheldon/Winnersh	**0.5%**
Boots	Evesham	**0.5%**
CDS	Burton	**0.5%**
Argos	Evesham	**0.4%**
Next	Evesham	**0.4%**
Dreams	Sheldon	**0.4%**
TJ Morris (t/a Home Bargains)	Portishead	**0.3%**
Laura Ashley	Grantham	**0.3%**
Iceland	Carlisle	**0.3%**

Tenant	Location	% property income
Sports Direct	Weymouth	**0.3%**
Poundland	Carlisle	**0.3%**
Carpetright	Grantham	**0.2%**
Majestic Wine Warehouse	Portishead	**0.1%**
InstaVolt	Various	**0.1%**
Possfund Custodian Trustee	Carlisle	**0.0%**
VACANT		**0.8%**
		21.5%

OUR PORTFOLIO CONTINUED

OUR PORTFOLIO BY SECTOR: OTHER

Other
at a glance

Portfolio weighting by income

17%

2019: 17%

Number of properties

35

2019: 35

Valuation

£87.4m

2019: £95.7m

Stockport,
Benham (Specialist Cars)
(t/a Williams BMW and Mini),
41,000 sq ft showrooms,
3.1 acres total site area

OUR PORTFOLIO CONTINUED

OTHER


1


2


3


4


5

1. **Stockport**
Benham (Specialist Cars) (t/a Williams BMW and Mini)
2. **Crewe**
Multi-let
3. **Liverpool**
Liverpool Community Health NHS Trust
Tai Pan
4. **Perth**
Bannatyne Fitness
Scotco Eastern (t/a KFC)
The Restaurant Group (t/a Frankie & Benny's)
5. **Lincoln**
Total Fitness
6. **Stoke**
Nuffield Health
7. **Derby**
VW Group
8. **Stafford Audi**
VW Group
9. **Torquay**
Multi-let
10. **Gillingham**
Co-Operative
11. **York**
Pendragon Property
12. **Portishead**
Travelodge
13. **Salisbury**
Parkwood Health & Fitness


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OUR PORTFOLIO CONTINUED


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14. Shrewsbury
VW Group

15. Lincoln
MKM Buildings Supplies

16. Gateshead
MTOR
Raven Valley

17. Crewe
Multi-let

18. Loughborough
Listers Group

19. Redhill
Honda Motor Europe

20. Bath
Chokdee

21. Shrewsbury
Azzurri Restaurants (t/a ASK)
Sam's Club (t/a House of the Rising Sun)

22. Castleford
MKM Building Supplies

23. High Wycombe
Stonegate Pub Co

24. Maypole
Starbucks

25. Shrewsbury
TJ Vickers & Sons


20


21


22


YATES
23


STARBUCKS
24


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OUR PORTFOLIO CONTINUED

26


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26. Carlisle
The Gym Group

27. Leicester
Pizza Hut

28. Watford
Pizza Hut

29. Plymouth
McDonald's

30. Basingstoke
Bright Horizons Family Solutions

31. Portishead
JD Wetherspoons

32. Stratford
The Universal Church of the Kingdom of God

33. King's Lynn
Loungers

34. Chesham
Bright Horizons Family Solutions

35. Knutsford
Knutsford Day Nursery


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OTHER

Tenant	Location	% property income
VW Group	Derby/Shrewsbury/ Stafford	**2.0%**
Benham (Specialist Cars) (t/a Williams BMW and Mini)	Stockport	**1.7%**
Total Fitness Health Clubs	Lincoln	**0.9%**
Nuffield Health	Stoke	**0.8%**
MKM Buildings Supplies	Castleford/ Lincoln	**0.7%**
Co-Operative	Gillingham	**0.6%**
Pizza Hut	Crewe/Leicester/ Watford	**0.6%**
Tai Pan Buffet Restaurants	Liverpool	**0.6%**
Bannatyne Fitness	Perth	**0.6%**
Pendragon Property	York	**0.6%**
Travelodge	Portishead	**0.5%**
Liverpool Community Health NHS Trust	Liverpool	**0.5%**
Parkwood Health & Fitness	Salisbury	**0.5%**
Listers Group	Loughborough	**0.4%**

Tenant	Location	% property income
Mecca Bingo	Crewe	**0.3%**
Honda Motor Europe	Redhill	**0.3%**
Chokdee (t/a Giggling Squid)	Bath	**0.3%**
MTOR	Gateshead	**0.3%**
Stonegate Pub Co	High Wycombe	**0.3%**
Bright Horizons Family Solutions	Basingstoke/ Chesham	**0.3%**
Starbucks	Maypole	**0.3%**
TJ Vickers & Sons	Shrewsbury – TJ Vickers	**0.3%**
Loungers	Kings Lynn/Torquay	**0.3%**
Mecca Bingo (sublet to Odeon Cinemas)	Crewe	**0.3%**
The Gym Group	Carlisle	**0.3%**
Las Iguanas	Torquay	**0.2%**
The Restaurant Group (t/a Frankie & Benny's)	Perth	**0.2%**

Tenant	Location	% property income
Azzuri Restaurants (t/a ASK)	Shrewsbury	**0.2%**
Le Bistrot Pierre	Torquay	**0.2%**
McDonald's	Plymouth	**0.2%**
Scotco Eastern (t/a KFC)	Perth	**0.2%**
JD Wetherspoons	Portishead	**0.2%**
Multi Tile (t/a Tile Giant)	Crewe	**0.2%**
The Universal Church of the Kingdom of God	Stratford	**0.1%**
Raven Valley	Gateshead	**0.1%**
Knutsford Day Nursery	Knutsford	**0.1%**
F1 Autocentres	Crewe	**0.1%**
Sam's Club (t/a House of the Rising Sun)	Shrewsbury	**0.1%**
Edmundson Electrical	Crewe	**0.1%**
Jurassic Coast (t/a Costa Coffee)	Torquay	**0.1%**
Other smaller tenants	Crewe	**0.1%**
VACANT		**0.5%**
		17.2%

OUR PORTFOLIO CONTINUED

OUR PORTFOLIO BY SECTOR: HIGH STREET RETAIL

High street retail at a glance

Portfolio weighting by income

11%

2019: 12%

Number of properties

31

2019: 33

Valuation

£52.8m

2019: £68.6m

Weston-super-Mare,
Superdrug, 7,500 sq ft

OUR PORTFOLIO CONTINUED

HIGH STREET RETAIL

1

2

3

4

1. **Shrewsbury**
   Multi-let
2. **Worcester**
   Superdrug Stores
3. **Portsmouth**
   Multi-let
4. **Cardiff**
   Multi-let
5. **Colchester**
   Multi-let
6. **Guildford**
   Reiss
7. **Southampton**
   URBN UK
8. **Southsea**
   Portsmouth City Council
   Superdrug Stores
9. **Llandudno**
   WH Smith
10. **Birmingham**
    Multi-let

5


REISS
6


URBAN OUTFITTERS
Superdrug
7


Southsea library
and customer service centre
8


WH Smith
9


CHAMBERLAIN BUILDING
CORAL
TESCO
GREGGS
Cafe & Fish Bar
10

OUR PORTFOLIO CONTINUED

11

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11. Nottingham
The White Company

12. Chester
Felldale Retail
(t/a Lakeland)
Signet Trading
(t/a Ernest Jones)

13. Norwich
Specsavers

14. Weston-super-Mare
Superdrug Stores

15. Edinburgh
Phase Eight

16. Colchester
Kruidvat Real Estate
(t/a Savers)

17. Chester
Aslan Jewellery
Der Touristik

18. Portsmouth
The Works Stores

19. Chester
Ciel Concessions
(t/a Chesca)
Lloyds TSB

20. Shrewsbury
Cotswold Outdoor

21. Glasgow
VACANT

22. Stratford
Foxtons

23. Taunton
Wilko

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OUR PORTFOLIO CONTINUED

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24. Bury St Edmunds
The Works Stores

25. St Albans
Crepeaffaire

26. Cirencester
Brook Taverner
The Danish Wardrobe
(t/a Noa Noa)

27. Bury St Edmunds
Savers

28. Scarborough
Waterstones

29. Cheltenham
Done Brothers
(t/a Betfred)

30. Bedford
Waterstones

31. Chester
VACANT

28

29

30

31

HIGH STREET RETAIL

Tenant	Location	% property income
Superdrug Stores	Southsea/ Weston-super-Mare/ Worcester	**1.3%**
Specsavers	Cardiff/Norwich	**0.8%**
URBN UK	Southampton	**0.5%**
Sportswift	Cardiff/Portsmouth	**0.5%**
Reiss	Guildford	**0.5%**
The Works Stores	Bury St Edmunds/ Portsmouth	**0.5%**
WH Smith	Llandudno	**0.4%**
The White Company	Nottingham	**0.3%**
Phase Eight	Edinburgh	**0.3%**
Poundland	Portsmouth	**0.3%**
Laura Ashley	Colchester	**0.2%**
Portsmouth City Council	Southsea	**0.2%**
Game Retail	Portsmouth	**0.2%**
Foxtons	Stratford	**0.2%**
The Edinburgh Woollen Mill	Shrewsbury	**0.2%**

Tenant	Location	% property income
Wilko	Taunton	**0.2%**
Signet Trading (t/a Ernest Jones)	Chester	**0.2%**
Waterstones	Bedford/Scarborough	**0.2%**
Tesco Stores	Birmingham	**0.2%**
Paperchase	Shrewsbury	**0.2%**
Greggs Plc	Birmingham/ Shrewsbury	**0.2%**
TCCT Retail (t/a Thomas Cook)/ Hay's Travel	Shrewsbury	**0.2%**
Holland & Barrett	Shrewsbury	**0.2%**
Kruidvat Real Estate (t/a Savers)	Colchester	**0.2%**
Crepeaffaire	St Albans	**0.2%**
Lush	Colchester	**0.2%**
H Samuel	Colchester	**0.2%**
Der Touristik	Chester	**0.2%**

Tenant	Location	% property income
Lloyds TSB	Chester	**0.1%**
Savers	Bury St Edmunds	**0.1%**
Your Phone Care	Portsmouth	**0.1%**
Feldale Retail t/s Lakeland	Chester	**0.1%**
Ciel (Concessions) (t/a Chesca)	Chester	**0.1%**
Aslan Jewellery	Chester	**0.1%**
Done Brothers (t/a Betfred)	Cheltenham	**0.1%**
Brook Tavener	Cirencester	**0.1%**
Leeds Building Society	Colchester	**0.1%**
The Danish Wardrobe (t/a Noa Noa)	Cirencester	**0.1%**
Coral	Birmingham	**0.1%**
Exitus Escape Rooms	Cardiff	**0.0%**
Other smaller tenants		**0.1%**
VACANT		**0.5%**
		10.7%

OUR PORTFOLIO CONTINUED

OUR PORTFOLIO BY SECTOR: OFFICE

Office at a glance

Portfolio weighting by income

10%

2019: 11%

Number of properties

12

2019: 13

Valuation

£52.6m

2019: £60.7m

Sheffield, Secretary of State for Communities and Local Government, 26,000 sq ft

OUR PORTFOLIO CONTINUED

OFFICE


1


2


3


4


5

1. **West Malling**
   Regus (Maidstone West Malling)
2. **Birmingham**
   Multi-let
3. **Leicester**
   Regus (Leicester Grove Park)
4. **Sheffield**
   Health & Safety Executive
5. **Castle Donnington**
   National Grid
6. **Leeds**
   First Title (t/a Enact Conveyancing)
7. **Cheadle**
   Wienerberger
8. **Leeds**
   First Title
9. **Leicester**
   Countryside Properties Erskine Murray
10. **Derby**
   Edwards Geldards
11. **Glasgow**
   Multi-let
12. **Solihull**
   Lyons Davidson


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OFFICE

Tenant	Location	% property income
Regus (Maidstone West Malling)	West Malling	1.5%
First Title (t/a Enact Conveyancing)	Leeds	1.5%
National Grid	Castle Donnington	0.8%
Wienerberger	Cheadle	0.8%
Home Office	Sheffield	0.7%
Edwards Geldards	Derby	0.6%
Countryside Properties	Leicester	0.5%
Lyons Davidson	Solihull	0.4%
Regus (Leicester Grove Park)	Leicester	0.4%
Systra	Birmingham	0.3%
Cognizant Technology	Glasgow	0.2%
Dakeyne Emms Gilmore Liberson	Birmingham	0.2%
Health & Safety Executive	Sheffield	0.2%
Erskine Murray	Leicester	0.2%
Copeland Wedge Associates	Birmingham	0.1%
Workers Educational Association	Birmingham	0.1%
Reward Gateway	Birmingham	0.1%
Quantem Consulting	Birmingham	0.1%
Bell Cornwall Associates	Birmingham	0.1%
Bradley & Cuthbertson LLP	Birmingham	0.1%
Safe Deposits	Glasgow	0.1%
KWB Property Management	Birmingham	0.1%
ENSCO 1078	Birmingham	0.1%
Other smaller tenancies		0.1%
VACANT		1.0%
		10.3%

PRINCIPAL RISKS AND UNCERTAINTIES

The Board has overall responsibility for reviewing the effectiveness of the system of risk management and internal control which is operated by the Investment Manager. The Company's risk management process is designed to identify, evaluate and mitigate the significant risks the Company faces.

COVID-19 PANDEMIC RESPONSE

The impact of the COVID-19 pandemic has been pervasive across the globe, and the Board believes it will have a significant impact on rental receipts, tenant stability, property valuations, government legislation, availability of finance and compliance with financial covenants, and will cause significant operational interruption to the Company for at least the financial year ending 31 March 2021.

This expected impact has been reflected in the table below and is considered further in the Going concern and longer-term viability section of the Strategic report, although the Board believes it is still too early to fully comprehend the short-term impact and longer-term ramifications of the COVID-19 pandemic.

The business resilience and risk planning of the Company's key service providers has been tested in recent months and in all cases has responded very well to the challenges presented by the crisis, with all key teams able to work from home and continue to offer high levels of service to the Company.

The Board has met at least fortnightly via video-conference since March to ensure the Company reacts promptly to a dynamic situation, including guiding and challenging the Investment Manager's response and approving decisions quickly when required.

The COVID-19 pandemic has resulted in almost all principal risk areas increasing in overall impact since last year.

RISK ASSESSMENT

At least annually, the Board undertakes a risk review, with the assistance of the Audit and Risk Committee, to assess the effectiveness of the Investment Manager's risk management and internal control systems. During this review, no significant failings or weaknesses were identified in respect of risk management, internal control and related financial and business reporting.

The Company holds a portfolio of high quality property let to institutional grade tenants and is primarily financed by fixed rate debt with no short-term refinancing risk. It does not undertake speculative development.

There are a number of potential risks and uncertainties which could have a material impact on the Company's performance over the forthcoming financial year and could cause actual results to differ materially from expected and historical results. The Directors have assessed the risks facing the Company, including risks that would threaten the business model, future performance, solvency or liquidity. The table below outlines the principal risks identified, but does not purport to be exhaustive as there may be additional risks that materialise over time that the Company has not yet identified or has deemed not likely to have a potentially material adverse effect on the business.

RISK TYPE	LIKELIHOOD	IMPACT	OVERALL CHANGE IN RISK FROM LAST YEAR	RISK	MITIGATING FACTORS
1. **Loss of revenue**	High	High	↑ Increased	• Tenant default due to a cessation or curtailment of trade due to the COVID-19 pandemic • An increasing number of tenants exercising contractual breaks or not renewing at lease expiry • Tenant default due to poor performance or a cessation or curtailment of trade due to the COVID-19 pandemic • Enforced reduction in contractual rents through a CVA or legislative changes due to COVID-19 • Decreases in ERVs resulting in decreases in passing rent to secure long-term occupancy • Expiries or breaks concentrated in a specific year • Unable to re-let void units • Low UK economic growth impacting the commercial property market.	• Diverse property portfolio covering all key sectors and geographical areas • The Company has 280 individual tenancies with the largest tenant accounting for 3.8% of the rent roll • Investment policy limits the Company's rent roll to no more than 10% from a single tenant and 50% from a single sector • Primarily institutional grade tenants. • Focused on established business locations for investment • Active management of lease expiry profile considered in forming acquisition decisions • Building specifications typically not tailored to one user • Strong tenant relationships have meant short-term rent deferrals have been agreed where necessary to address arrears caused by COVID-19 pandemic interruption.

RISK TYPE	LIKELIHOOD	IMPACT	OVERALL CHANGE IN RISK FROM LAST YEAR	RISK	MITIGATING FACTORS
2. **Decreases in property portfolio valuation**	High	High	↑ Increased	• Decreases in sector-specific ERVs • Loss of contractual revenue • Tenants exercising contractual breaks or not renewing at lease expiry • Market pricing affecting value • Change in demand for space • Properties concentrated in a specific geographical location or sector • Reduced property market sentiment and investor demand • Lack of transactional evidence.	• Active property portfolio diversification between office, industrial (distribution, manufacturing and warehousing), retail warehousing, high street retail and other • Investment policy limits the Company's property portfolio to no more than 50% in any specific sector or geographical region • Small lot-size business model limits exposure to individual asset values • High quality assets in good locations should remain popular with investors.
3. **Financial**	High	High	↑ Increased	• Reduced availability or increased cost of arranging or servicing debt • Breach of borrowing covenants • Significant increases in interest rates.	• The Company has three lenders • Interest cover covenant waivers in place covering at least the June 2020 and September 2020 quarter-ends • Target net gearing of 25% LTV on property portfolio • 90% of drawn debt facilities at a fixed rate of interest • Significant unencumbered properties available to cure any potential breaches of LTV covenants • Existing facilities sufficient for current spending commitments and agreed until at least 2022 • Ongoing monitoring and management of the forecast liquidity and covenant position.
4. **Operational**	Low	High	↔ No change	• Inadequate performance, controls or systems operated by the Investment Manager.	• Ongoing review of performance by independent Board of Directors • Outsourced internal audit function reporting directly to the Audit and Risk Committee • External depositary with responsibility for safeguarding assets and performing cash monitoring.
5. **Regulatory and legal**	High	High	↑ Increased	• Adverse impact of new or revised legislation or regulations, or by changes in the interpretation or enforcement of existing government policy, laws and regulations • Non-compliance with the REIT regime[29] or changes to the Company's tax status.	• Strong compliance culture • External professional advisers are engaged to review and advise upon control environment, ensure regulatory compliance and advise on the impact of changes due to the COVID-19 pandemic • Business model and culture embraces FCA principles • REIT regime compliance is considered by the Board in assessing the Company's financial position and setting dividends and by the Investment Manager in making operational decisions.

29. As defined by the Corporation Tax Act 2010.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

RISK TYPE	LIKELIHOOD	IMPACT	OVERALL CHANGE IN RISK FROM LAST YEAR	RISK	MITIGATING FACTORS
6. **Business interruption**	High	High	↑ Increased	• Cyber-attack results in the Investment Manager being unable to use its IT systems and/or losing data • Terrorism or pandemics interrupt the Company's operations through impact on either the Investment Manager or the Company's assets or tenants.	• Investment Manager staff are all capable of working from home for an extended period • Data is regularly backed up and replicated and the Investment Manager's IT systems are protected by anti-virus software and firewalls that are regularly updated • Fire protection and access/security procedures are in place at all of the Company's managed properties • Comprehensive property damage and business interruption insurance is held, including three years' lost rent and terrorism • At least annually, a fire risk assessment and health and safety inspection is performed for each property in the Company's managed portfolio.
7. **Acquisitions**	Low	High	↔ No change	• Unidentified liabilities associated with the acquisition of new properties (whether acquired directly or via a corporate structure).	• Comprehensive due diligence is undertaken in conjunction with professional advisers and the provision of insured warranties and indemnities are sought from vendors where appropriate.

EMERGING RISKS

The COVID-19 pandemic represents a principal risk and has significantly impacted the Company in the current financial year, but its medium and long-term impacts on the global economy are yet to be fully understood. The Board has also considered the following emerging risks and their potential impact on the Company:

Brexit

The Board is continuing to monitor the potential risks associated with Brexit. Discussions are ongoing and the final outcome regarding the UK's future trading relationship with the EU remains unclear, making it too early to understand fully the impact Brexit will have on our business and our sector. The main potential negative impact of Brexit is a deterioration of the macro-economic environment, potentially leading to further political uncertainty and volatility in interest rates, but it could also impact our investment and occupier market, our ability to execute our investment strategy and our income sustainability in the long term. However, the Board believes the Company is well placed to weather any short-term impact of Brexit because the Company has a diverse portfolio by sector and location with an institutional grade tenant base and low gearing.

Environmental

The Board is aware of the increasing focus from external stakeholders on its environmental credentials and the increasing level of disclosure requirements regarding the Company's environmental impact. The Board believes that the risk of negative stakeholder sentiment towards the Company because of a below peer group environmental footprint and non-compliance with environmental disclosure requirements has increased during the year. The Company has complied with the recently implemented Energy Savings Opportunity Scheme and Carbon Reporting requirements and expects further, more onerous requirements in the near future including the Task Force on Climate-related Financial Disclosures. The Board has recently engaged Carbon Intelligence, specialist environmental consultants, to assist it with ensuring compliance with new requirements.

No other emerging risks have been added to the Company's Risk Register during the year.

GOING CONCERN AND LONGER-TERM VIABILITY

In accordance with Provision 31 of the UK Corporate Governance Code 2018 issued by the Financial Reporting Council ("the Code"), the Directors have assessed the prospects of the Company over a period longer than 12 months. The Board resolved to conduct this review for a period of three years, because:

- The Company's forecasts cover a three-year period; and
- The Board believes a three-year horizon maintains a reasonable level of accuracy regarding projected rental income and costs, allowing robust sensitivity analysis to be conducted.

The Directors have assessed the following factors, in particular relating to the impact of the COVID-19 pandemic, in assessing the Company's status as a going concern and its longer-term viability, including events up to the date of authorisation of the financial statements:

- The extent of any operational disruption;
- Potential curtailment of rental receipts;
- Diminished demand for leasing the Company's assets going forwards;
- Contractual obligations due or anticipated within one year;
- Potential liquidity and working capital shortfalls;

- Access to funding and compliance with banking covenants; and
- Ongoing compliance with regulatory requirements including the REIT regime.

Mitigating actions
In order to preserve cash the Company, as a result of the disruption caused by the COVID-19 pandemic, has:

- Put pipeline acquisitions on hold; and
- In the expectation that interest cover covenants on some individual loans at 30 June 2020 may come under short-term pressure, put in place covenant waivers with each of its lenders for at least the June 2020 and September 2020 quarter-ends and expects further covenant waivers to be made available if needed based on discussions with each lender.

The Company is in discussion with its lenders regarding charging additional properties and reallocating properties between individual security pools to alleviate short-term covenant compliance pressure.

Results of the assessment
Based on the prudent assumptions within the Company's forecasts regarding rent deferrals, tenant default, void rates and property valuation movements, the Directors expect that over the three-year period of their assessment:

- The Company has surplus cash to continue in operation and meet its liabilities as they fall due;
- Interest cover covenants on borrowings for periods not covered by covenant waivers are complied with;
- LTV covenants aren't breached; and
- REIT tests are complied with.

Sensitivities
These assessments are subject to sensitivity analysis, which involves flexing a number of key assumptions and judgements included in the financial projections:

- The anticipated level of rents deferred due to the impact of the COVID-19 pandemic;
- Tenant default;
- Length of potential void period following lease break or expiry;
- Acquisition NIY, disposals, anticipated capital expenditure and the timing of deployment of cash;
- Interest rate changes; and
- Property portfolio valuation movements.

This sensitivity analysis also evaluates the potential impact of the principal risks and uncertainties should they occur which, together with the steps taken to mitigate them, are highlighted above and in the Audit and Risk Committee report. The Board seeks to ensure that risks are mitigated appropriately and managed within its risk appetite all times.

Sensitivity analysis considered the following areas:

Covenant compliance
The Company operates four loan facilities which are summarised in Note 15. At 31 March 2020 the Company has:

- Significant headroom on lender covenants at a portfolio level, with Company net gearing of 22.4% compared to a maximum LTV covenant of 35% and £184.8m (33% of the property portfolio) unencumbered by the Company's borrowings;
- Put in place covenant waivers with each of its lenders for at least the June 2020 and September 2020 quarter-ends and expects further covenant waivers to be made available if needed based on discussions with each lender.

Reverse stress testing has been undertaken to understand what circumstances would result in potential breaches of financial covenants. While the assumptions applied in these scenarios are possible, they do not represent the Board's view of the likely outturn, but the results help inform the Directors' assessment of the viability of the Company. The testing indicated that:

- At a portfolio level, following expiry of interest cover covenant waivers, the rate of loss or deferral of contractual rent would need to deteriorate by a further 25% from the levels included in the Company's prudent forecasts to breach interest cover covenants; and
- Property valuations would have to decrease by 35% from the 31 March 2020 position to risk breaching the overall 35% LTV covenant.

The Board notes that the May 2020 IPF Forecasts for UK Commercial Property Investment survey suggests an average 6.3% reduction in rents during 2020 with capital value decreases of between 4.0% and 19.5%. The Board believes that the valuation of the Company's property portfolio will prove resilient due to its higher weighting to industrial assets and overall diverse and high-quality asset and tenant base comprising 161 assets and over 200 typically 'institutional grade' tenants across all commercial sectors.

Liquidity
At 31 March 2020 the Company has:

- £25m of cash-in-hand with gross borrowings of £150m resulting in low net gearing, with no short-term refinancing risk and a weighted average debt facility maturity of seven years;
- An annual contractual rent roll of £40.7m, with interest costs on drawn loan facilities of only c. £4.7m per annum; and
- Received 70% of rents due relating to the month of April – June 2020 quarter.

The Company has sufficient cash to settle its stated minimum target dividends relating to the first half of the financial year ending 31 March 2021 of 1.5p per share and its expense and interest liabilities for a period of at least 12 months, even assuming no further rent is collected. Liquidity is therefore not considered a key area of sensitivity for the going concern assessment.

The Board has considered the scenario used in covenant compliance reverse stress testing, where the rate of loss or deferral of contractual rent deteriorates by a further 25% from the levels included in the Company's prudent three-year forecasts, with dividends paid at the minimum required by the REIT regime. In this scenario, over the three year longer-term viability assessment horizon, all financial covenants and the REIT tests are complied with and the Company has surplus cash to settle its liabilities.

As detailed in Note 15, the Company's £35m RCF expires in September 2022 but can be extended by a further two years at the lender's discretion. The Board anticipates lender support in agreeing to the available extensions, and would seek to refinance the RCF with another lender or dispose of sufficient properties to repay it in September 2022 in the unlikely event of lender support being withdrawn.

REIT regime compliance
The key area of sensitivity in the Company's forecasts to the REIT regime is the requirement to distribute 90% of property rental business profits, calculated on an IFRS basis rather than a cash receipts basis, within 12 months of the financial year end. The Company's prevailing dividend policy, set out in the Business model and strategy section of the Strategic report, aligns itself to the REIT regime by seeking to distribute net rental receipts over the period of disruption caused by the COVID-19 pandemic. All rent deferrals agreed with tenants result in rents being repayable within the year ending 31 March 2021, therefore the Board does not consider this a key sensitivity for the going concern assessment.

SECTION 172 STATEMENT AND STAKEHOLDER RELATIONSHIPS

The Directors consider that in conducting the business of the Company over the course of the year they have complied with Section 172(1) of the Companies Act 2006 ("the Act") by fulfilling their duty to promote the success of the Company and act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole.

OUR STAKEHOLDER GROUPS

TENANTS

THE INVESTMENT MANAGER AND ITS EMPLOYEES

SUPPLIERS

SHAREHOLDERS

LENDERS

GOVERNMENT, LOCAL AUTHORITIES AND COMMUNITIES

ISSUES, FACTORS AND STAKEHOLDERS

The Board has direct engagement with the Company's shareholders and seeks a rounded and balanced understanding of the broader impact of its decisions through regular engagement with its stakeholder groups (detailed below) to understand their views, typically through feedback from the Investment Manager and the Company's broker, which is regularly communicated to the Board via quarterly meetings. Stakeholder engagement also ensures the Board is kept aware of any significant changes in the market, including the identification of emerging trends and risks, which in turn can be factored into its strategy discussions.

Management of the Company's day-to-day operations has been delegated to the Investment Manager, Custodian Capital Limited, and the Company has no employees. This externally managed structure allows the Board and the Investment Manager to have due regard to the impact of decisions on the following matters specified in Section 172 (1) of the Act:

SECTION 172(1) FACTOR	APPROACH TAKEN	
a) **Likely consequences of any decision in the long term**	The business model and strategy of the Company is set out within the Strategic report. Any deviation from or amendment to that strategy is subject to Board and, if necessary, shareholder approval, including the current proposed change to the Company's WAULT policy set out in the Investment Manager's report. The Company's Management Engagement Committee ensures that the Investment Manager is operating within the scope of the Company's investment objectives. At least annually, the Board considers a budget for the delivery of its strategic objectives based on a three year forecast model. The Investment Manager reports non-financial and financial key performance indicators to the Board, set out in detail in the Business model and strategy section of the Strategic report, at least quarterly which are used to assess the outcome of decisions made.	The Board's commitment to keeping in mind the long-term consequences of its decisions underlies its focus on risk, including risks to the long-term success of the business, leading to the conclusion that during the current period of heightened political and market uncertainty both in the UK and globally, cash resources should be retained such that dividends are broadly paid from net rental income. The investment strategy of the Company is focused on medium to long-term returns and minimising the Company's impact on communities and the environment and as such the long-term is firmly within the sights of the Board when all material decisions are made. The Board gains an understanding of the views of the Company's key stakeholders from the Investment Manager, broker and Management Engagement Committee, and considers those stakeholders' interests and views in Board discussions and long-term decision-making.
b) **The interests of the Company's employees**	The Company has no employees as a result of its external management structure, but the Directors have regard to the interests of the individuals responsible for delivery of the property management and administration services to the Company to the extent that they are able to.	The Company's Nominations Committee is responsible for applying the diversity policy set out in the Nominations Committee report to Board recruitment.
c) **The need to foster the Company's business relationships with suppliers, customers and others**	Business relationships with suppliers, tenants and other counterparties are managed by the Investment Manager. Suppliers and other counterparties are typically professional firms such as lenders, property agents and other property professionals, accounting firms and legal firms and tenants with which the Investment Manager often has a long-standing relationship. Where material counterparties are new to the business, checks, including anti money laundering checks, are conducted prior to transacting any business to ensure that no reputational or legal issues would arise from engaging with that counterparty. The Company also periodically reviews the compliance of all material counterparties with relevant laws and regulations such as the Modern Slavery Act 2015.	The Company pays suppliers in accordance with pre-agreed terms. The Management Engagement Committee engages directly with the Company's key service providers providing a direct line of communication for receiving feedback and resolving issues. Because the Investment Manager directly invoices most tenants and collects rent without using managing agents, it has open lines of communication with tenants and can understand and resolve any issues promptly.
d) **The impact of the Company's operations on the community and the environment**	The Board recognises the importance of supporting local communities where the Company's assets are located and seeks to invest in properties which will be fit for future purpose and which align with ESG targets. The Company also seeks to benefit local communities by creating social value through employment, viewing its properties as a key part of the fabric of the local economy.	The Board takes overall responsibility for the Company's impact on the community and the environment and its ESG policies are set out in the Business model and strategy section of the Strategic report. The Company's approach to preventing bribery, money laundering, slavery and human trafficking is disclosed in the Governance report.

SECTION 172 STATEMENT AND STAKEHOLDER RELATIONSHIPS CONTINUED

SECTION 172(1) FACTOR	APPROACH TAKEN	
e) **The desirability of the Company maintaining a reputation for high standards of business conduct**	The Board believes that the ability of the Company to conduct its investment business and finance its activities depends in part on the reputation of the Board and Investment Manager's team. The risk of falling short of the high standards expected and thereby risking its business reputation is included in the Board's review of the Company's risk register, which is conducted periodically.	The principal risks and uncertainties facing the business are set out in that section of the Strategic report. The Company's requirements for a high standard of conduct and business ethics are set out in the Governance report.
f) **The need to act fairly as between members of the Company**	The Company's shareholders are a very important stakeholder group. The Board oversees the Investment Manager's formal investor relations programme which involves the Investment Manager engaging routinely with the Company's shareholders. The programme is managed by the Company's broker and the Board receives prompt feedback from both the Investment Manager and broker on the outcomes of meetings. The Board and Investment Manager aim to be open with shareholders and available to them, subject to compliance with relevant securities laws. The Chairman of the Company and other Non-Executive Directors make themselves available for meetings as appropriate and all attend the Company's AGM.	The investor relations programme is designed to promote formal engagement with investors and is typically conducted after each half-yearly results announcement. The Investment Manager also engages with existing investors who may request meetings and with potential new investors on an ad hoc basis throughout the year, including where prompted by Company announcements. Shareholder presentations are made available on the Company's website. The Company has a single class of share in issue with all members of the Company having equal rights.

METHODS USED BY THE BOARD

The main methods used by the Directors to perform their duties include:

- Board Strategy Days held at least annually to review all aspects of the Company's business model and strategy and assess the long-term sustainable success of the Company and its impact on key stakeholders;
- The Management Engagement Committee engages with the Company's key service providers and reports on their performance to the Board. The responsibilities of the Management Engagement Committee are detailed in the Management Engagement Committee report;

  Read more about responsibilities of the Management Engagement Committee on page 89

  89
- The Board is responsible for the Company's ESG activities set out in the Business model and strategy section of the Strategic report, which it believes are a key part of benefitting the local communities where the Company's assets are located;

  Read more about the Company's ESG activities on page 73

  73
- The Board's risk management procedures set out in the Governance report identify the potential consequences of decisions in the short, medium and long-term so that mitigation plans can be put in place to prevent, reduce or eliminate risks to the Company and wider stakeholders;

  Read more about the Board's risk management procedures on page 60

  60
- The Board sets the Company's purpose, values and strategy, detailed in the Business model and strategy section of the Strategic report, and the Investment Manager ensures they align with its culture;

  Read more about the Company's purpose, values and strategy on page 70

  70
- The Board carries out direct shareholder engagement via the AGM and Directors attend shareholder meetings on an ad hoc basis;
- External assurance is received through internal and external audits and reports from brokers and advisers; and
- Specific training for existing Directors and induction for new Directors as set out in the Governance report.

Aberdeen

PRINCIPAL DECISIONS IN THE YEAR

The Board has delegated operational functions to the Investment Manager and other key service providers. In particular, responsibility for management of the Company's property portfolio has been delegated to the Investment Manager. The Board retains responsibility for reviewing the engagement of the Investment Manager and exercising overall control of the Company, reserving certain key matters as set out in the Governance report.

The principal non-routine decisions taken by the Board during the year were:

- Purchasing the Menzies Portfolio for £24.6m. The acquisition improved the Company's lease expiry profile, supplemented regional diversification and provided secure cash flow with the benefit of fixed rental uplifts in 2024. The corporate transaction offered compelling economic benefits to the Company compared to acquiring the properties directly. The acquisition is further detailed in the Investment Manager's report;

  Read more about the Menzies acquisition on page 22

  22
- Increasing total funds available under the RCF from £35m to £50m, subject to lender approval, for a term of three years with an option to extend the term by a further two years, and a reduction in the rate of annual interest to between 1.5% and 1.8% above three-month LIBOR. These changes reduce finance costs and provide additional capacity to exploit new acquisition opportunities whilst maintaining the flexibility to minimise cash drag from equity issuance; and
- Committing to continuing to pay quarterly dividends at a level broadly linked to net rental receipts due to the disruption to cash collection caused by the COVID-19 pandemic, with support from prior years' undistributed reserves if required, of no less than an aggregate 0.75p per share per quarter for the first two quarters of the financial year ending 31 March 2021, until deferred rents can be collected and the dividend can return towards the target level. This decision was taken to manage cash resources and maintain liquidity to mitigate the risks associated with a period of uncertainty created by the COVID-19 pandemic.

Due to the nature of these decisions, a variety of stakeholders had to be factored into the Board's discussions. Each decision was announced at the time, so that all stakeholders were aware of the decisions.

SECTION 172 STATEMENT AND STAKEHOLDER RELATIONSHIPS CONTINUED

MAINTAINING AND NURTURING OUR KEY RELATIONSHIPS

The Board recognises the importance of stakeholder engagement to deliver its strategic objectives and believes its stakeholders are vital to the continued success of the Company. The Board is mindful of stakeholder interests and keeps these at the forefront of business and strategic decisions.

STAKEHOLDERS

Regular engagement with stakeholders is fundamental to understanding their views. The below section highlights how the Company engages with its key stakeholders, why they are important and the impact they have on the Company and therefore its long-term success, which the Board believes helps demonstrate the successful discharge of its duties under s172(1) of the Act.

TENANTS

The Investment Manager understands the businesses occupying the Company's assets and seeks to create long-term partnerships and understand their needs to deliver fit for purpose real estate and develop asset management opportunities to underpin long-term sustainable income growth and maximise occupier satisfaction.

Stakeholder interests

- High quality assets
- Profitability
- Efficient operations.
- Knowledgeable and committed landlord
- Flexibility to adapt to the changing UK commercial landscape
- Buildings with strong environmental credentials.

Stakeholder engagement

- Regular dialogue through rent collection process
- Review published data, such as accounts, trading updates and analysts' reports
- Ensured buildings comply with the necessary safety regulations and insurance
- All tenants have been directly contacted to understand the impact of the COVID-19 pandemic on their businesses
- Occupancy has remained at over 95% during the year.

THE INVESTMENT MANAGER AND ITS EMPLOYEES

As an externally managed fund the Company's key service provider is the Investment Manager and its employees are a key stakeholder. The Investment Manager's culture aligns with that of the Company and its long-standing reputation of operating in the small lot-size market is key when representing the Company.

Stakeholder interests

- Long-term viability of the Company
- Long-term relationship with the Company
- Well-being of the Investment Manager's employees
- Being able to attract and retain high-calibre staff
- Maintaining a positive and transparent relationship with the Board.

Stakeholder engagement

- Board and Committee meetings
- Face-to-face and video-conference meetings with the Chairman and other Board Directors
- Monthly and quarterly KPI reporting to the Board
- External Board evaluation, including feedback from key Investment Manager personnel.
- Informal meetings and calls.

SUPPLIERS

A collaborative relationship with our suppliers, including those to whom key services are outsourced, ensures that we receive high quality services to help deliver strategic and investment objectives.

Stakeholder interests

- Collaborative and transparent working relationships
- Responsive communication
- Being able to deliver service level agreements.

Stakeholder engagement

- Board and Committee meetings
- One-to-one meetings
- Annual review of key service providers by the Management Engagement Committee.

SHAREHOLDERS

Building a strong investor base through clear and transparent communication is vital to building a successful and sustainable business and generating long-term growth.

Stakeholder interests

- Sustainable growth
- Attractive level of income returns
- Strong Corporate Governance and environmental credentials
- Transparent reporting framework.

Stakeholder engagement

- Annual and half year presentations
- AGM
- Market announcements and corporate website
- Regular investor feedback received from the Company's broker
- Ongoing dialogue with analysts.

LENDERS

Our lenders play an important role in our business. The Investment Manager maintains close and supportive relationships with this group of long-term stakeholders, characterised by openness, transparency and mutual understanding.

Stakeholder interests

- Stable cash flows
- Stronger covenants
- Being able to meet interest payments
- Maintaining agreed gearing ratios
- Regular financial reporting
- Proactive notification of issues or changes.

Stakeholder engagement

- Regular covenant reporting
- Face-to-face meetings.

GOVERNMENT, LOCAL AUTHORITIES AND COMMUNITIES

As a responsible corporate citizen the Company is committed to engaging constructively with central and local government and ensuring we support the wider community.

Stakeholder interests

- Openness and transparency
- Proactive compliance with new legislation
- Proactive engagement
- Support for local economic and environmental plans and strategies
- Playing its part in providing the real estate fabric of the economy, giving employers a place of business.

Stakeholder engagement

- Engagement with local authorities where we operate
- Two-way dialogue with regulators and HMRC.

BUSINESS MODEL AND STRATEGY

BUSINESS MODEL

PURPOSE

The Company offers investors the opportunity to access a diversified portfolio of UK commercial real estate through a closed-ended fund. The Company seeks to provide investors with an attractive level of income and the potential for capital growth, becoming the REIT of choice for private and institutional investors seeking high and stable dividends from well-diversified UK real estate.

RESOURCES

- Diverse portfolio of commercial properties under £10m outside of London
- Strong financial resources
- Experienced management
- High performing team
- Stakeholder relationships

HOW WE DELIVER

DIVERSITY

Diverse range of tenants, region and sector. Broad range of robust tenants. Focus on areas with strong local economies.

INVESTMENT

Diversified UK commercial property portfolio. Properties of £2m-£10m. Focus on areas where there is an imbalance between supply and demand.

SECURITY

High residual value, low obsolescence properties with a low target gearing and minimal cash drag.

HOW WE MEASURE

- Financial indicators
- Non-financial measures
- ESG outcomes
- Stakeholder feedback

OUR STRATEGY

Property assets

161

Number of assets (270 tenancies) at 31.03.2020

Contracted rents

£40.7m

Contracted rents at 31.03.2020

Portfolio value

£559.8m

Portfolio value at 31.03.2020.

INVESTMENT OBJECTIVE AND POLICY

The Company's investment objective is to provide shareholders with an attractive level of income together with the potential for capital growth from investing in a diversified portfolio of commercial real estate properties in the UK.

THE COMPANY'S INVESTMENT POLICY IS:

(a) To invest in a portfolio of UK commercial real estate properties, principally characterised by individual values of less than £10m at acquisition.

(b) The property portfolio should be diversified by sector, location, tenant and lease term, but not exceed a maximum weighting to any one property sector, or to any geographic region, of greater than 50%.

Activity during the year

Read more about our sector split on page 4

4

(c) To focus on areas with high residual values, strong local economies and an imbalance between supply and demand. Within these locations the objective is to acquire modern buildings or those that are considered fit for purpose by occupiers.

Activity during the year

Read more about the Menzies acquisition on page 22

22

(d) No one tenant or property should account for more than 10% of the total rent roll of the Company's property portfolio at the time of purchase, except:

(i) In the case of a single tenant which is a governmental body or department for which no percentage limit to proportion of the total rent roll shall apply; or

(ii) In the case of a single tenant rated by Dun & Bradstreet as having a credit risk score higher than two, where the exposure to such single tenant may not exceed 5% of the total rent roll (a risk score of two represents "lower than average risk").

Activity during the year

Read more about our tenant listings on pages 33, 39, 47, 55 and 59

33 39 47 55 59

(e) To seek to minimise rental voids and enhance the WAULT of the property portfolio by managing lease expiries and targeting property acquisitions which will in aggregate be accretive to WAULT at the point of acquisition, on a rolling 12-month basis.

Activity during the year

The Board proposes removing the Company's WAULT investment objective at the AGM as explained in the Investment Manager's report.

(f) The Company will not undertake speculative development (that is, development of property which has not been leased or pre-leased), save for refurbishment of existing holdings, but may invest in forward funding agreements or forward commitments (these being, arrangements by which the Company may acquire pre-development land under a structure designed to provide the Company with investment rather than development risk) of pre-let developments where the Company intends to own the completed development.

(g) The Company may use gearing, including to fund the acquisition of property and cashflow requirements, provided that the maximum LTV shall not exceed 35%. Over the medium-term the Company is expected to target net gearing of 25% LTV.

(h) The Company reserves the right to use efficient property portfolio management techniques, such as interest rate hedging and credit default swaps, to mitigate market volatility.

(i) Uninvested cash or surplus capital or assets may be invested on a temporary basis in:

(i) cash or cash equivalents, money market instruments, bonds, commercial paper or other debt obligations with banks or other counterparties having a single-A (or equivalent) or higher credit rating as determined by an internationally recognised rating agency; or

(i) any "government and public securities" as defined for the purposes of the rules of the Financial Conduct Authority ("FCA").

The Board reviews the Company's investment objectives at least annually to ensure they remain appropriate to the market in which the Company operates and in the best interests of shareholders.

BUSINESS MODEL AND STRATEGY CONTINUED

KEY PERFORMANCE INDICATORS

The Board meets at least four times per year and reviews the Company's quarterly performance against a number of key measures:

- **NAV per share total return** – reflects both the NAV growth of the Company and dividends payable to shareholders. The Board regards this as the best overall measure of value delivered to shareholders. The Board assesses NAV per share total return over various time periods and compares the Company's returns to those of its peer group of listed, closed-ended property investment funds;
- **EPS and EPRA EPS** – reflect the Company's ability to generate recurring earnings from the property portfolio which underpin dividends;
- **Profit before tax** – shareholder value generated in the year including unrealised property gains and losses;
- **Dividends per share and dividend cover** – to provide an attractive, sustainable level of income to shareholders, fully covered from net rental income. The Board reviews target dividends in conjunction with detailed financial forecasts to ensure that target dividends are being met and are sustainable;
- **Premium or discount of the share price to NAV** – the Board closely monitors the premium or discount of the share price to the NAV and believes a key driver of this is the Company's long-term investment performance. However, there can be short-term volatility in the premium or discount and the Board therefore seeks limited authority at each AGM to issue or buy back shares with a view to trying to manage this volatility;
- **Net gearing** – measures the Company's borrowings as a proportion of its investment property, balancing the additional returns available from utilising debt with the need to effectively manage risk;
- **OCR** – measures the annual running costs of the Company and indicates the Board's ability to operate the Company efficiently, keeping costs low to maximise earnings from which to pay fully covered dividends; and
- **EPRA vacancy rate** – the Board reviews the level of property voids within the Company's property portfolio on a quarterly basis and compares this to its peer group average.

The Board considers the key performance measures over various time periods and against similar funds. A record of these measures is disclosed in the Financial highlights and performance summary, the Chairman's statement and the Investment Manager's report.

ALTERNATIVE PERFORMANCE MEASURES

Alternative performance measures, including EPRA Best Practice Recommendations, assist stakeholders in assessing performance and are used by research analysts covering the Company in addition to the key performance indicators and comprise:

- **New equity raised** – a measure of growth of the Company;
- **Target dividend per share** – an expectation of the Company's ability to deliver an income stream to shareholders for the forthcoming year;
- **Share price total return** – reflects the movement in share price and dividends payable to shareholders;
- **NAV per share, share price and market capitalisation** – reflect various measures of shareholder value at a point in time;
- **EPRA NAV per share** – a measure of NAV excluding any adjustments to IFRS NAV not expected to crystallise in normal circumstances such as fair value adjustments to borrowings, giving a better indication of NAV of a real estate investment company with a long-term investment strategy;
- **EPRA NIY and 'topped up' NIY** – alternative measures of property portfolio valuation based on cash passing rents at the reporting date and once lease incentive periods have expired, net of ongoing property costs;
- **EPRA cost ratios** – alternative measures of ongoing charges based on expenses (excluding operating expenses of rental property recharged to tenants) compared to gross rental income;
- **EPRA capital expenditure** – capital expenditure incurred on the Company's property portfolio during the year; and
- **EPRA like-for-like rental growth** – a measure of rental growth of the property portfolio by sector, excluding acquisitions and disposals.

This year the Company has also disclosed EPRA Sustainability Best Practice Recommendations Guidelines.

FINANCING

The Company operates with a conservative level of net gearing, with target borrowings over the medium-term of 25% of the aggregate market value of all properties at the time of drawdown.

Debt

The Company has the following facilities available:

- A £50m RCF with Lloyds Bank plc ("Lloyds") with interest of between 1.5% and 1.8% above three-month LIBOR, determined by reference to the prevailing LTV ratio of a discrete security pool of assets, and expiring on 17 September 2022;
- A £20m term loan facility with Scottish Widows Limited ("SWIP") repayable in August 2025, with fixed annual interest of 3.935%;
- A £45m term loan facility with SWIP repayable in June 2028, with fixed annual interest of 2.987%; and
- A £50m term loan facility with Aviva Real Estate Investors ("Aviva") comprising:
  a) A £35m tranche repayable on 6 April 2032, with fixed annual interest of 3.02%; and
  b) A £15m tranche repayable on 3 November 2032 with fixed annual interest of 3.26%.

Equity

During the year the Company raised £25.3m (before costs and expenses) through the placing of 21,850,000 new ordinary shares.

DIVIDENDS

The Company paid dividends totalling 6.625p per share during the year, comprising the fourth interim dividend of 1.6375p per share relating to the year ended 31 March 2019 and three interim dividends of 1.6625p per share relating to the year ended 31 March 2020.

The Company paid an interim dividend of 1.6625p per share for the quarter ended 31 March 2020 on 29 May 2020, meeting its target of paying an annual dividend per share for the financial year of 6.65p (2019: 6.55p).

The Board's objective is to pay dividends on a sustainable basis at a rate which is fully covered by net rental income and does not inhibit the flexibility of the Company's investment strategy.

Due to the disruption to cash collection caused by the COVID-19 pandemic the current level of dividend is not expected to be fully supported by net rental receipts going forward. The Company intends to continue to pay quarterly dividends at a level broadly linked to net rental receipts, with support from prior years' undistributed reserves if required, of no less than an aggregate 1.5p per share for the first half of the financial year ending 31 March 2021. Should rent collections in the June and September quarters allow, more generous dividends may be possible. Over the course of the financial year, as deferred rents are collected, the Board hopes it will be possible to restore the dividend to a sustainable long-term level akin to previous years.

DIRECTORS AND EMPLOYEES

During the year Hazel Adam was appointed as a non-executive director of the Company. The Company has five non-executive directors and no employees. Non-executive directors are paid fixed fees set by the Remuneration Committee and participate in the performance of the Company through their shareholdings. Four non-executive directors are white males and one is a white female.

The Board is conscious of the increased focus on diversity and recognises the value and importance of diversity in the boardroom. The Board supports the recommendations of the Hampton-Alexander and Parker Reports but does not consider it appropriate or in the interests of the Company and its shareholders to set prescriptive diversity targets for the Board.

OUR RESPONSIBLE BUSINESS

DAVID HUNTER
Chairman

The Board recognises that its decisions have an impact on the environment, people and communities.

We also recognise the risks imposed if we do not incorporate good ESG practices into the way we do business. Our commitment to embedding good ESG management is important to our staff, investors and other stakeholders. The Company's ESG policy outlines our approach to managing ESG impacts and provides the framework for setting and reviewing environmental and social objectives to ensure we are continuously improving our impacts and setting a leadership direction.

CORPORATE SOCIAL RESPONSIBILITY

The Company is committed to delivering its strategic objectives in an ethical and responsible manner and meeting its corporate responsibilities towards society, human rights and the environment. The Board acknowledges its responsibility to society is broader than simply generating financial returns for shareholders. The Company's environmental and social policies address the importance of these issues in the day-to-day running of the business, as detailed below.

ENVIRONMENTAL

We want our properties to minimise their impact on the local and wider environment and carefully consider the environmental performance of our properties, both before we acquire them, as well as during our period of management. Sites are visited on a regular basis and any obvious environmental issues are reported to the Board.

SOCIAL

Custodian strives to manage and develop buildings which are comfortable, safe and high-quality spaces. As such, our aim is that the safety and well-being of occupants of our buildings is maximised. We will implement a portfolio approach to well-being which encourages engagement with tenants, ensures maximum building safety and optimises comfort and quality of occupancy.

GOVERNANCE

High standards of corporate governance and disclosure are essential to ensuring the effective operation of our company and instilling confidence amongst our stakeholders. We aim to continually improve our levels of governance and disclosure to achieve industry best practice.

OUR APPROACH TO ESG CONTINUED

Environmental and social policy
The Board encourages the Investment Manager to act responsibly in the areas it can influence as a landlord, for example by working with tenants to improve the environmental performance of the Company's properties and minimise their impact on climate change. The Board believes that following this strategy will ultimately be to the benefit of shareholders through enhanced rent and asset values.

The majority of the Company's investment properties are let on full repairing and insuring leases, meaning its day-to-day environmental responsibilities are limited as properties are controlled by the tenants. However, the Board wishes to apply sustainable principles and actively seeks opportunities to make environmentally beneficial improvements to its property portfolio where possible.

Properties are visited periodically by the Investment Manager and any obvious environmental issues are reported to the Board.

The Company recently engaged Carbon Intelligence, specialist environmental consultants, to review the Company's environmental policy, identify and prioritise opportunities for improvements and recommend how best risks might be managed. As a result, during the year the Board approved an updated environmental policy which commits the Company to:

- Seek to reduce pollution and comply with all relevant environmental legislation;
- Gather and analyse data on the environmental performance of our properties; and
- Set targets for the environmental performance of our properties and monitor achievements as a commitment to continuous improvement.

To achieve these aims, we intend to carry out the following initiatives.

ENVIRONMENTAL

ENERGY CONSUMPTION & MANAGEMENT
- Comply with all applicable, relevant energy-related legislation and other requirements;
- Monitor energy consumption across our properties and tenant consumption, where possible;
- Undertake thorough environmental due diligence including obtaining an Energy Performance Certificate ("EPC") for all new property acquisitions;
- Identify and, where possible, upgrade high energy-consuming properties within our property portfolio assets to achieve higher energy efficiency levels and improved EPC ratings;
- Review our energy objectives and targets on an annual basis;
- Promote energy efficiency and management to our tenants; and
- Where possible, build in green lease[30] clauses into our tenant leases.

BUILDING MATERIALS
- When we have the opportunity to develop new property or refurbish current assets, we commit to reviewing building materials which have a lower environmental impact and to select these materials, if appropriate; and
- Select greener building materials, in line with our vision to increase the sustainability certifications of our property portfolio.

GHG EMISSIONS AND MANAGEMENT
- Quantify our Scope 1 and 2 (landlord controlled) emissions on an annual basis in line with reporting requirements;
- Gather tenant energy consumption data, where possible, to quantify our properties' emissions;
- Comply with, and make representations to, industry standard ESG frameworks including the EPRA Annual Sustainability Report and the Global Real Estate Sustainability Benchmark ("GRESB"); and
- Continue to expand our carbon reporting in line with industry expectations and relevant legislation.

WASTE MANAGEMENT
- Monitor waste levels across our properties and monitor tenant consumption, where possible;
- Implement landfill diversion waste streams such as recycling in our properties, where possible; and
- Promote waste management to our tenants.

WATER CONSUMPTION & MANAGEMENT
- Monitor water consumption across our properties and monitor tenant consumption, where possible;
- Identify and implement water reduction technologies and opportunities within our property portfolio, where possible; and
- Promote water management to our tenants.

CLIMATE CHANGE ADAPTATION & RESILIENCE
- Through our risk management processes, identify climate-related risks, both physical and financial;
- Perform environmental risk assessments of our property portfolio on an ongoing basis; and
- Design mitigation and management strategies for climate and environmental risks.

BIODIVERSITY
In the circumstances where we are developing new assets, the biodiversity of the development area will be considered and maintained to the highest level possible.

GRESB®

30. A 'green lease' incorporates clauses where the owner and occupier undertake specific responsibilities/obligations regarding the sustainable operation/occupation of a property, for example: energy efficiency measures, waste reduction/management and water efficiency.

SOCIAL

ASSET LEVEL SAFETY, HEALTH & WELL-BEING

We wish to manage and develop buildings which are comfortable, safe and high-quality spaces. As such, our aim is that the safety and well-being of the occupants of our buildings is maximised. We will implement a property portfolio approach to well-being which encourages engagement with tenants, ensures maximum building safety and optimises the comfort and quality of occupancy.

STAKEHOLDER ENGAGEMENT

We engage regularly with the following internal and external stakeholders on environmental and social matters:

- **Board** – the Board meets at least quarterly and monitors ESG performance and progress towards our objectives;
- **Investment Manager** – as part of the Investment Manager's training and staff roles and responsibilities, ESG progress is discussed and embedded across the work it does;
- **Managing agents** – we receive quarterly reports on our asset performance and engage directly on property portfolio optimisation; and
- **Tenants** – we attempt to engage with tenants on a quarterly basis both to understand consumption trends and data and understand where we can upgrade and optimise buildings for tenant well-being and environmental impact reductions.

GOVERNANCE

Read about our approach to responsible governance in our Governance report on page 82.

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Carbon Intelligence

To monitor energy consumption across the property portfolio, as well as identify opportunities to make energy reductions, the Company has engaged with specialist consultants Carbon Intelligence to provide strategic advice on the process. This collaboration promotes the ethos of investing responsibly and has ensured statutory compliance with the Energy Savings Opportunity Scheme (ESOS) Regulations 2014 and The Companies (Directors' report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, and has facilitated inclusion of EPRA Sustainability Best Practice Recommendations in the Annual Report.

EPRA
EUROPEAN PUBLIC
REAL ESTATE ASSOCIATION

OUR APPROACH TO ESG CONTINUED

ESG IN ACTION

Industrial
Warrington

Size of property (sq ft)

66,000

ERV

£368k

2019: £309k

Valuation

£4.5m

2019: £2.7m

In line with our policy commitment to use building materials which have a lower environmental impact and ultimately result in improved Energy Performance Certificate ("EPC") ratings across our property portfolio, during the year the Company undertook the refurbishment of a 66,000 sq ft industrial property at Unit 4 Kingsland Grange, Warrington at a cost of £1.6m. The refurbishment primarily consisted of the replacement of the original asbestos roof with modern, new insulated roof sheets, removal of curtain walling, replacement of shutters and dock level doors and an overhaul of the mechanical and electrical services.

Following the refurbishment the property is now significantly more energy efficient and as a result its EPC rating has improved from an 'E' to a 'B'. Tenant demand for energy efficient property is becoming ever more apparent and as a result we have seen the ERV for this property increase from £309k (£4.68 per sq ft) to £368k (£5.60 per sq ft) and the valuation of the property has increased from £2.7m at 31 March 2019 to £4.5m at 31 March 2020. The property now meets the requirements of the modern occupier and we anticipate further valuation increases for the property once a new letting has been completed.

Retail warehouse
InstaVolt

Number of charging points installed

16

Number of retail parks

8

Charging power

350kW

InstaVolt has helped create a reliable network of electrical vehicle ("EV") charging stations on a number of the Company's retail parks to reduce the carbon footprint and improve sustainability. Air pollution has reached critical levels in cities across the UK and the government is introducing legislation to ban the sale of all petrol and diesel cars by 2040. We will see an increase of EVs on the roads over the next 10 years and introducing EV charging points will future-proof our sites. The service benefits EV drivers, landlords that house the charging units and, ultimately, the UK's environment by supporting use of less polluting EVs.

As the number of EVs on the roads increase, our retail parks should see increased footfall as EV charging station use increases. This should prove attractive when securing new tenants. Introducing the EV charging points to our retail parks makes commercial sense as we can cater for the demand and keep on the right track for the future.

We have installed a total of 16 EV charging points across eight of our retail parks with two chargers per site with the potential to increase the number of chargers on some of our larger sites when demand increases. The charge points are classed as rapid vehicle chargers and are a minimum 50kW and can be upgraded to 350kW, offering the fastest rates of charge. As charging units can be upgraded to 350kW, they would not need to be replaced as battery technology develops.

With the benefit of an established relationship with InstaVolt we are looking to introduce this technology for the benefit of our tenants on our non-retail park sites.

Approval of Strategic report

The Strategic report (incorporating the Chairman's statement, Investment Manager's report, Property portfolio, Principal risks and uncertainties, Section 172 statement and stakeholder relationships and Business model and strategy) was approved by the Board of Directors and signed on its behalf by:

DAVID HUNTER
Chairman
22 June 2020

BOARD OF DIRECTORS AND KEY INVESTMENT MANAGER PERSONNEL

The Board comprises five non-executive directors.
A short biography of each director is set out below:

DAVID HUNTER
Role: Independent Chairman, Age: 66

David is a professional non-executive director and strategic adviser focused principally on UK and international real estate. He chairs the Company and its Nominations Committee and is on the boards of both listed and unlisted companies in the UK and overseas, as well as holding corporate advisory roles. He qualified as a chartered surveyor in 1978 and has over 25 years' experience as a fund manager, including as Managing Director of Aberdeen Asset Management's property fund business. David is a former President of the British Property Federation and was actively involved in the introduction of REITs to the UK. He is also Honorary Swedish Consul to Glasgow and an Honorary Professor of real estate at Heriot-Watt University.

On 1 May 2019 David was appointed as Non-Executive Director of GCP Student Living plc ("GCP"). On 9 March 2020 he was appointed as Non-Executive Director of Capital & Regional plc ("C&R") and was appointed as Chairman of C&R on 20 May 2020. The Board perceives no material conflicts of interest between Custodian REIT and the activities of GCP and C&R due to their divergent property strategies.

David's other roles are not considered to impact his ability to allocate sufficient time to the Company to discharge his responsibilities effectively.

Committee membership
Chair **N**
Member **M R**

BARRY GILBERTSON PP RICS
Role: Senior Independent Director, Age: 69

Barry is the designated Senior Independent Director, chairing the Management Engagement and Remuneration Committees. He is an international consultant with a focus on real estate, strategy and risk, with more than 45 years' experience advising on property.

An adviser to the Bank of England from 2003 to 2014 and the 123rd President of the Royal Institution of Chartered Surveyors in 2004/5, Barry instigated President's Commissions on Sustainability and, separately, following the 2004 Boxing Day Tsunami on Disaster Management. During RICS' 150th anniversary celebrations in 2008, Barry was voted one of the 65 Greatest Chartered Surveyors of all time (and a 'Top Five' Innovative Chartered Surveyor). From 1996 (until 2011), Barry was a full equity partner in Coopers & Lybrand (now PricewaterhouseCoopers). Formerly a non-executive consultant to Knight Frank LLP, Barry has held advisory appointments with the United Nations and the UK Government. His previous public company independent non-executive directorships include Granite REIT, RONA Incorporated (both in Canada) and Chairman of conwert Immobilien Invest SE (in Austria). Barry has chaired or served on various committees in these companies, including Audit, Governance, Nominations, Strategy and Remuneration.

Barry has served on the Council of The University of Bath since 2014, previously serving on the Finance Committee and now chairs the new Remuneration Committee; holds Visiting Professor appointments at two UK universities and was awarded Honorary Membership of four international professional bodies. Among his voluntary roles, Barry is Chairman of The City of Bath UNESCO World Heritage Site.

Barry's other roles are not considered to impact his ability to allocate sufficient time to the Company to discharge his responsibilities effectively.

Committee membership
Chair **M R**
Member **A N**

MATTHEW THORNE MA, FCA
Role: Independent Director, Age: 67

Matthew chairs the Company's Audit and Risk Committee. Matthew qualified as a chartered accountant in 1978 with Price Waterhouse. He was an independent non-executive director for nine years of Bankers Investment Trust plc, retiring in 2018 having chaired the Audit Committee. Since May 2007 Matthew has been an adviser to Consensus Business Group (led by Vincent Tchenguiz). Matthew was also Audit Committee chair and the finance member of the Advisory Board and Advisory Panel of Greenwich Hospital, the Naval Charity, until January 2020. Matthew's previous executive roles have included Group Finance Director of McCarthy & Stone plc from 1993 to 2007, Finance Director of Ricardo plc from 1991 to 1992 and Investment Director of Beazer plc from 1983 to 1991.

Matthew's other roles are not considered to impact his ability to allocate sufficient time to the Company to discharge his responsibilities effectively.

Committee membership
Chair **A**
Member **M R N**

HAZEL ADAM
Role: Independent Director, Age: 51

Hazel was appointed as an Independent Director in December 2019. She was an investment analyst with Scottish Life until 1996 and then joined Standard Life Investments. As a fund manager she specialised in UK and then Emerging Market equities. In 2005 Hazel joined Goldman Sachs International as an executive director on the new markets equity sales desk before moving to HSBC in 2012, holding a similar equity sales role until 2016.

Hazel was appointed as an independent non-executive director of Aberdeen Latin American Income Fund Limited in 2018 and holds the Financial Times Non-Executive Directors Diploma.

Hazel's other role is not considered to impact her ability to allocate sufficient time to the Company to discharge her responsibilities effectively.

Committee membership
Member **M A R N**

IAN MATTIOLI MBE
Role: Director, Age: 57

Ian is CEO of Mattioli Woods plc ("Mattioli Woods") with over 35 years' experience in financial services, wealth management and property businesses and is the founder director of Custodian REIT. Together with Bob Woods, Ian founded Mattioli Woods, the AIM-listed wealth management and employee benefits business which is the parent company of the Investment Manager. Mattioli Woods now has over £9bn of assets under management, administration and advice. Ian is responsible for the vision and operational management of Mattioli Woods and instigated the development of its investment proposition, including the syndicated property initiative that developed into the seed portfolio for the launch of Custodian REIT. Ian and family own circa 2% of the Company as part of their long-term investment planning. His personal achievements include winning the London Stock Exchange AIM Entrepreneur of the Year award and CEO of the year in the 2018 City of London wealth management awards.

Ian was awarded an MBE in the Queen's 2017 New Year's Honours list for his services to business and the community in Leicestershire. Ian is also Non-Executive Chairman of K3 Capital Group plc, which is listed on AIM and specialises in business transfer, business brokerage and corporate finance across the UK.

Ian's other roles are not considered to impact his ability to allocate sufficient time to the Company to discharge his responsibilities effectively.

Committee membership
Member **N**

Committee key

A Audit and Risk Committee

M Management Engagement Committee

R Remuneration Committee

N Nominations Committee

BOARD OF DIRECTORS AND KEY INVESTMENT MANAGER PERSONNEL CONTINUED

A short biography of the Investment Manager's key personnel and senior members of the Investment Manager's property team is set out below:

RICHARD SHEPHERD-CROSS MRICS
Role: Managing Director

Richard qualified as a Chartered Surveyor in 1996 and until 2008 worked for Jones Lang LaSalle, latterly running its national portfolio investment team.

Since joining Mattioli Woods in 2009, Richard established Custodian Capital as the Property Fund Management subsidiary to Mattioli Woods and in 2014 was instrumental in the establishment of Custodian REIT plc from Mattioli Woods' syndicated property portfolio and its 1,200 investors. Following the successful IPO of the Company, Richard has overseen the growth of the Company to its current property portfolio of over £0.5bn. Richard and his family own 371,381 shares in the Company.

ED MOORE FCA
Role: Finance Director

Ed qualified as a Chartered Accountant in 2003 with Grant Thornton, specialising in audit, financial reporting and internal controls across its Midlands practice. He is Finance Director of Custodian Capital with responsibility for all day-to-day financial aspects of its operations. Ed is also a member of the Custodian Capital Investment Committee.

Since IPO in 2014 Ed has overseen the Company raising over £300m of new equity, arranging or refinancing six loan facilities and completing three corporate acquisitions. Ed's key responsibilities for Custodian REIT are ongoing regulatory compliance, accurate external and internal financial reporting and maintaining a robust control environment. Ed was appointed Company Secretary of Custodian REIT on 17 June 2020.

IAN MATTIOLI MBE
Founder and Chairman
Ian's biography is set out above.

ALEX NIX MRICS
Role: Assistant Fund Manager

Alex graduated from Nottingham Trent University with a degree in Real Estate Management before joining Lambert Smith Hampton, where he spent eight years and qualified as a Chartered Surveyor in 2006.

Alex is Assistant Fund Manager to Custodian REIT having joined Custodian Capital in 2012. Alex heads the Company's property management and asset management initiatives, assists in sourcing and executing new investments and is a member of the Investment Manager's Investment Committee.

TOM DONNACHIE MRICS
Role: Portfolio Manager

Tom graduated from Durham University with a degree in Geography before obtaining an MSc in Real Estate Management from Sheffield Hallam University. Tom worked in London for three years where he qualified as a Chartered Surveyor with Workman LLP before returning to the Midlands first with Lambert Smith Hampton and then CBRE.

Tom joined Custodian Capital in 2015 as Portfolio Manager with a primary function to maintain and enhance the existing property portfolio and assist in the selection and due diligence process regarding new acquisitions.

JAVED SATTAR MRICS
Role: Portfolio Manager

Javed joined Custodian Capital in 2011 after graduating from Birmingham City University with a degree in Estate Management Practice. Whilst working as a trainee surveyor on Custodian REIT's property portfolio for Custodian Capital he completed a PGDip in Surveying via The College of Estate Management and qualified as a Chartered Surveyor in 2017.

Javed now operates as Portfolio Manager managing properties predominantly located in the North-West of England.

GOVERNANCE REPORT

The Company is committed to the principles of corporate governance contained in the Code, for which the Board is accountable to shareholders. The Code is available from the FRC website at www.frc.org.uk.

The Company has applied the principles and provisions set out in the Code by complying with the Code during the year, so far as is possible, given the Company's size and nature of business.

The Board has also considered the principles and recommendations of the 2019 AIC Corporate Governance Code for Investment Companies ("AIC Code"). The AIC Code addresses all the principles set out in the Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company. We believe that reporting against the principles and recommendations of the AIC Code (which incorporates the Code) provides better information to shareholders, except where set out in this section.

Further explanation of how the main principles of the Code have been applied is set out below, in the Remuneration Committee report and in the Audit and Risk Committee report.

The areas of non-compliance with the Code since admission to trading on the London Stock Exchange in 2014 ("Admission") are:

- There is no chief executive position within the Company, which is not in accordance with provision 9 of the Code. As an investment company, the Company has no employees and therefore no requirement for a chief executive;
- The Company's succession policy allows for a tenure of longer than nine years, in line with the AIC Code; and
- The Chairman was a member of the Audit and Risk Committee, in line with the AIC Code, until 30 January 2020.

Role of the Board

The Board is responsible to shareholders, tenants and other stakeholders for promoting the long-term sustainable success of the Company and generating shareholder value. Good governance is fundamental to the long-term success of the Company and the Board and Investment Manager work together to ensure the highest standards of governance are maintained by the Company and are central to every Board decision.

The Board comprises five directors, all of whom have wide experience, are non-executive and, save for Ian Mattioli, are independent of the Investment Manager. Biographical information on each Director is set out earlier in the Governance report. The Directors are responsible for managing the Company's business in accordance with its Articles of Association ("the Articles") and the Investment Policy (as set out in the Strategic report), and have overall responsibility for the Company's activities. The Directors may delegate certain functions to other parties and in particular the Directors have delegated responsibility for management of the Company's property portfolio to the Investment Manager. The Board retains responsibility for reviewing the engagement of the Investment Manager and exercising overall control of the Company, reserving the following key matters:

- Setting the Company's values, standards, investment strategy, strategic aims and objectives;
- Approving the annual operating and capital expenditure budgets and external financial reporting;
- Approving valuations of the Company's property portfolio;
- Approving the Company's dividend policy and the interim dividends;
- Ensuring a satisfactory dialogue with shareholders and approving AGM resolutions and shareholder circulars;
- Reviewing and approving changes to the structure, size and composition of the Board, including succession planning, following recommendations from the Nominations Committee;
- Determining the remuneration policy for the Directors, following the recommendations of the Remuneration Committee;
- Undertaking a formal and rigorous annual review of its own performance, that of its committees and individual directors, and the division of responsibilities and independence;
- Considering the balance of interests between shareholders, employees, customers and the community; and
- Approving the appointment of the Company's principal professional advisers.

Meetings

The Board meets at least four times a year to consider the Company's quarterly trading performance and approve the Annual and Interim reports. The Board also meets on an ad hoc basis to discuss specific issues. Meetings are attended by the Directors, the Investment Manager, the Company Secretary and other attendees by invitation.

Due to the significant impact of the COVID-19 pandemic, since March 2020 the Board has met via video-conference at least fortnightly to consider issues including the prevailing and expected levels of rent collection, requests from tenants for rent deferrals, potential property acquisitions and disposals and expected levels of capital expenditure, and the impact of these matters on the Company's liquidity position, borrowing covenants and dividend policy. At each meeting the Board has also considered how this information is most effectively reported to the market and how the Board's response to the pandemic promotes the long-term sustainable success of the Company and impacts its stakeholders and the communities in which it operates.

Division of responsibilities

The Company applies principles F – I of the Code in determining the division of responsibilities of the Board.

Chairman

David Hunter is the Chairman and is responsible for the leadership of the Board and ensuring its overall effectiveness on directing the Company. The Chairman is responsible for setting the Board's agenda and ensuring that adequate time is available for discussion of all agenda items, in particular strategic issues. The Chairman promotes a culture of openness and debate by facilitating the effective contribution of other non-executive directors.

The Chairman is also responsible for ensuring that the Directors receive accurate, timely and clear information and ensuring effective communication with shareholders.

Senior Independent Director

Barry Gilbertson is the Senior Independent Director, with a responsibility to be available as an alternative point of contact (other than the Chairman) for shareholders and other stakeholders and to act as a sounding board for the Chairman.

Non-Executive Directors

During the year Hazel Adam was appointed as a non-executive director of the Company. The Company has five non-executive directors and no employees. The Board has delegated operational functions to the Investment Manager and other key service providers. The Non-Executive Directors provide constructive challenge, strategic guidance and offer specialist advice to the Investment Manager and hold it to account.

Company Secretary

The Company Secretary is available to support all Directors and is responsible for the efficient administration of the Company, particularly with regard to ensuring compliance with statutory and regulatory requirements and for ensuring that decisions of the Board are implemented. Its other roles include developing Board and Committee agendas, advising on regulatory compliance and corporate governance, facilitating director induction programmes and organising the AGM.

Board performance and evaluation

The Directors have annual appraisals as part of a Board Effectiveness Review ("BER"). The Chair reviews the performance of the other four Independent Non-Executive Directors, and the Senior Independent Director reviews the Chair.

Separately, the Board undertook an externally-facilitated, internal BER in March 2020, managed by the Senior Independent Director. The individual Directors, together with certain key personnel at the Investment Manager and the Company's corporate broker, were all canvassed on:

- Board leadership;
- Decision-making;
- Culture, value and risk awareness;
- Balance and independence; and
- Capability and diversity.

For each topic, three questions were scored out of six, where an average score of:

- 1-2 would be considered negative;
- 2-4 would be considered neutral, yet may require improvement; and
- 4-6 would be considered positive.

Of the 15 questions, scores ranged between 3.8 and 5.6 with only two questions scoring four or less: reviewing significant decisions (4.0) and seeking input, where appropriate, from stakeholders (3.8).

The Board considered the output from the BER during April 2020 and specifically noted:

- That the delay between the release of the BER output in March and the date of the meeting was occasioned by the Board's prioritisation of its responses to the initial stages of the COVID-19 pandemic;
- The unconscious bias that can occur when respondents are not entirely independent of the outcome;
- The score results generally;
- The difference between average scores by the Directors against those by the stakeholders;
- The two scores less than 4:
  - Reviewing significant decisions: to be discussed in more detail at the forthcoming Strategy Day meeting; and
  - Seeking input from stakeholders: to be discussed in more detail, alongside confirmatory identification of all relevant stakeholder groups and organisations, at the forthcoming Strategy Day meeting.

The Board determined that the annual appraisals should be undertaken on schedule, notwithstanding the business disruption caused by the COVID-19 pandemic, with a view to completion before mid-August.

The Board also determined, at the meeting, that the review aspects of the work of the MEC, other than on the Investment Manager's contract terms, would be deferred at least until mid-August 2020. Such deferment being due to the known disruption to the business of organisations that are key service providers to the Investment Manager, on behalf of the Company.

Audit and Risk Committee

The Audit and Risk Committee comprises the independent directors, excluding the Board Chair, and is chaired by Matthew Thorne. Its responsibilities are set out in the Audit and Risk Committee report.

GOVERNANCE REPORT CONTINUED

Management Engagement Committee
The Management Engagement Committee comprises the independent directors and is chaired by Barry Gilbertson. Its responsibilities are set out in the Management Engagement Committee report.

Nominations Committee
The Board as a whole is responsible for ensuring adequate succession planning to maintain an appropriate balance of skills on the Board to ensure it functions effectively and promotes the long-term sustainable success of the Company, whilst generating shareholder value. Changes to the structure, size and composition of the Board may be made following recommendations from the Nominations Committee, which operates under written terms of reference which are available on the Company's website. This includes the selection of the Chairman of the Board, the Senior Independent Director and the Company Secretary. The letter of appointment of new Directors sets out the expected time commitment and the Directors must undertake that they will have sufficient time to meet what is expected of them. Their other significant commitments are disclosed to the Board before appointment, with a broad indication of the time involved, and they are required to inform the Board of subsequent changes.

The Nominations Committee comprises all five Directors and is chaired by David Hunter. Its responsibilities are set out in the Nominations Committee report.

Remuneration Committee
The Remuneration Committee comprises the independent directors and is chaired by Barry Gilbertson. Its responsibilities are set out in the Remuneration Committee report.

Meeting attendance

The attendance of the Directors at scheduled Board and Board committee meetings held during the year were as follows:

	Board	Audit and Risk Committee	Remuneration Committee	Nominations Committee	Management Engagement Committee
David Hunter	4/4	2/2#	2/2	2/2	1/1
Barry Gilbertson	4/4	3/3	2/2	2/2	1/1
Matthew Thorne	4/4	3/3	2/2	2/2	1/1
Ian Mattioli	4/4	n/a	n/a	2/2	n/a
Hazel Adam	1/1*	1/1*	n/a	n/a	n/a

David Hunter resigned from the Audit and Risk Committee on 30 January 2020 and attended all meetings taking place whilst a Committee member.
* Hazel Adam was appointed on 12 December 2019 and has attended all meetings taking place since appointment.

Directors' interests are set out in the Remuneration Committee report.

The Investment Manager

The Company has appointed Custodian Capital Limited as Investment Manager and Alternative Investment Fund Manager ("AIFM") under an Investment Management Agreement ("IMA"). Under the IMA, the Investment Manager is due an annual fund and asset management fee and an annual administration fee. The IMA fee structure was varied in June 2020 as detailed in Note 18.

The Investment Manager is a subsidiary of Mattioli Woods, a related party and a provider of specialist pension consultancy and administration, employee benefits and wealth management services. The Investment Manager is authorised and regulated by the Financial Conduct Authority ("FCA") and has an established market presence in the smaller £10m lot property sector, with a proven track record of property syndication (external to the Company), investment and asset management.

Ian Mattioli is CEO of Mattioli Woods and is beneficially interested in the share capital of Mattioli Woods, the parent company of the Investment Manager, and therefore has an indirect interest in the Investment Manager. As a result, Ian Mattioli is not independent.

Key personnel
The Investment Manager's key personnel at 31 March 2020 were Richard Shepherd-Cross and Nathan Imlach. In June 2020 the IMA was varied such that Ed Moore, Alex Nix and Tom Donnachie were added as key Investment Manager personnel with Nathan Imlach being excluded following his resignation as Company Secretary.

AIFM Directive

The directive creates a European Union ("EU") wide framework for regulating an AIFM. The Company's activities fall within the scope of the directive and the Board has determined that the Investment Manager will act as AIFM for these purposes. The Board has put in place a system of regular reporting from the AIFM and the Company's depositary to ensure both are meeting their regulatory responsibilities in respect of the Company.

Non-mainstream pooled investments

The Company conducts its affairs so that its shares can be recommended by financial advisers to retail investors in accordance with the rules of the FCA in relation to non-mainstream pooled investments, and intends to continue to do so for the foreseeable future.

Directors' share dealings

The Directors have adopted a code for directors' share dealings, which is compliant with the EU's Market Abuse Regulation ("MAR"). The Board is responsible for taking all proper and reasonable steps to ensure compliance with the MAR.

Shareholders
The Board is responsible for ensuring a satisfactory dialogue with shareholders based on the mutual understanding of objectives. It approves the resolutions and corresponding documentation to be put forward to shareholders at the AGM, together with any circulars, prospectuses, listing particulars and press releases concerning matters decided by the Board.

The Company reports to shareholders at least twice each year in its interim and annual reports, and makes announcements, where any price sensitive or other information requires disclosure, to the London Stock Exchange and on the Company's website. Any material presentations to investors are made available on the Company's website. Where there has been contact with shareholders, feedback is presented to the Board by the Investment Manager and the Company's broker, Numis Securities Limited, to ensure it is aware of any issues raised by investors. The Company's shareholder profile and any material changes in shareholdings are reviewed by the Board at least quarterly and more often as appropriate.

All members of the Board are available to meet with investors as and when required. The Board considers that the provision of independent feedback to the Board through the Company's brokers and, where appropriate, directly from investors ensures that the whole Board remains well informed of investors' views.

Board members, including Chairs of the Audit and Risk, Management Engagement, Nominations and Remuneration Committees and representatives of the Investment Manager, are available to meet with investors and to answer any questions at the Company's AGM. All shareholders have at least 20 clear working days' notice of the AGM, where all directors and committee members are available to answer questions. At the AGM all votes are dealt with on a poll and the number of proxy votes cast is indicated. Votes on separate issues are proposed as separate resolutions.

Significant holdings of ordinary shares in the Company are set out in the Directors' report.

Conflicts of interest
The Articles allow the Board to authorise potential conflicts of interest that may arise, subject to imposing limits or conditions when giving authorisation if this is appropriate. Only independent directors (who have no interest in the matter being considered) are able to take the relevant decision and, in taking the decision, the Directors must act in a way they consider will be most likely to promote the Company's success. Procedures have been established to monitor actual and potential conflicts of interest on a regular basis, and the Board is satisfied that these procedures are working effectively.

Internal control
The Investment Manager is responsible for operating the Company's system of internal control and reviewing its effectiveness. Such a system is designed to manage, rather than eliminate, the risk of fraud or the risks of not achieving some or all of the Company's business objectives and can provide only reasonable but not absolute assurance against material misstatement or loss. During the prior year the Investment Manager outsourced its internal audit function to RSM which has undertaken an assessment of the design effectiveness of internal controls during the year with no significant deficiencies reported.

The Board has an ongoing process to monitor the Company's risk management and internal control systems, including financial, operational and compliance controls, and to identify, evaluate and manage the significant risks faced by the Company in line with principle O of the Code. The process is regularly reviewed by the Board, based on reports from the Investment Manager, and accords with the Internal Control Guidance for Directors on the Combined Code produced by the Turnbull working party. Key features of the Company's system of internal control include:

- A detailed authorisation process and formal delegation of authority;
- A comprehensive financial reporting and forecasting system;
- A defined schedule of matters reserved for the Board; and
- An annual review of the effectiveness of internal controls and formal consideration of business risks. Issues are also raised at quarterly Board meetings as appropriate.

Bribery, money laundering, slavery and human trafficking
The Board has considered the requirements of the Bribery Act 2010, the Criminal Finances Act 2017 and the Modern Slavery Act 2015 and has taken steps to ensure that it has adequate procedures in place to comply with their requirements.

The Board has a zero tolerance policy towards unethical behaviour and is committed to carrying out business fairly, honestly and openly and it expects the same of its business partners. The Investment Manager actively reviews and is responsible for monitoring perceived risks and responsibility for anti-bribery and corruption. The Investment Manager maintains a risk register where perceived risks and associated actions are recorded and this is shared annually with the Board for approval.

We believe that all efforts should be made to eliminate unethical behaviour from our supply chains. We seek to mitigate our exposure to any unethical activity by engaging with reputable third-party professional service firms based in the United Kingdom. We request formal governance information from our current or potential suppliers if there is a perceived risk of unethical behaviour to assess overall supply chain risk and conduct due diligence and risk assessment on potential new suppliers where considered necessary. We will continue to monitor and collaborate with our suppliers and tenants to ensure that they continue to adopt systems and controls that reduce the risk of facilitating bribery, money laundering, modern slavery and human trafficking.

Approval
This Governance report was approved by the Board of Directors and signed on its behalf by:

DAVID HUNTER
Chairman
22 June 2020

AUDIT AND RISK COMMITTEE REPORT

Composition and designation
The Audit and Risk Committee ("the Committee") comprises Matthew Thorne as Chairman, Hazel Adam and Barry Gilbertson, all of whom are independent non-executive directors. On 30 January 2020, Hazel Adam was appointed to the Committee and David Hunter resigned from the Committee.

During the year the Board re-designated the Audit Committee as the Audit and Risk Committee, to highlight the Committee's responsibility to review the Company's internal financial controls and internal control and risk management systems, in line with Provision 25 of the Code.

Responsibilities
The Committee meets regularly to monitor the integrity of the Company's financial statements and to ensure they present a fair, balanced and understandable assessment of the Company's position and prospects in line with principle N of the Code. The Committee is also responsible for the appointment, performance and independence of the external auditor and the programme of work and reports of the internal auditor in line with principle M of the Code. In providing support to the Board in making this statement, the Committee has reviewed and approved a process undertaken by the Investment Manager to provide confirmation to the Board.

The Committee operates under written terms of reference which are available on the Company's website.

The key responsibilities and principal activities of the Committee are as follows:

- To monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, and reviewing significant financial reporting judgements contained in them;
- To advise the Board on whether the Interim Report, Annual Report and financial statements are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model, strategy, risks, working capital requirements and longer-term viability;
- To advise the Board on whether the Investment Manager's working capital review supports assertions made in the Annual Report regarding going concern and longer-term viability;
- To monitor and review the effectiveness of the Company's internal control environment and monitoring processes, which were in place for the year under review and up to the date of approval of these financial statements;
- To review the significant risks faced by the Company;
- To review the internal audit programme and monitoring the effectiveness of the internal audit process by reviewing reports, meeting with the internal auditor and identifying any matters it considers need action or improvement, making recommendations as to the steps to be taken;
- To make recommendations to the Board to be put to shareholders for their approval in general meeting in relation to the appointment, reappointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- To review the appointment of the external auditor, monitoring the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- To develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;
- To agree the scope of statutory audit work and any additional assurance work to be undertaken;
- To take an active part in discussions between the external auditor and the Investment Manager regarding the resolution of issues that impact the audited financial statements; and
- To have the opportunity to meet with the external property valuers at least once a year, to discuss the valuers' remit and any issues arising from the valuations.

The Committee also oversees and approves the calculation of fees payable to the Investment Manager set out in Note 18.

Meetings
The Committee meets no less than three times a year, typically in May to consider the Annual Report and external audit findings, in November to consider the Interim Report, interim announcement and external review findings, and in January to plan for the financial year-end ahead. Any other matters, including internal controls, are considered as and when necessary.

Meetings are attended by the Committee members, the Investment Manager, the external auditor and, periodically, the internal auditor. The Committee allows time to speak with the external auditor and internal auditor without the Investment Manager present for at least one meeting each year.

Primary areas of judgement in relation to the Annual Report and financial statements
The Committee considers the significant judgements made in the Annual Report and financial statements and receives reports from the Investment Manager and the external auditor on those judgements. The Committee pays particular attention to the matters it considers to be important by virtue of size, potential impact, complexity and level of judgement.

The principal issue considered by the Committee for the year was the valuation of the Company's property portfolio, which is fundamental to the Company's statement of financial position and reported results. The external auditor met with the valuers separately from the Audit and Risk Committee, using real estate specialists where applicable, and reported back to the Committee on its review. The Committee also gained comfort from the valuers' methodology and other supporting market information.

The Committee also reviewed the reports of the internal auditor and considered how best to resource the internal audit function, resulting in the appointment of RSM as internal auditor from December 2018. During the year, the internal auditor has reported on the design effectiveness and operational effectiveness of the internal control environment.

Loan covenant and REIT regime compliance are matters for the whole Board. The Company's assessment of the impact of the COVID-19 pandemic on the Company's loan covenant compliance is set out in the Principal risks and uncertainties section of the Strategic report. The Committee has considered reports to support the Company's REIT regime compliance, going concern status and longer-term viability statement, along with details of available undrawn facilities and financial forecasts.

The Committee was satisfied that these issues had been fully and adequately considered and addressed and that the judgements made were appropriate. The Committee discussed the issues with the external auditor, who had concurred with the judgement of the Investment Manager.

Audit
The Company's day-to-day operations are contracted to the Investment Manager. The Company's internal audit function is outsourced to RSM. The Committee agrees an appropriate annual internal audit programme, taking into consideration the current size of the Company and its relative lack of business complexity and reviews the reports of the internal audit function.

The external audit, review of its effectiveness, auditor reappointment and audit tendering
The Committee reviews annually the external auditor's:

- Appointment;
- Relationship with the Company;
- Level of effectiveness;
- Audit and non-audit fees; and
- Independence.

The Committee uses a framework to assess the effectiveness of the audit approach and considered the views of the Investment Manager. The audit of the year ended 31 March 2019 marked the first audit of the new lead audit partner, James Wright, following the rotation after a fifth audit by the preceding partner. Following its review, the Committee was satisfied that the external auditor, Deloitte LLP ("Deloitte"), continued to perform effectively. Fees incurred by the Company from Deloitte during the year were as follows:

	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Audit of the Company's Annual Report	**96**	85
Total audit related fees	**96**	85
Review of the Company's Interim Report	**18**	17
Other non-audit services	**8**	–
Total non-audit fees	**26**	17
Total fees	**122**	102

Other non-audit services relate to administrative assistance regarding Board effectiveness reviews.

AUDIT AND RISK COMMITTEE REPORT CONTINUED

Audit continued

Non-audit fees

A non-audit fee policy has been adopted by the Committee, which considers the appointment of the external auditor for non-audit work, after taking into account their suitability to perform the services, the potential impact on their independence and objectivity and the relationship of non-audit to audit fees. Fees for permissible non-audit fees payable to the external auditor are capped at 70% of the average audit fee over the three preceding financial years (or from appointment, if later) in line with the FRC's Revised Ethical Standard 2019. Where there are any doubts as to whether the external auditor has a conflict of interest, Committee approval is required in advance of the engagement.

Given the external auditor's detailed knowledge of the structure of the organisation, certain recurring services provided by them, subject to the amount of fee involved, are not considered to impair the external auditor's independence or objectivity. Services included in this category are: accounting advice; compliance and regulatory certificates; and minor projects, where the fee involved per service will not exceed £10,000 without the prior consent of the Committee.

Other than the review of the Interim Report, the Committee will not normally allow the external auditor to be used for the following: tax services; compiling accounting records; payroll services; work on internal controls; valuation work; legal services; internal audit services; corporate finance services; share brokerage; or human resources. Non-audit fees incurred during the year related to a review of Board effectiveness.

The Committee has reviewed the level of fees due to Deloitte for permitted non-audit services and is satisfied the independence and objectivity of Deloitte as the Company's auditor is not impaired.

Deloitte was appointed as the Company's auditor in 2014. As a 'public interest entity', the Company is required at the latest to re-tender the external audit by 2024 and rotate audit firms by 2034. The Committee intends to re-tender the external audit within the timeframe set by the Financial Reporting Council and adopt its specific requirements for the tendering process.

Deloitte has confirmed its willingness to continue in office and ordinary resolutions reappointing Deloitte as auditor and authorising the Committee to set the auditor's remuneration will be proposed at the AGM.

Approval

This report was approved by the Committee and signed on its behalf by:

MATTHEW THORNE
Chairman of the Audit and Risk Committee
22 June 2020

Composition
The Management Engagement Committee ("the Committee") comprises Barry Gilbertson as Chairman, Matthew Thorne, Hazel Adam and David Hunter, all of whom are independent non-executive directors. Hazel Adam was appointed to the Committee on 17 June 2020.

Meetings
The Committee meets at least once a year and otherwise as required.

Responsibilities
The key responsibilities of the Committee are:

- Monitor and annually review the performance and independence of the Investment Manager and other key service providers; and
- Ensure the terms of the IMA and engagements with key service providers comply with all relevant regulatory requirements, conform with market practice and remain in the best interests of shareholders.

During the year, the Management Engagement Committee has considered:

- The capability and resources of the Investment Manager to deliver satisfactory investment performance;
- The length of the notice period of the IMA; and
- The fees payable to the Investment Manager.

The Directors are satisfied with the Investment Manager's ability to deliver investment performance that meets the agreed objectives, such that the continuing appointment of the Investment Manager, on the revised terms set out in Note 18, is in the best interest of the Company and its shareholders.

The Management Engagement Committee also reviews, typically annually, other organisations providing significant financial, advisory or legal services to the Company either directly or via the Investment Manager, including the terms of engagement and effectiveness of the independent valuers. This work has been deferred at least until mid-August 2020 due to the disruption to the business of key service providers caused by the COVID-19 pandemic.

Approval
This report was approved by the Committee and signed on its behalf by:

BARRY GILBERTSON
Chairman of the Management Engagement Committee
22 June 2020

NOMINATIONS COMMITTEE REPORT

Composition

The Nominations Committee ("the Committee") consists of David Hunter as Chairman, Barry Gilbertson, Matthew Thorne, Hazel Adam and Ian Mattioli. Hazel Adam was appointed to the Committee on 17 June 2020.

Meetings

The Committee meets at least once a year and otherwise as required.

Responsibilities

The key responsibilities of the Committee, which take into account principles J, K and L of the Code, are:

- Review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and make recommendations to the Board with regard to any changes;
- Consider succession planning for directors, taking into account the challenges and opportunities facing the Company, and the skills and expertise needed on the Board in the future;
- Keep under review the leadership needs of the organisation, with a view to ensuring the continued ability of the Company to compete effectively in the marketplace; and
- Identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise.

Before any appointment is made by the Board, the Committee is required to evaluate the balance of skills, knowledge, experience and diversity on the Board, and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment. In identifying suitable candidates the Committee shall:

- Use open advertising or the services of external advisers to facilitate the search;
- Consider candidates from a wide range of backgrounds; and
- Consider candidates on merit and against objective criteria and with due regard for the benefits of diversity on the Board, including gender, social and ethnic backgrounds and cognitive and personal strengths, taking care that appointees have enough time available to devote to the position.

The Committee also makes recommendations to the Board concerning:

- Formulating plans for succession for the Non-Executive Directors;
- Suitable candidates for the role of Senior Independent Director;
- Membership of the Audit and Risk Committee, Remuneration Committee and the Management Engagement Committee, and any other Board committees as appropriate and formed in due course, in consultation with the chairs of those committees;
- The re-appointment of any Non-Executive Director at the conclusion of their specified term of office having given due regard to their performance and ability to continue to contribute to the Board in the light of knowledge, skills and experience required; and
- The annual re-election by shareholders of directors or the retirement by rotation provisions in the Company's Articles of Association, having due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required and the need for progressive refreshing of the Board.

Policy on tenure and succession planning

The Committee considers the ongoing independence of each of the Non-Executive Directors, their respective skills and experience and whether each Non-Executive Director is able to commit sufficient time to the Company, as well as any other external appointments held. We consider that each Non-Executive Director has contributed an appropriate amount of time during the year.

Pursuant to the Articles of Association of the Company, at every AGM of the Company, one third of the Non-Executive Directors who are subject to the requirement to retire by rotation (not including any Non-Executive Director who was appointed by the Board since the last AGM and is standing for election) will retire from office and may offer themselves for re-election. However, notwithstanding the provisions of the Articles, all the Non-Executive Directors will offer themselves for re-election at each AGM in accordance with the provisions of the AIC Code.

Non-Executive Directors are appointed for an initial period of three years. It is the Company's policy of tenure to review individual appointments after six years of service to consider whether the Non-Executive Director is still independent and still fulfils the role. However, in accordance with the principles of the AIC Code, we do not consider it necessary to mandatorily replace a Director, including the Chair, after a predetermined period of tenure.

Reflecting the growth of the Company since inception and the Company's succession policy, the Committee recommended the appointment of Hazel Adam as an additional Non-Executive Director during the year. Trust Associates was engaged to assist the recruitment.

Approval

This report was approved by the Committee and signed on its behalf by:

DAVID HUNTER
Chairman of the Nominations Committee
22 June 2020

Composition

The Remuneration Committee ("the Committee") comprises Barry Gilbertson as Chairman, Hazel Adam, David Hunter and Matthew Thorne, all of whom are independent non-executive directors. Hazel Adam was appointed to the Committee on 17 June 2020.

Meetings

The Committee meets at least once a year and otherwise as required.

Responsibilities

The key responsibilities of the Committee are:

- To set the Remuneration Policy for all the Directors taking into account relevant legal and regulatory requirements and the provisions and recommendations of the Code and the AIC Code;
- To review the ongoing appropriateness and relevance of the Remuneration Policy; and
- Within the terms of the agreed policy, to determine the individual remuneration of each director, taking into account information about remuneration in other companies of comparable scale and complexity.

The Committee operates under written Terms of Reference which are available on the Company's website.

Directors and officers

The Non-Executive Directors and Company Secretary are the only officers of the Company. The Company Secretary is engaged under the terms of the IMA with the Investment Manager. The Company has no employees.

Under the terms of their appointment, each Director is required to retire by rotation and seek re-election at least every three years. The Company's Articles require one third of Directors to retire and seek re-election each year. However, notwithstanding the provisions of the Articles, all the Non-Executive Directors will offer themselves for re-election at each AGM in accordance with the provisions of the AIC Code.

Remuneration Policy

The Company's objective is to have a simple and transparent remuneration structure, aligned with the Company's strategy and be comparable with similar companies. The Company offers Directors, including any new Directors, an annual fee with no pension contributions, allowances or variable elements. Directors are engaged under Letters of Appointment (rather than service contracts with the Company), which do not allow for any payments on the termination of office. Each Director's appointment under their respective Letter of Appointment is terminable immediately by either party (the Company or the Director) giving written notice. Shareholders last approved the Remuneration Policy at the AGM in 2017. As such, the Company is required to renew that approval at the AGM to be held on 1 September 2020, from which date the new policy will apply.

During the year, the Committee reviewed the Company's Remuneration Policy, which is designed to attract, retain and motivate non-executive directors with the skills and experience necessary to maximise shareholder value on a long-term basis, and determined that it remains fit for purpose. As such, the Remuneration Policy to be proposed for approval at the AGM remains essentially unchanged from that approved by shareholders in 2017. Once approved, the policy may operate for up to three years.

The Remuneration Policy has been prepared in accordance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("the Regulations") as amended in August 2013 and 2019, the Companies (Miscellaneous Reporting) Regulations 2018 and with the Code and the AIC Code.

Any major decisions on Directors' remuneration are taken by the Committee, as delegated by the Board in the Committee's Terms of Reference, and subsequently reported to the Board. There have been no major decisions, substantial changes or discretion applied relating to Directors' remuneration during the year, other than the fees payable to Hazel Adam who was appointed during the year. The Remuneration Policy has operated as intended.

The Committee takes into account any views in respect of directors' remuneration expressed by shareholders in the formulation of the Remuneration Policy.

At the AGM of the Company held on 31 July 2019, an ordinary resolution to approve the directors' remuneration report was passed, with 99.97% of votes cast for the resolution, 0% of votes cast against the resolution and 2,000 votes withheld. The Company's remuneration policy was last submitted for shareholder approval in 2017, with 99.89% of votes cast in favour of the resolution and 0.11% of votes cast against the resolution, with 8,098 votes withheld.

REMUNERATION COMMITTEE REPORT CONTINUED

Directors' remuneration (audited)

	Year ended 31 March 2020			Year ended 31 March 2019			
	Fees £	Er's NIC £	Total £	Fees £	Other* £	Er's NIC £	Total £
David Hunter	**51,500**	**6,710**	**58,210**	50,000	991	6,625	57,616
Matthew Thorne	**41,200**	**5,289**	**46,489**	40,000	412	5,194	45,606
Barry Gilbertson	**40,000**	**5,123**	**45,123**	38,000	549	4,900	43,449
Ian Mattioli	**34,500**	**4,364**	**38,864**	33,500	–	4,236	37,736
Hazel Adam	**10,973**	**1,415**	**12,388**	–	–	–	–
	178,173	**22,901**	**201,074**	161,500	1,952	20,955	184,407

* Other remuneration in 2019 related to the one-off reimbursement of certain historical travel expenses, with no equivalent remuneration payable in the year.

Hazel Adam joined the Board on 12 December 2019. The figures shown for Ms Adam's Director's fee and employer's national insurance cost reflect her time served as a Director during the year.

Due to the uncertainty caused by the COVID-19 pandemic, the Committee has determined that, whilst Directors' annual fees were due to be reviewed as at 31 March 2020, no decision would be taken at that date. In anticipation of a clearer fiscal outlook later in the current financial year, the Committee will next review the level of Directors' annual fees no earlier than at the 30 September 2020 half-year end.

No pension benefits were accrued to any of the directors during the year (2019: £nil).

The Directors and the key Investment Manager personnel are considered to be the Company's key management personnel defined by IAS 24 'Related Party Disclosures'. The terms and conditions of the IMA and the amounts due to the Investment Manager are set out in Note 18.

Directors' interests (audited)

The Directors had the following interests in the ordinary shares of the Company:

	2020		2019	
	No. shares	% holding	No. shares	% holding
David Hunter	**29,000**	**0.01%**	29,000	0.01%
Matthew Thorne	**29,000**	**0.01%**	29,000	0.01%
Barry Gilbertson	**49,000**	**0.01%**	49,000	0.01%
Ian Mattioli[31]	**2,650,587**	**0.58%**	2,446,883	0.61%
Hazel Adam	**–**	**–**	–	–
	2,757,587	**0.61%**	2,553,883	0.64%

On 21 May 2020 Ian Mattioli acquired 59,500 ordinary shares of the Company. There have been no other changes in Directors' interests since the year end.

No Director has or has had any interest in any transactions which are or were unusual in their nature or conditions, or significant to the business of the Company and which were affected by the Company or remain in any respect outstanding or unperformed. No loan or guarantee has been granted or provided by any member of the Company for the benefit of any director. There are no restrictions agreed by any Director on the disposal within a certain period of time of their holdings in the Company's securities. Restrictions on other transfers of ordinary shares are set out in the Directors' report.

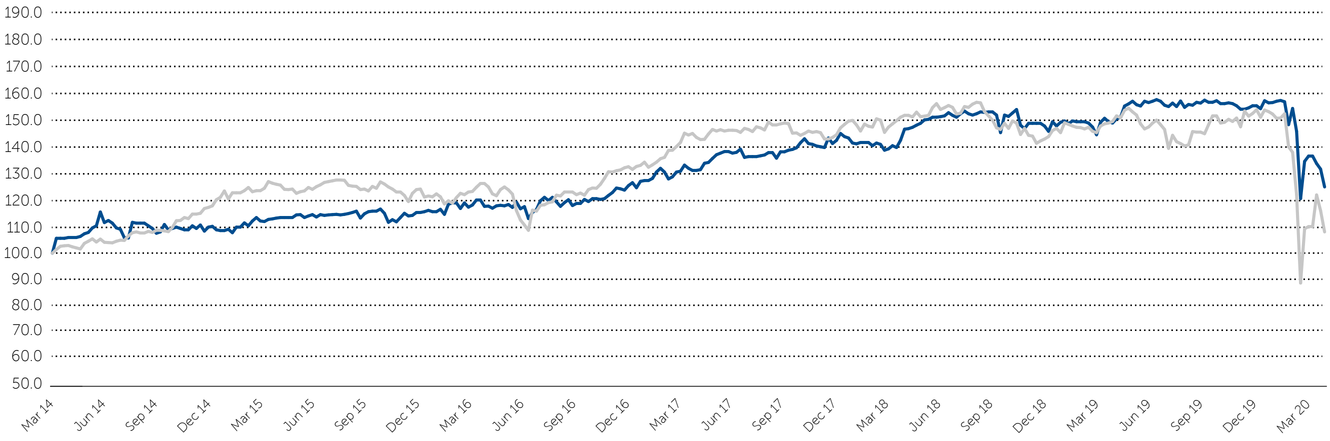
There are no requirements or guidelines for the Directors to own shares in the Company.

31. Including his wife and a charitable trust under his control.

Total shareholder return

The graph below illustrates the total shareholder return over the period from Admission on 26 March 2014 to 31 March 2020 in terms of the change in value of an initial investment of £100 invested on 26 March 2014 in a holding of the Company's shares against the corresponding total shareholder returns from a hypothetical basket of shares in similar ('peer group') listed property investment companies[32]. Whilst the positive gap (shown in the graph) between the Company and its peer group has existed throughout the year, the impact of the COVID-19 pandemic is clearly shown as at March 2020.

TOTAL SHAREHOLDER RETURN



Peers: BCPT, BREI, PCTN, SREI, SLI, UKCM, EPIC

Benchmarking performance against the performance of the Company's peers is considered to be the most appropriate method of measuring the Company's relative performance, as required by the Regulations. The performance of the Company relative to its peers is discussed in the Investment Manager's report.

The Companies Act 2006 requires the auditor to report to the shareholders on certain parts of the Remuneration Committee report and to state whether, in their opinion, those parts of the report have been properly prepared in accordance with the Regulations. The parts of the Remuneration Committee report that are subject to audit are shown in this report as ("audited").

Approval

This report was approved by the Committee and signed on its behalf by:

BARRY GILBERTSON
Chairman of the Remuneration Committee
22 June 2020

32. The Company's peer group comprises: BMO Commercial Property Trust Limited, BMO Real Estate Investments Limited, Picton Property Income Limited, Schroder Real Estate Investment Trust Limited, Standard Life Investments Property Income Trust Limited, UK Commercial Property Trust Limited and Ediston Property Investment Company plc.

DIRECTORS' REPORT

Report and financial statements
The Directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 March 2020. The Governance report forms part of this report. For the purposes of this report, the Directors' responsibilities statement and the Independent auditor's report, the expression 'Company' means Custodian REIT plc and the expression 'Group' means the Company and its subsidiaries.

The Company's principal activity is commercial property investment. The Strategic report includes further information about the Company's principal activity, financial performance during the year and indications of likely future developments. The Company's subsidiaries were all non-trading at the year end.

Details of significant events since the year end are contained in Note 20 to the financial statements.

The Directors believe they have discharged their responsibilities under section 414C of the Companies Act 2006 to provide a balanced and comprehensive review of the development and performance of the business.

Results and dividends
The Group profit for the year after taxation is set out in the consolidated statement of comprehensive income.

The Company paid a fourth quarterly dividend of 1.6625p per share (totalling £7.0m) in respect of the quarter ended 31 March 2020 on 29 May 2019, resulting in total dividends relating to the year ended 31 March 2020 achieving the target of 6.65p per share.

The Company's dividend policy is set out in the Business model and strategy section of the Strategic report.

Going concern
At 31 March 2020 the Company has:

- £25m of cash-in-hand with gross borrowings of £150m resulting in low net gearing, with no short-term refinancing risk and a weighted average debt facility maturity of seven years;
- An annual contractual rent roll of £40.7m, with interest costs on drawn loan facilities of only c. £4.7m per annum; and
- Received 70% of rents due relating to the month of April – June 2020 quarter.

The Company has sufficient cash to settle its stated minimum target dividends relating the first half of the financial year ending 31 March 2021 of 1.5p per share and its expense and interest liabilities for a period of at least 12 months, even assuming no further rent is collected.

The Company operates four loan facilities which are summarised in Note 15. At 31 March 2020 the Company has:

- Significant headroom on lender covenants at a portfolio level, with Company net gearing of 22.4% compared to a maximum LTV covenant of 35% and £184.8m (33% of the property portfolio) unencumbered by the Company's borrowings; and
- Put in place covenant waivers with each of its lenders for at least the June 2020 and September 2020 quarter-ends and expects further covenant waivers to be made available if needed based on discussions with each lender.

Reverse stress testing has been undertaken to understand what circumstances would result in potential breaches of financial covenants. While the assumptions applied in these scenarios are possible, they do not represent the Board's view of the likely outturn, but the results help inform the Directors' assessment of the viability of the Company. The testing indicated that:

- At a portfolio level, following expiry of interest cover covenant waivers, the rate of loss or deferral of contractual rent would need to deteriorate by a further 25% from the levels included in the Company's prudent forecasts to breach interest cover covenants; and
- Property valuations would have to decrease by 35% from the 31 March 2020 position to risk breaching the overall 35% LTV covenant.

The Board notes that the May 2020 IPF Forecasts for UK Commercial Property Investment survey suggests capital value decreases of between 4.0% and 19.5%. The Board believes that the valuation of the Company's property portfolio will prove resilient due to its higher weighting to industrial assets and overall diverse and high-quality asset and tenant base comprising 161 assets and over 200 typically 'institutional grade' tenants across all commercial sectors.

The Directors consider preparing the financial statements on a going concern basis to be appropriate because the sensitivity headroom set out above indicates that the Company can continue in operation for at least the next 12 months.

Taxation
The Group operates as a REIT and hence profits and gains from the property rental business are normally expected to be exempt from corporation tax.

Directors and officers
A list of the directors and their short biographies is shown in the Governance report.

The appointment and replacement of directors is governed by the Articles, the Code, the Companies Act and related legislation. The Articles themselves may be amended by special resolution of the shareholders.

Directors' fees and beneficial interests in the shares of the Company are disclosed in the Remuneration Committee report. During the year, no director had a material interest in a contract to which the Company or its subsidiary was a party (other than their own letter of appointment), requiring disclosure under the Companies Act 2006 other than in respect of Custodian Capital Limited and the IMA as disclosed in Note 18 to the financial statements.

On 17 June 2020, Nathan Imlach resigned as Company Secretary and Ed Moore was appointed as Company Secretary.

Directors' indemnity
All directors and officers of the Company have the benefit of a qualifying third party indemnity provision contained in the Articles, which was in force throughout the year and is currently still in force. The Company also purchased and maintained directors' and officers' liability insurance in respect of itself, its directors and officers and the directors and officers of its subsidiaries as permitted by Section 234 of the Companies Act 2006, although no cover exists in the event directors or officers are found to have acted fraudulently or dishonestly.

Conflicts of interest
There are procedures in place to deal with any directors' conflicts of interest arising under section 175 of the Companies Act 2006 and such procedures have operated effectively.

Donations
No political or charitable donations were made during the year.

Capital structure
The Company's authorised and issued share capital is shown in Note 16 to the financial statements.

The ordinary shares rank pari passu in all respects. Save as may be agreed at each AGM, the ordinary shares have pre-emption rights in respect of any future issues of ordinary shares to the extent conferred by section 561 of the Companies Act 2006.

There are no restrictions on the transfer of ordinary shares in the Company, other than certain restrictions that may be imposed from time to time by laws and regulations and pursuant to the Listing Rules of the FCA and the Company's share dealing code, whereby certain directors and officers require approval to deal in ordinary shares of the Company.

The Directors are not aware of any other agreements between holders of securities that may result in restrictions on the transfer of ordinary shares.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles and prevailing legislation. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

CREST
Custodian REIT plc share dealings are settled in CREST, the computerised system for the settlement of share dealings on the London Stock Exchange. CREST reduces the amount of documentation required and makes the trading of shares faster and more secure. CREST enables shares to be held in an electronic form instead of traditional share certificates. CREST is voluntary and shareholders can keep their share certificates if they wish. This may be preferable for shareholders who do not trade in shares on a frequent basis.

Substantial shareholdings
At 22 June 2020 the Directors were aware that the following shareholders each owned[33] 3% or more of the issued share capital:

Shareholder	Number of ordinary shares	Percentage holding[34]
Mattioli Woods	25,904,733	6.2%
BlackRock	22,039,783	5.3%

No other changes in substantial shareholding were disclosed between 31 March 2020 and 22 June 2020.

Close company provisions
The Company is not a close company within the provisions of the Income and Corporation Taxes Act 1988.

Change of control
The Company has borrowing facilities provided by its bankers which include provisions which may require any outstanding borrowings to be repaid, altered or terminated upon the occurrence of a change of control in the Company.

Related party transactions
Details of related party transactions are given in Note 18 to the financial statements.

Environmental performance and strategy
Due to the Company's activities, Custodian REIT impacts the local and global environment. The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 implement the government's policy on Streamlined Energy and Carbon Reporting, requiring disclosure of the environmental performance of the Company's assets through calculating the Company's GHG emissions and subsequently, setting strategies to minimise these emissions and working towards a 'Net Zero Pathway', including through peer review. The following information summarises the Company's environmental performance over the year including the consumption of fuels, electricity and water, and the production of waste, derived from both landlord and tenant obtained consumption.

33. Ownership incorporates the control of voting rights through acting as discretionary Investment Manager on behalf of retail investors holding the beneficial interest.
34. Based on the issued share capital on 22 June 2020.

DIRECTORS' REPORT CONTINUED

GHG emissions

Methodology

GHG emissions are quantified and reported according to the Greenhouse Gas Protocol. Consumption data has been collated by our sustainability consultant, Carbon Intelligence, and has been converted into CO_2 equivalent using the UK Government 2019 Conversion Factors for Company Reporting in order to calculate emissions from corresponding activity data. The EPRA guidance on the approach to floor areas was also used in calculating emissions intensity.

This information has been prepared in accordance with the GHG Protocol's Scope 2 Guidance on both location-based and market-based Scope 2 emissions figures. The Scope 2 market-based figure reflects emissions from electricity purchasing decisions that the Company has made (landlord obtained). When quantifying emissions using the market-based approach we have used a supplier specific emissions factor where possible. If these factors were unavailable, a residual mix emissions factor was then used, and as a final alternative the location-based grid emissions factor was used.

To collect consumption data, the Investment Manager contacted tenants and managing agents. As this is the Company's first year of disclosing environmental performance, a target of consumption data for 25% of total floor area was set. Data collected relates to the calendar years 2019 and 2018 but has been disclosed as 2020 and 2019 respectively due to the Company's March accounting reference date.

We have calculated both absolute performance and like-for-like performance. Like-for-like performance only includes assets which Custodian REIT has owned for at least two years and where data was available for both reporting years to allow for more accurate comparison between the datasets for 2019 and 2020.

We have calculated energy intensity and emissions intensity using the total floor area of properties which data was collected for, representing 42.5% of Custodian REIT's portfolio, rather than using the floor area of the entire portfolio which would adversely affect the intensity metrics due to the data availability.

As part of the data collection, a materiality assessment was applied in line with EPRA guidelines in order to determine which EPRA indicators were relevant to the Company. The Investment Manager assessed each indicator in terms of its impact on the Company and its perceived importance to stakeholders. All environmental sustainability performance measures were considered material which includes disclosing electricity, fuel, water and waste consumption as well as GHG emissions.

Performance

Sustainability is a key priority for Custodian REIT and the Investment Manager has been working with Carbon Intelligence to put in place an environmental vision and strategy including the development and implementation of key performance indicators and long-term targets for Scope 1 and 2 emissions. 11.7% of total electricity consumption and 0.1% of total gas consumption is currently from renewables. This strategy will also involve setting a plan of building optimisation opportunities.

The table below shows absolute energy consumption for the past two years as well as year-on-year change. Overall absolute electricity and gas consumption from 2019 to 2020 has decreased by 5.6%.

Absolute energy consumption (MWh)		2020	2019	Year-on-year % change
Fuels	Landlord obtained	**97**	155	(37.4%)
	Tenant obtained	**13,590**	13,966	(2.7%)
		13,687	14,121	(3.1%)
Electricity	Landlord obtained	**887**	901	(1.6%)
	Tenant obtained	**8,723**	9,669	(9.8%)
		9,610	10,570	(9.1%)
		23,297	24,691	(5.6%)

Overall, emissions intensity based on absolute performance has decreased by 11.9%. Emissions intensity for Scope 1 and 2 emissions (market-based) has decreased by 13.4% from 2019 to 2020, whilst emissions intensity for Scope 3 emissions has decreased by 11.8%. We have voluntarily disclosed a selection of Scope 3 emissions including water and waste emissions, as well as tenant consumption emissions.

Reporting boundaries and limitations

The GHG sources that constitute our operational boundary for the reporting period are:

- Scope 1: Natural gas combustion within boilers, gas oil combustion within generators, road fuel combustion within owned and leased vehicles, and fugitive emissions from refrigerants in air-conditioning equipment
- Scope 2: Purchased electricity consumption for our own use
- Scope 3: Water and waste consumption, and any natural gas and electricity consumption from tenants

Of the Company's total property portfolio, our environmental data covers 42.5% of the total floor area (combined landlord and tenant data). Therefore, there is remaining uncollected data which could have an impact on emissions data. This reporting period was the first time the Investment Manager engaged with the Company's tenants for the collection of consumption data and 42.5% represents a satisfactory response rate.

Assumptions and estimations

In some instances where data is missing estimations have been applied to fill the gaps, calculated either through extrapolation of available data from the reporting period or through data from previous years as a proxy.

The table below shows absolute performance and like-for-like performance of our Scope 1, 2 and 3 emissions:

				Absolute performance			Like-for-like performance
GHG emissions (tCO_2e)		**2020**	2019	% change	**2020**	2019	% change
Scope 1	Landlord fuel consumption (MWh)	**97**	155	(37.4%)	**97**	122	(20.5%)
	GHG emissions	**15.6**	24.9	(37.4%)	**15.5**	18.8	(17.6%)
Scope 2 (market-based)	Landlord electricity consumption (MWh)	**838**	849	(1.3%)	**779**	769	1.3%
	GHG emissions	**214.1**	240.4	(10.9%)	**199.1**	217.7	(8.5%)
Scope 2 (location-based)	Landlord electricity consumption (MWh)	**887**	901	1.5%	**866**	854	1.4%
	GHG emissions	**226.8**	255.0	(11.1%)	**211.7**	232.4	(8.9%)
	Total Scope 1 & 2 emissions (market-based)	**229.7**	265.2	(13.4%)	**214.5**	236.5	(9.3%)
	Total Scope 1 & 2 emissions (location-based)	**242.4**	279.9	(13.4%)	**227.2**	251.2	(9.6%)
	Scope 1 & 2 (market-based) emissions intensity ($tCO_2e/m^2/yr$)	**0.004**	0.005	(20.0%)	**0.036**	0.039	(7.7%)
	Scope 1 & 2 (location-based) emissions intensity ($tCO_2e/m^2/yr$)	**0.005**	0.005	0.0%	**0.038**	0.042	(9.5%)
Scope 3	Tenant fuel consumption (MWh)	**13,590**	13,966	(2.7%)	**7,835**	7,357	6.5%
	Tenant electricity consumption (MWh)	**8,723**	9,669	(9.8%)	**5,396**	5,531	(2.4%)
	Water consumption (m^3)	**34,658**	47,019	(26.3%)	**18,872**	17,947	5.2%
	Total waste sent to landfill (tonnes)	**371**	384	(3.4%)	**108**	141	(23.4%)
	Total waste diverted from landfill (tonnes)	**1,266**	1,185	6.8%	**825**	791	4.3%
	Total Scope 3 emissions	**4,698**	5,325	(11.8%)	**2,828**	2,842	(0.5%)
	Scope 3 emissions intensity ($tCO_2e/m^2/yr$)	**0.033**	0.037	(10.8%)	**0.032**	0.033	(3.4%)
	Gross Scope 1, 2 and 3 emissions (market-based)	**4,928**	5,590	(11.8%)	**–**	–	–
	Gross Scope 1, 2 and 3 emissions (location-based)	**4,940**	5,605	(11.9%)	**–**	–	–

DIRECTORS' REPORT CONTINUED

Financial risk management

The Company's financial risk management is based upon sound economic objectives and good corporate practice. The Board has overall responsibility for risk management and internal control, with the assistance of the Audit and Risk Committee. The Board's process for identifying and managing risks is set out in more detail in the Governance report.

Since Admission, the Company has sought to manage financial risk to ensure sufficient liquidity is available to meet its identifiable needs and to invest cash assets safely and profitably. Short-term flexibility is achieved through the use of bank facilities. The Company does not undertake any trading activity in financial instruments. All activities are transacted in pounds sterling. The Company does not engage in any hedging activities.

The Company reviews the credit quality of potential tenants and limits credit exposures accordingly. All trade receivables are subject to credit risk exposure. However, there is no specific concentration of credit risk as the amounts recognised represent income from a wide range of the Company's tenants.

The Company's financial risk management policy is further detailed in Note 19 to the financial statements.

Auditor

Deloitte, which has been the Company's auditor since 20 May 2014, has confirmed its willingness to continue in office as auditor in accordance with Section 489 of the Companies Act 2006. The Group is satisfied that Deloitte is independent and there are adequate safeguards in place to safeguard its objectivity. A resolution to reappoint Deloitte as the Group's auditor will be proposed at the forthcoming AGM.

Directors' statement as to disclosure of information to the auditor

The Directors who were members of the Board at the time of approving the Directors' report are listed in the Governance report. Having made enquiries of fellow directors and of the Company's auditor, each of these directors confirms that:

- To the best of each Director's knowledge and belief, there is no relevant audit information of which the Company's auditor is unaware; and
- Each Director has taken all steps they might reasonably be expected to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Annual General Meeting

The AGM of the Company will be held on 1 September 2020 at 2:00pm. Whilst, in normal circumstances, the Board values the opportunity to meet shareholders in person at its AGM, in view of the unprecedented challenges posed by the COVID-19 pandemic, the Board has decided (as permitted by the temporary measures contained in the Insolvency and Corporate Governance Act 2020) that, for this year, the AGM will be held via teleconference, with only the minimum quorum required by the Company's Articles present. However, whilst shareholders will not be able to dial in to the teleconference, we encourage shareholders to vote in advance following the procedures detailed in the Notice of AGM, and to submit any questions regarding the business to be transacted at the AGM in advance. The results of the meeting, and our response to any questions received, will be published on the Company's website following the meeting.

The Board will continue to monitor the evolving COVID-19 pandemic situation and the Government's guidance. Should the current 'stay at home' measures be sufficiently lifted by the time of the AGM, the Board may decide to revert to the usual format of holding a physical meeting, most likely at the Company's registered office, 1 New Walk Place, Leicester, LE1 6RU. Shareholders should therefore continue to monitor the Company's website and announcements for updates.

At the AGM the votes will be dealt with on a poll, using the proxy votes submitted prior to the meeting. Every member entitled to vote shall have one vote for every ordinary share held. None of the ordinary shares carry any special voting rights with regard to control of the Company. The Notice of AGM specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the AGM. The relevant proxy votes are counted and the number for, against or withheld in relation to each resolution will be published on our website following the AGM.

Engagement with suppliers, customers and others

The Company's approach to engagement with suppliers, customers and other stakeholders is set out in the s172 statement and stakeholder relationships section of the Strategic report.

Events since 31 March 2020

Details of significant events occurring after the end of the reporting year are given in Note 20 to the financial statements.

Approval

This Directors' report was approved by the Board of Directors and signed on its behalf by:

DAVID HUNTER
Chairman
22 June 2020

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU") and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the EU. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of 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 United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- The Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- The Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Approval

This responsibility statement was approved by the Board of Directors on 22 June 2020 and is signed on its behalf by:

DAVID HUNTER
Chairman
22 June 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CUSTODIAN REIT PLC
FOR THE YEAR ENDED 31 MARCH 2020

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

1 Opinion

In our opinion:

- the financial statements of Custodian REIT plc (the "Parent Company") and its subsidiaries (the "Group") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board ("IASB");
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the Consolidated statement of comprehensive income;
- the Consolidated and Company statements of financial position;
- the Consolidated and Company statements of cash flows;
- the Consolidated and Company statements of changes in equity; and
- the related Notes 1 to 21.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

2 Basis for opinion

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

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the "FRC's") Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and Parent Company for the year are disclosed in Note 5 to the financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

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

3 Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Valuation of investment property; and • Impact of COVID-19 on going concern. Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the Group financial statements was £8.7m, which was determined on the basis of 1.5% of gross assets.
Scoping	The Group audit team performed full scope audit procedures giving a coverage of 100% of the Group's net assets value and net profit for the year.
Significant changes in our approach	In the absence of substantive changes to the Group's business model or activities our audit approach is consistent with the previous year. In the current year due to the ongoing COVID-19 pandemic which led to the mandatory closure of non-essential businesses that represent tenants of the Group and the subsequent uncertainty involved in scenario planning to underpin management's going concern modelling and the associated audit work performed to assess the assumptions we have identified the going concern assumption applied to the financial statements as a key audit matter.

4 Conclusions relating to going concern, principal risks and viability statement

4.1. Going concern We have reviewed the Directors' statement in Note 2.4 to the financial statements about whether they consider it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements. We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of both the COVID-19 pandemic and Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment. We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.	**Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.** We confirm that we have nothing material to report, add or draw attention to in respect of these matters.
4.2. Principal risks and viability statement Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to: • the disclosures on pages 60-62 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated; • the Directors' confirmation on page 62 that they have carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or • the Directors' explanation on pages 62-63 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. We are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	**Viability means the ability of the Group to continue over the time horizon considered appropriate by the Directors.** We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

5 Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CUSTODIAN REIT PLC CONTINUED

FOR THE YEAR ENDED 31 MARCH 2020

5 **Key audit matters** continued

5.1. Valuation of investment property

Risk

Key audit matter description	The Group's principal activity is to invest in commercial properties and secure income from tenants of those properties. As disclosed in Note 10 the Group's investment property portfolio is valued at £559.8m as at 31 March 2020 (2019: £572.7m). The Group's accounting policy in Note 2 states that investment property is held at fair value and Note 2.5 describes key judgements made in valuation of investment properties. In determining the fair value, the external valuers make a number of key estimates and significant assumptions, in particular assumptions in relation to market comparable yields and estimates in relation to future rental income increases or decreases. Certain of these estimates and assumptions require input from management. Estimates and assumptions are subject to market forces and will change over time. Valuation of investment property is an area of judgement which could materially affect the financial statements. The valuations were carried out by third party valuers. The valuers were engaged by those charged with governance and performed their work in accordance with the Royal Institute of Chartered Surveyors ("RICS") Valuation – Professional Standards. The estimation of yields and estimated rental values ("ERVs") in the property valuation is a significant judgement area, underpinned by a number of assumptions relating to the size and location of the property as well as certain attributes of the lease. Given the high level of judgement involved, we determined that there was a potential for possible manipulation of these key inputs to the valuation. The inherent subjectivity in relation to estimation of yields and ERVs, coupled with the fact that only a small percentage difference in individual property valuations, when aggregated, could result in a material misstatement on the Statement of Comprehensive Income and the Statement of Financial Position, warrants specific audit focus in this area and we have considered it as a key audit matter. The Audit and Risk Committee report on pages 86-88 discloses this as a primary area of judgement. As detailed in Note 10, in applying the RICS Valuation Global Standards 2020 ("Red Book"), the valuer has declared a 'material valuation uncertainty' in their valuation report. This is on the basis that market activity is being impacted in many sectors as a result of COVID-19 such that as at the valuation date they consider that they can attach less weight to previous market evidence for comparison purposes to inform opinions of value, and that a higher degree of caution should be attached to their valuation.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over the valuation process, including assessing management's process and control for reviewing and challenging the work of the external valuers including management's experience and knowledge to undertake this activity. With the involvement of our real estate specialists, who are Chartered Surveyors, we met with the third party valuers appointed by those charged with governance with the aim of understanding the valuation methodology adopted. We assessed the competence, capabilities and objectivity of the external valuers and read their terms of engagement with the Group to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations on their work. We selected a sample of investment properties for further investigation (based on value, absolute and percentage movement). We assessed and challenged the reasonableness of the significant judgements and assumptions applied in the valuation model for each property in our sample, focusing in particular on the yields assumed and assessing the sensitivity of the valuation to changes in assumptions. We assessed the completeness and accuracy of the data provided by the Group to the valuers for the purposes of their valuation exercise. We also obtained explanations from the valuers and management, relating to specific considerations regarding to the COVID-19 pandemic, and any events subsequent to 31 March 2020 of relevance to the market and associated valuation trends. With the assistance of members of our audit team who are Chartered Surveyors, we reviewed the significant assumptions in the valuation process, tested a sample of properties by benchmarking against external appropriate property indices and understood the valuation methodology and the wider market analysis. We reviewed the information provided by the valuers both in the meetings and contained in the detailed valuation report; and we undertook our own research into the relevant markets to evaluate the reasonableness of the valuation inputs and the resulting fair values.

How the scope of our audit responded to the key audit matter continued	We specifically evaluated and challenged the impact of COVID-19 on valuation estimates, management's and the valuers' conclusions in respect of the valuations at the valuation date by taking into account the nature of the industry in which the Group operates and wider market trends observed, and the fact that valuations are being reported on the basis of 'material valuation uncertainty'. We considered the impact of the material valuation uncertainty, through discussions with the external valuers, management and our real estate specialists. We also considered the adequacy of the Group's disclosures about the degree of the estimation and sensitivity to key assumptions made when valuing these properties, including the impact of the COVID-19 pandemic.
Key observations	We consider the key assumptions applied in determining the property valuations to be reasonable. We note the increased estimation uncertainty in relation to the final property valuations as a result of COVID-19, and as disclosed in Note 10, we consider the valuation of properties to be appropriate.

5.2. Impact of COVID-19 on going concern

Risk

Key audit matter description	In the current year due to the ongoing COVID-19 pandemic which led to the mandatory closure of non-essential businesses that represent tenants of the Group and the subsequent uncertainty involved in scenario planning to underpin management's going concern modelling and the associated audit work performed to assess the assumptions we have identified the going concern assumption applied to the financial statements as a key audit matter. We have also spent a large amount of time to understand and challenge management's assessment. Management and the Board have considered the potential impact of the events that have been caused by the global pandemic of COVID-19 on the current and future operations of the business. In doing so, management and the Board have had particular focus on the Group's ability to continue as a going concern. As a result of the impact of COVID-19 on the real estate sector, the wider economy and the Group, management, the Board, the Audit and Risk Committee have spent a large amount of time to fully consider the implications for Custodian REIT plc. This included creating a revised base case scenario to reflect the impacts of COVID-19, performing additional sensitivity analysis and assessing the results of these on compliance with banking covenants and the REIT regime, and identifying potential mitigating actions that could be taken to mitigate the adverse impacts of COVID-19. The Audit and Risk Committee report on page 87 discloses this as a significant financial matter and further details are disclosed in the going concern and viability statement on pages 62-63 and the basis of preparation note in Note 2.4 to the financial statements.
How the scope of our audit responded to the key audit matter	In assessing management's consideration of the potential impact of COVID-19, we have undertaken the following procedures: • We obtained an understanding of the relevant controls identified relating to the going concern process; • We discussed with management the impact assessments applied in the going concern review so we could understand and challenge the rationale for those assumptions, using our knowledge of the business and the sector; • We reviewed management's sensitivity scenarios, which also include potential mitigating actions available to confirm they are within management's control; • We reviewed the waivers obtained from the lenders for the quarters ending 30 June 2020 and 30 September 2020; • We assessed the availability of liquid resources under different scenarios modelled by management, and the associated covenant tests applied; • We assessed reverse stress testing performed by management and additional downside sensitivities and considered the impact on covenants and the Group's compliance with the REIT regime; and • We reviewed disclosures relating to going concern and the impact of COVID-19.
Key observations	We consider the adoption of the going concern basis of accounting and the disclosures in relation to going concern to be appropriate.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CUSTODIAN REIT PLC CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

6 Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent Company financial statements
Materiality	£8.7m (2019: £8.7m)	£8.69m (2019: £8.69m)
Basis for determining materiality	1.5% of gross assets (2019: 1.5% of gross assets) for the Statement of financial position testing. This percentage takes into account our knowledge of the Group and Parent Company, our assessment of audit risks and the reporting requirements for the financial statements.	1.5% of gross assets (2019: 1.5% of gross assets) for the Statement of financial position testing. This percentage takes into account our knowledge of the Group and Parent Company, our assessment of audit risks and the reporting requirements for the financial statements.
Rationale for the benchmark applied	We have used the gross assets value as at 31 March 2020 as the benchmark for determining materiality, as this benchmark is deemed to be one of the key drivers of business value, is a critical component of the financial statements and is a focus for users of those financial statements for property companies. In addition to gross assets, we consider EPRA earnings as a critical performance measure for the Group that is applied to underlying earnings. We have also benchmarked these percentages and our approach to materiality to other listed REITs based on information publicly disclosed in the audit reports and found them to be consistent.	

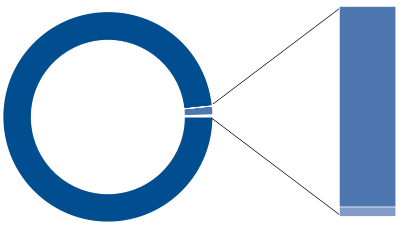


Figure 1 - Group audit materiality

A lower materiality of £2.9m (2019: £2.7m) which was determined on the basis of 10% (2019: 10%) EPRA earnings was used for amounts in the statement of comprehensive income. We consider EPRA earnings to be the most appropriate benchmark due to it being one of the key focus areas for both investors and management. Refer to Note 21 for a reconciliation to IFRS earnings.

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of Group materiality for the 2020 audit (2019: 70%). In determining performance materiality, we considered the following factors:

a. our cumulative knowledge of the Group and its environment, including industry wide pressure on valuation of property portfolio; and
b. our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.

6.3. Error reporting threshold

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £435,000 (2019: £435,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7 An overview of the scope of our audit

7.1. Identification and scoping

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. All audit work to respond to the risks of material misstatement was performed directly by the Group audit engagement team.

The Group consists of the Parent Company and subsidiaries that were inactive by the year end. We carried out a full scope audit of the Group.

7.2. Our consideration of the control environment

We obtained an understanding of the relevant controls in relation to key business processes as well as IT systems that were relevant to the audit. We however did not rely on controls due to nature of the Group's business and processes.

8 Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that: • *Fair, balanced and understandable* – the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or • *Audit and Risk Committee reporting* – the section describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee; or • *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.	We have nothing to report in respect of these matters.

9 Responsibilities of Directors

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

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

10 Auditor's responsibilities for the audit of the financial statements

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CUSTODIAN REIT PLC CONTINUED

FOR THE YEAR ENDED 31 MARCH 2020

11 Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- results of our enquiries of the Investment Manager and the Audit and Risk Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations.
- the matters discussed among the audit engagement team and involving relevant internal specialists, including valuations specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: revenue recognition and valuation of investment property. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included Companies Act 2006, Requirements contained in the Listing Rules of the London Stock Exchange and AIFM Directive 2013.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included compliance with the REIT regime requirements and Investments Trust Regulations 2011.

11.2. Audit response to risks identified

As a result of performing the above, we identified the valuation of investment property as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit and Risk Committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance and reviewing internal audit reports;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and
- in addressing the risk of material misstatement due to fraud in revenue recognition, we obtained understanding of management controls around completeness of the summary of incentives and consideration of unusual accounting policies applied to account for them, and management controls around timeliness of revenue recognition; as well as performed substantive testing for a sample of revenue recognised near either side of year end and new tenancy agreements entered into in the period.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12 Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report or the Directors' report.

13 Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records Under the Companies Act 2006 we are required to report to you if, in our opinion: • we have not received all the information and explanations we require for our audit; or • adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or • the Parent Company financial statements are not in agreement with the accounting records and returns.	We have nothing to report in respect of these matters.
13.2. Directors' remuneration Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns.	We have nothing to report in respect of these matters.

14 Other matters

14.1. Auditor tenure

Following the recommendation of the Audit and Risk Committee, we were appointed as auditor by the Directors in 2014 to audit the financial statements for the period ended 24 March 2014 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is seven years, covering the periods ended 24 March 2014 to 31 March 2020.

14.2. Consistency of the audit report with the additional report to the Audit and Risk Committee

Our audit opinion is consistent with the additional report to the Audit and Risk Committee we are required to provide in accordance with ISAs (UK).

15 Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

JAMES WRIGHT (SENIOR STATUTORY AUDITOR)
For and on behalf of Deloitte LLP
Statutory Auditor
Crawley, United Kingdom
22 June 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2020

	Note	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Revenue	4	**40,903**	39,974
Investment management		**(3,517)**	(3,486)
Operating expenses of rental property			
– rechargeable to tenants		**(880)**	(866)
– directly incurred		**(1,883)**	(1,530)
Professional fees		**(445)**	(624)
Directors' fees		**(200)**	(183)
Administrative expenses		**(620)**	(626)
Expenses		**(7,545)**	(7,315)
Operating profit before financing and revaluation of investment property		**33,358**	32,659
Unrealised losses on revaluation of investment property:			
– relating to property revaluations	10	**(25,850)**	(5,499)
– relating to costs of acquisition	10	**(599)**	(3,391)
Valuation decrease		**(26,449)**	(8,890)
(Loss)/profit on disposal of investment property		**(101)**	4,250
Net loss on investment property		**(26,550)**	(4,640)
Operating profit before financing		**6,808**	28,019
Finance income	6	**36**	27
Finance costs	7	**(4,721)**	(4,400)
Net finance costs		**(4,685)**	(4,373)
Profit before tax		**2,123**	23,646
Income tax expense	8	**–**	–
Profit for the year and total comprehensive income for the year, net of tax		**2,123**	23,646
Attributable to:			
Owners of the Company		**2,123**	23,646
Earnings per ordinary share:			
Basic and diluted (p per share)	3	**0.5**	6.0
EPRA (p per share)	3	**7.0**	7.3

The profit for the year arises from the Company's continuing operations.

CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION

AS AT 31 MARCH 2020

REGISTERED NUMBER: 08863271

	Note	Group 31 March 2020 £000	Group 31 March 2019 £000	Company 31 March 2020 £000	Company 31 March 2019 £000
Non-current assets					
Investment property	10	**559,817**	572,745	**559,817**	572,745
Investments	11	–	–	**3,405**	501
Total non-current assets		**559,817**	572,745	**563,222**	573,246
Current assets					
Trade and other receivables	12	**5,297**	3,674	**5,297**	3,674
Cash and cash equivalents	14	**25,399**	2,472	**25,399**	2,472
Total current assets		**30,696**	6,146	**30,696**	6,146
Total assets		**590,513**	578,891	**593,918**	579,392
Equity					
Issued capital	16	**4,201**	3,982	**4,201**	3,982
Share premium	16	**250,469**	225,680	**250,469**	225,680
Retained earnings	16	**172,082**	196,961	**172,082**	196,961
Total equity attributable to equity holders of the Company		**426,752**	426,623	**426,752**	426,623
Non-current liabilities					
Borrowings	15	**148,323**	137,532	**148,323**	137,532
Other payables		**576**	576	**576**	576
Total non-current liabilities		**148,899**	138,108	**148,899**	138,108
Current liabilities					
Trade and other payables	13	**7,794**	6,851	**11,199**	7,352
Deferred income		**7,068**	7,309	**7,068**	7,309
Total current liabilities		**14,862**	14,160	**18,267**	14,661
Total liabilities		**163,761**	152,268	**167,166**	152,769
Total equity and liabilities		**590,513**	578,891	**593,918**	579,392

As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account is presented in respect of the parent company. The profit for the financial year dealt with in the financial statements of the parent company was £2,123,000 (2019: £23,646,000).

These consolidated and Company financial statements of Custodian REIT plc were approved and authorised for issue by the Board of Directors on 22 June 2020 and are signed on its behalf by:

DAVID HUNTER
Chairman

CONSOLIDATED AND COMPANY STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2020

Group and Company	Note	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Operating activities			
Profit for the year		**2,123**	23,646
Net finance costs		**4,685**	4,373
Valuation decrease of investment property	10	**26,449**	8,890
Impact of rent free	10	**(1,402)**	(2,237)
Amortisation of right-of-use asset		**7**	–
Loss/(profit) on disposal of investment property		**101**	(4,250)
Cash flows from operating activities before changes in working capital and provisions		**31,963**	30,422
(Increase)/decrease in trade and other receivables		**(1,623)**	4,209
Increase in trade and other payables and deferred income		**702**	1,404
Cash generated from operations		**31,042**	36,035
Interest and other finance charges		**(4,435)**	(4,225)
Net cash flows from operating activities		**26,607**	31,810
Investing activities			
Purchase of investment property		**(24,048)**	(55,523)
Capital expenditure and development		**(2,804)**	(2,530)
Acquisition costs		**(599)**	(3,391)
Disposal of investment property		**15,383**	15,375
Costs of disposal of investment property		**(159)**	(130)
Interest received	6	**36**	27
Net cash used in investing activities		**(12,191)**	(46,172)
Financing activities			
Proceeds from the issue of share capital	16	**25,300**	13,420
Costs of share issue		**(292)**	(161)
New borrowings net of origination costs	15	**10,505**	24,000
Dividends paid	9	**(27,002)**	(25,484)
Net cash from financing activities		**8,511**	11,775
Net increase/(decrease) in cash and cash equivalents		**22,927**	(2,587)
Cash and cash equivalents at start of the year		**2,472**	5,059
Cash and cash equivalents at end of the year		**25,399**	2,472

CONSOLIDATED AND COMPANY STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2020

	Note	Issued capital £000	Share premium £000	Retained earnings £000	Total equity £000
As at 31 March 2018		**3,869**	**212,534**	**198,799**	**415,202**
Profit for the year		–	–	23,646	23,646
Total comprehensive income for year		–	–	23,646	23,646
Transactions with owners of the Company, recognised directly in equity					
Dividends	9	–	–	(25,484)	(25,484)
Issue of share capital	16	113	13,146	–	13,259
As at 31 March 2019		**3,982**	**225,680**	**196,961**	**426,623**
Profit for the year		–	–	2,123	2,123
Total comprehensive income for year		–	–	2,123	2,123
Transactions with owners of the Company, recognised directly in equity					
Dividends	9	–	–	(27,002)	(27,002)
Issue of share capital	16	219	24,789	–	25,008
As at 31 March 2020		**4,201**	**250,469**	**172,082**	**426,752**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020

1 Corporate information
The Company is a public limited company incorporated and domiciled in England and Wales, whose shares are publicly traded on the London Stock Exchange plc's main market for listed securities. The consolidated financial statements have been prepared on a historical cost basis, except for the revaluation of investment property, and are presented in pounds sterling with all values rounded to the nearest thousand pounds (£000), except when otherwise indicated. The consolidated financial statements were authorised for issue in accordance with a resolution of the Directors on 22 June 2020.

2 Basis of preparation and accounting policies
2.1. Basis of preparation
The consolidated financial statements and the separate financial statements of the parent company have been prepared in accordance with International Financial Reporting Standards adopted by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB (together "IFRS") as adopted by the European Union, and in accordance with the requirements of the Companies Act applicable to companies reporting under IFRS, and therefore they comply with Article 4 of the EU IAS Regulation.

Certain statements in this report are forward looking statements. By their nature, forward looking statements involve a number of risks, uncertainties or assumptions that could cause actual results or events to differ materially from those expressed or implied by those statements. Forward looking statements regarding past trends or activities should not be taken as representation that such trends or activities will continue in the future. Accordingly, undue reliance should not be placed on forward looking statements.

2.2. Basis of consolidation
The consolidated financial statements consolidate those of the parent company and its subsidiaries. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Custodian Real Estate Limited has a reporting date in line with the Company. Other subsidiaries have December accounting reference dates which have not been amended since their acquisition as those companies are expected to be liquidated during the next financial year. All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a Group perspective. Amounts reported in the financial statements of the subsidiary are adjusted where necessary to ensure consistency with the accounting policies adopted by the Group. Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

2.3. Application of new and revised International Financial Reporting Standards
IFRS 16

The Company adopted IFRS 16 'Leases' on 1 April 2019. The impact of adoption of this standard is shown below:

IFRS 16 removes the distinction between operating and finance leases for lessees and replaces them with the concept of 'right-of-use' assets and associated financial liabilities which will result in almost all leases being recognised on the balance sheet. A leasee's rent expense under IAS 17 for operating leases is removed and replaced with depreciation and finance costs.

Additional disclosure requirements include presenting:

- Depreciation expense;
- Carrying value of right-of-use assets;
- Additions to right-of-use assets;
- Interest expense on lease liabilities;
- Variable lease payments not included in the lease liability; and
- Total cash outflow for leases.

The Company's right-of-use assets meet the IAS 40 'Investment Property' definition of investment property. The impact of the adoption of IFRS 16 'Leases' during the year has been:

- A £38k impact on income statement categorisation of headlease costs from directly incurred operating expenses of rental property to finance charges; and
- A £7k increase in finance charges and decrease in profit after tax.

These amendments have been recognised in the year as the Company has elected not to restate comparatives on initial application of IFRS 16.

The Company has adopted the amendments included in the Annual Improvements to IFRS Standards 2015–2017 Cycle for the first time in the current year, which have had no impact on reported results, and which includes amendments to the following Standards:

- IAS 12 Income Taxes – the amendments clarify that the Company should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the Company originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.
- IAS 23 Borrowing Costs – the amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.
- IFRS 3 Business Combinations – the amendments clarify that when the Company obtains control of a business that is a joint operation, the Group applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest ("PHI") in the joint operation at fair value. The PHI to be remeasured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.
- IFRS 11 Joint Arrangements – the amendments clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the Company does not remeasure its PHI in the joint operation.

At the date of authorisation of these financial statements, the following new and revised IFRSs which have not been applied in these financial statements were in issue but not yet effective:

IFRS 17 – 'Insurance Contracts'
IFRS 17 was published in May 2017 and is effective for periods commencing on or after 1 January 2021. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts. The Company has not completed its review of the impact of this new standard but does not anticipate it having a significant impact.

2.4. Significant accounting policies

The principal accounting policies adopted by the Group and Company and applied to these financial statements are set out below.

Going concern

The Directors believe the Company is well placed to manage its business risks successfully despite the impact of the COVID-19 pandemic on rent deferrals and tenant default. The Company's projections show that the Company should be able to operate within the level of its current financing arrangements for at least the next 12 months, set out in more detail in the Directors' report and Principal risks and uncertainties section of the Strategic report. Accordingly, the Directors continue to adopt the going concern basis for the preparation of the financial statements.

Income recognition

Contractual revenues are allocated to each performance obligation of a contract and revenue is recognised on a basis consistent with the transfer of control of goods or services. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duties.

Rental income from operating leases on properties owned by the Company is accounted for on a straight-line basis over the term of the lease. Rental income excludes service charges and other costs directly recoverable from tenants.

Lease incentives are recognised on a straight-line basis over the lease term.

Revenue and profits on the sale of properties are recognised on the completion of contracts. The amount of profit recognised is the difference between the sale proceeds and the carrying amount.

Finance income relates to bank interest receivable and amounts receivable on ongoing development funding contracts.

Taxation

The Group operates as a REIT and hence profits and gains from the property rental business are normally expected to be exempt from corporation tax. The tax expense represents the sum of the tax currently payable and deferred tax relating to the residual (non-property rental) business. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Investment property

Investment property is held to earn rentals and/or for capital appreciation and is initially recognised at cost including direct transaction costs. Investment property is subsequently valued externally on a market basis at the reporting date and recorded at valuation. Any surplus or deficit arising on revaluing investment property is recognised in profit or loss in the year in which it arises. Dilapidations receipts are held in the statement of financial position and offset against subsequent associated expenditure. Any ultimate gains or shortfalls are measured by reference to previously published valuations and recognised in profit or loss, offset against any directly corresponding movement in fair value of the investment properties to which they relate.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2020

2 Basis of preparation and accounting policies continued

2.4. Significant accounting policies continued

Group undertakings

Investments are included in the Company only statement of financial position at cost less any provision for impairment.

Financial assets

The Company's financial assets include cash and cash equivalents and trade and other receivables. Interest resulting from holding financial assets is recognised in profit or loss on an accruals basis.

Loans and receivables are measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment. Provision for impairment of trade and other receivables is made when objective evidence is received that the Company will not be able to collect all amounts due to it in accordance with the original terms of the receivable. The amount of the impairment is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective rate computed at initial recognition. Any change in value through impairment or reversal of impairment is recognised in profit or loss.

A financial asset is de-recognised only where the contractual rights to the cash flows from the asset expire or the financial asset is transferred and that transfer qualifies for de-recognition. A financial asset is transferred if the contractual rights to receive the cash flows of the asset have been transferred or the Company retains the contractual rights to receive the cash flows of the asset but assumes a contractual obligation to pay the cash flows to one or more recipients. A financial asset that is transferred qualifies for de-recognition if the Company transfers substantially all the risks and rewards of ownership of the asset.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and on-demand deposits, and other short-term highly liquid investments that are readily convertible into a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Share capital represents the nominal value of equity shares issued. Share premium represents the excess over nominal value of the fair value of the consideration received for equity shares, net of direct issue costs.

Retained earnings include all current and prior year results as disclosed in profit or loss. Retained earnings include realised and unrealised profits. Profits are considered unrealised where they arise from movements in the fair value of investment properties that are considered to be temporary rather than permanent.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the fair value of proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlements or redemption and direct issue costs, are accounted for on an accruals basis in profit or loss using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

Leases

Where an investment property is held under a leasehold interest, the headlease is initially recognised as an asset at cost plus the present value of minimum ground rent payments. The corresponding rental liability to the head leaseholder is included in the balance sheet as a liability. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining lease liability.

Segmental reporting

An operating segment is a distinguishable component of the Company that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Company's chief operating decision maker (the Board) to make decisions about the allocation of resources and assessment of performance and about which discrete financial information is available. As the chief operating decision maker reviews financial information for, and makes decisions about the Company's investment properties as a portfolio, the Directors have identified a single operating segment, that of investment in commercial properties.

2.5. Key sources of judgements and estimation uncertainty

The preparation of the financial statements requires the Company to make estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities. If in the future such estimates and assumptions, which are based on the Directors' best judgement at the date of preparation of the financial statements, deviate from actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change.

Judgements

The areas where a higher degree of judgement or complexity arises are discussed below:

- *Valuation of investment property* – Investment property is valued at the reporting date at fair value. Where an investment property is being redeveloped the property continues to be treated as an investment property. Surpluses and deficits attributable to the Company arising from revaluation are recognised in profit or loss. Valuation surpluses reflected in retained earnings are not distributable until realised on sale. In making its judgement over the valuation of properties, the Company considers valuations performed by the independent valuers in determining the fair value of its investment properties. The valuers make reference to market evidence of transaction prices for similar properties. The valuations are based upon assumptions including future rental income, anticipated maintenance costs and appropriate discount rates. In response to the COVID-19 pandemic, 31 March 2020 valuations are subject to a 'material uncertainty' clause in line with prevailing RICS guidance. Valuation assumptions also include, for all assets occupied by tenants currently not trading or with trade significantly curtailed, a three-month rental void and a yield increase of 10-75bps.

Estimates

There are no areas where accounting estimates are significant to the financial statements.

3 Earnings per ordinary share

Basic EPS amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS amounts are calculated by dividing the net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. There are no dilutive instruments in issue. Shares issued after the year end are disclosed in Note 20.

The Company is a FTSE EPRA/NAREIT index series constituent and EPRA performance measures have been disclosed to facilitate comparability with the Company's peers through consistent reporting of key performance measures. EPRA has issued recommended bases for the calculation of EPS which the Directors consider are better indicators of performance.

	Year ended 31 March 2020	Year ended 31 March 2019
Net profit and diluted net profit attributable to equity holders of the Company (£000)	**2,123**	23,646
Net loss on investment property (£000)	**26,550**	4,640
One-off costs	**–**	170
EPRA net profit attributable to equity holders of the Company (£000)	**28,673**	28,456
Weighted average number of ordinary shares:		
Issued ordinary shares at start of the year (thousands)	**398,203**	386,853
Effect of shares issued during the year (thousands)	**11,508**	5,015
Basic and diluted weighted average number of shares (thousands)	**409,711**	391,868
Basic and diluted EPS (p)	**0.5**	6.0
EPRA EPS (p)	**7.0**	7.3

4 Revenue

	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Gross rental income from investment property	**40,022**	39,108
Income from recharges to tenants	**881**	866
	40,903	39,974

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

5 Operating profit
Operating profit is stated after charging/(crediting):

	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Loss/(profit) on disposal of investment property	**101**	(4,250)
Investment property valuation decrease/(increase)	**26,449**	8,890
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	**95**	85
Fees payable to the Company's auditor and its associates for other services	**23**	17
Administrative fee payable to the Investment Manager	**434**	427
Directly incurred operating expenses of vacant rental property	**910**	630
Directly incurred operating expenses of let rental property	**966**	862
Amortisation of right-of-use asset	**7**	–
Lease and sublease expenses	**–**	38

Fees payable to the Company's auditor, Deloitte LLP, are further detailed in the Audit and Risk Committee report.

6 Finance income

	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Bank interest	**36**	27
Finance income	**–**	–
	36	27

7 Finance costs

	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Amortisation of arrangement fees on debt facilities	**286**	175
Other finance costs	**200**	141
Bank interest	**4,235**	4,084
	4,721	4,400

8 Income tax

The tax charge assessed for the year is lower than the standard rate of corporation tax in the UK during the year of 19.0%. The differences are explained below:

	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Profit before income tax	**2,123**	23,646
Tax charge on profit at a standard rate of 19.0% (2019: 19.0%)	**403**	4,493
Effects of:		
REIT tax exempt rental profits and gains	**(403)**	(4,493)
Income tax expense	**–**	–
Effective income tax rate	**0.0%**	0.0%

The Company operates as a REIT and hence profits and gains from the property investment business are normally exempt from corporation tax.

9 Dividends

Group and Company	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Interim dividends paid on ordinary shares relating to the quarter ended:		
Prior year		
– 31 March 2019: 1.6375p (2018: 1.6125p)	**6,521**	6,238
Current year		
– 30 June 2019: 1.6625p (2018: 1.6375p)	**6,786**	6,335
– 30 September 2019: 1.6625p (2018: 1.6375p)	**6,828**	6,449
– 31 December 2019: 1.6625p (2018: 1.6375p)	**6,867**	6,462
	27,002	25,484

The Company paid a fourth interim dividend relating to the quarter ended 31 March 2020 of 1.6625p per ordinary share (totalling £7.0m) on 29 May 2020 to shareholders on the register at the close of business on 24 April 2020. This dividend has not been included as a liability in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2020

10 Investment property

Group and Company	£000
At 31 March 2018	528,943
Impact of lease incentives	2,237
Additions	58,914
Increase in headlease liabilities	6
Capital expenditure and development	2,530
Disposals	(10,995)
Valuation decrease before acquisition costs	(5,499)
Acquisition costs	(3,391)
Valuation decrease including acquisition costs	(8,890)
At 31 March 2019	572,745
Impact of lease incentives	1,402
Additions	24,647
Amortisation of right-of-use asset	(7)
Capital expenditure and development	2,804
Disposals	(15,325)
Valuation decrease before acquisition costs	(25,850)
Acquisition costs	(599)
Valuation decrease including acquisition costs	(26,449)
At 31 March 2020	**559,817**

£375.1m (2019: £371.4m) of investment property has been charged as security against the Company's borrowings. £0.6m (2019: £nil) of investment property comprises right-of-use assets.

The carrying value of investment property at 31 March 2020 comprises £447.9m freehold (2019: £462.3m) and £111.9m leasehold property (2019: £110.4m).

Investment property is stated at the Directors' estimate of its 31 March 2020 fair value. Lambert Smith Hampton Group Limited ("LSH") and Knight Frank LLP ("KF"), professionally qualified independent valuers, each valued approximately half of the property portfolio as at 31 March 2020 in accordance with the Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors ("RICS"). LSH and KF have recent experience in the relevant locations and categories of the property being valued. 31 March 2020 valuations are subject to a 'material uncertainty' clause in line with prevailing RICS guidance.

Investment property has been valued using the investment method which involves applying a yield to rental income streams. Inputs include yield, current rent and ERV. For the year end valuation, the equivalent yields used ranged from 4.7% to 10.1%. Valuation reports are based on both information provided by the Company e.g. current rents and lease terms, which are derived from the Company's financial and property management systems and are subject to the Company's overall control environment, and assumptions applied by the valuers e.g. ERVs and yields. These assumptions are based on market observation and the valuers' professional judgement. In estimating the fair value of each property, the highest and best use of the properties is their current use. In response to the COVID-19 pandemic, for all assets occupied by tenants currently not trading or with trade significantly curtailed, the Company's valuers assumed a three-month rental void and applied a yield increase of 25-75bps to valuations. It is not possible to estimate sensitivity to these assumptions.

All other factors being equal, a higher equivalent yield would lead to a decrease in the valuation of investment property, and an increase in the current or estimated future rental stream would have the effect of increasing capital value, and vice versa. However, there are interrelationships between unobservable inputs which are partially determined by market conditions, which could impact on these changes.

11 Investments

Shares in subsidiaries

Company name	Company number	Country of registration and incorporation	Principal activity	Ordinary shares held	31 March 2020 £000	31 March 2019 £000
Custodian Real Estate Limited	08882372	England and Wales	Non-trading	100%	–	–
Custodian Real Estate BL Limited	09270501	England and Wales	Non-trading – in liquidation	100%	–	–
Custodian Real Estate (Beaumont Leys) Limited*	04364589	England and Wales	Non-trading – in liquidation	100%	4	4
Custodian Real Estate (Leicester) Limited*	04312180	England and Wales	Non-trading – in liquidation	100%	497	497
Custodian Real Estate (JMP4) Limited (formerly John Menzies Property 4 Limited)	11187952	England and Wales	Non-trading	100%	2,904	–
					3,405	501

* Held indirectly.

On 1 October 2019 the Company acquired the entire issued share capital of Custodian Real Estate (JMP4) Limited (formerly John Menzies Property 4 Limited) for £24.6m which owned the Menzies Portfolio.

The Company's non-trading UK subsidiaries have claimed the audit exemption available under Section 479A of the Companies Act 2006. The Company's registered office is also the registered office of each UK subsidiary.

12 Trade and other receivables

Group and Company	31 March 2020 £000	31 March 2019 £000
Falling due in less than one year:		
Trade receivables	4,359	2,447
Other receivables	217	708
Prepayments and accrued income	721	519
	5,297	3,674

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increases in credit risk before amounts become past due.

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- When there is a breach of financial covenants by the debtor; or
- Available information indicates the debtor is unlikely to pay its creditors.

Irrespective of the above analysis the Company considers that default has occurred when a financial asset is past due, based on the current uncertainty around rental receipts due to the COVID-19 pandemic, unless the Company has reasonable and supportable information to demonstrate an alternative criteria is more appropriate.

Trade receivables include £nil (2019: £0.2m) which are past due as at 31 March 2020 for which no provision has been made because the amounts are considered recoverable.

The provision for doubtful debts at the year end was £0.3m (2019: £0.0m).

Tenant rent deposits of £0.7m (2019: £1.2m) are held as collateral against certain trade receivable balances.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

13 Trade and other payables

	Group		Company	
	31 March 2020 £000	31 March 2019 £000	**31 March 2020 £000**	31 March 2019 £000
Falling due in less than one year:				
Trade and other payables	**2,091**	1,231	**2,091**	1,231
Social security and other taxes	**2,462**	1,464	**2,462**	1,464
Accruals	**2,563**	2,911	**2,563**	2,911
Rental deposits	**678**	1,245	**678**	1,245
Amounts due to subsidiary undertakings	**–**	–	**3,405**	501
	7,794	6,851	**11,199**	7,352

The Directors consider that the carrying amount of trade and other payables approximates to their fair value. Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. For most suppliers interest is charged if payment is not made within the required terms. Thereafter, interest is chargeable on the outstanding balances at various rates. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timescale.

Amounts payable to subsidiary undertakings are due on demand.

14 Cash and cash equivalents

Group and Company	**31 March 2020 £000**	31 March 2019 £000
Cash and cash equivalents	**25,399**	2,472

Cash and cash equivalents include £0.9m (2019: £1.4m) of restricted cash comprising £0.7m (2019: £1.2m) of rental deposits held on behalf of tenants and £0.2m (2019: £0.1m) of retentions held in respect of development fundings and capital expenditure.

15 Borrowings

Group and Company	Bank borrowings £000	Costs incurred in the arrangement of bank borrowings £000	Total £000
Falling due in more than one year:			
At 31 March 2019	139,000	(1,468)	137,532
New borrowings	11,000	(495)	10,505
Amortisation of arrangement fees	–	286	286
At 31 March 2020	**150,000**	**(1,677)**	**148,323**

On 17 September 2019 the Company and Lloyds agreed to increase the total funds available under the RCF from £35m to £50m for a term of three years, with an option to extend the term by a further two years, and a reduction in the rate of annual interest to between 1.5% and 1.8% above three-month LIBOR, determined by reference to the prevailing LTV ratio of a discrete portfolio of properties. The RCF includes an 'accordion' option with the year end facility limit set at £35m, which can be increased to £50m subject to Lloyds' agreement.

The Company has the following facilities available:

- A £50m RCF with Lloyds with interest of between 1.5% and 1.8% above three-month LIBOR, determined by reference to the prevailing LTV ratio and expiring on 17 September 2022. At 31 March 2020, the RCF was drawn at £35m (2019: £24m);
- A £20m term loan with Scottish Widows plc with interest fixed at 3.935% and is repayable on 13 August 2025;
- A £45m term loan with Scottish Widows plc with interest fixed at 2.987% and is repayable on 5 June 2028; and
- A £50m term loan with Aviva comprising:

  a) £35m Tranche 1 repayable on 6 April 2032 attracting fixed annual interest of 3.02%; and
  b) £15m Tranche 2 repayable on 3 November 2032 attracting fixed annual interest of 3.26%.

Each facility has a discrete security pool, comprising a number of the Company's individual properties, over which the relevant lender has security and covenants:

- The maximum LTV of the discrete security pool is between 45% and 50%, with an overarching covenant on the Company's property portfolio of a maximum 35% LTV; and
- Historical interest cover, requiring net rental receipts from each discrete security pool, over the preceding three months, to exceed 250% of the facility's quarterly interest liability.

The Company's debt facilities contain market-standard cross-guarantees such that a default on an individual facility will result in all facilities falling into default.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

16 Share capital

Group and Company	Ordinary shares of 1p	£000
At 31 March 2018	386,853,344	3,869
Issue of share capital	11,350,000	113
At 31 March 2019	398,203,344	3,982
Issue of share capital	21,850,000	219
At 31 March 2020	**420,053,344**	**4,201**

During the year, the Company raised £25.3m (before costs and expenses) through the placing of 21,850,000 new ordinary shares.

Rights, preferences and restrictions on shares

All ordinary shares carry equal rights and no privileges are attached to any shares in the Company. All the shares are freely transferable, except as otherwise provided by law. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

At the AGM of the Company held on 31 July 2019, the Board was given authority to issue up to 135,734,448 shares, pursuant to section 551 of the Companies Act 2006 ("the Authority"). The Authority is intended to satisfy market demand for the ordinary shares and raise further monies for investment in accordance with the Company's investment policy. 11,850,000 ordinary shares have been issued under the Authority since 31 July 2019, leaving an unissued balance of 123,884,448 at 31 March 2020. The Authority expires on the earlier of 15 months from 31 July 2019 and the subsequent AGM, due to take place on 1 September 2020.

In addition, the Company was granted authority to make market purchases of up to 40,720,334 ordinary shares under section 701 of the Companies Act 2006. No market purchases of ordinary shares have been made.

Group and Company	Share premium account £000	Retained earnings £000
Other reserves		
At 31 March 2018	212,534	198,799
Shares issued during the year	13,307	–
Costs of share issue	(161)	–
Profit for the year	–	23,646
Dividends paid	–	(25,484)
At 31 March 2019	225,680	196,961
Shares issued during the year	25,081	–
Costs of share issue	(292)	–
Profit for the year	–	2,123
Dividends paid	–	(27,002)
At 31 March 2020	**250,469**	**172,082**

The nature and purpose of each reserve within equity are:

- Share premium – Amounts subscribed for share capital in excess of nominal value less any associated issue costs that have been capitalised.
- Retained earnings – All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

17 Commitments and contingencies

Company as lessor

Operating leases, in which the Company is the lessor, relate to investment property owned by the Company with lease terms of between 0 to 15 years. The aggregated future minimum rentals receivable under all non-cancellable operating leases are:

Group and Company	31 March 2020 £000	31 March 2019 £000
Not later than one year	**37,519**	37,632
Year 2	**34,941**	32,513
Year 3	**29,335**	28,728
Year 4	**25,810**	24,473
Year 5	**22,403**	20,981
Later than five years	**75,893**	83,367
	225,901	227,694

The following table presents amounts reported in revenue:

Group and Company	31 March 2020 £000	31 March 2019 £000
Lease income on operating leases	**39,833**	38,923
Therein lease income relating to variable lease payments that do not depend on an index or rate	**189**	185
	40,022	39,108

18 Related party transactions

Save for transactions described below, the Company is not a party to, nor had any interest in, any other related party transaction during the year.

Transactions with directors

Each of the directors is engaged under a letter of appointment with the Company and does not have a service contract with the Company. Under the terms of their appointment, each director is required to retire by rotation and seek re-election at least every three years. Each director's appointment under their respective letter of appointment is terminable immediately by either party (the Company or the director) giving written notice and no compensation or benefits are payable upon termination of office as a director of the Company becoming effective.

Ian Mattioli is Chief Executive of Mattioli Woods, the parent company of the Investment Manager, and is a director of the Investment Manager. As a result, Ian Mattioli is not independent. The Company Secretary, Ed Moore, is also a director of the Investment Manager.

Investment Management Agreement

The Investment Manager is engaged as AIFM under an IMA with responsibility for the management of the Company's assets, subject to the overall supervision of the Directors. The Investment Manager manages the Company's investments in accordance with the policies laid down by the Board and the investment restrictions referred to in the IMA. The Investment Manager also provides day-to-day administration of the Company and acts as secretary to the Company, including maintenance of accounting records and preparing the annual and interim financial statements of the Company.

During the year annual management fees payable to the Investment Manager under the IMA were calculated as follows:

- 0.9% of the NAV of the Company as at the relevant quarter day which is less than or equal to £200m divided by 4;
- 0.75% of the NAV of the Company as at the relevant quarter day which is in excess of £200m but below £500m divided by 4; plus
- 0.65% of the NAV of the Company as at the relevant quarter day which is in excess of £500m divided by 4.

During the year administrative fees payable to the Investment Manager under the IMA were calculated as follows:

- 0.125% of the NAV of the Company as at the relevant quarter day which is less than or equal to £200m divided by 4;
- 0.08% of the NAV of the Company as at the relevant quarter day which is in excess of £200m but below £500m divided by 4; plus
- 0.05% of the NAV of the Company as at the relevant quarter day which is in excess of £500m divided by 4.

On 22 June 2020 the terms of the IMA were varied to extend the appointment of the Investment Manager for a further three years and to introduce further fee hurdles such that annual management fees payable to the Investment Manager under the IMA are now:

- 0.9% of the NAV of the Company as at the relevant quarter day which is less than or equal to £200m divided by 4;
- 0.75% of the NAV of the Company as at the relevant quarter day which is in excess of £200m but below £500m divided by 4;
- 0.65% of the NAV of the Company as at the relevant quarter day which is in excess of £500m but below £750m divided by 4; plus
- 0.55% of the NAV of the Company as at the relevant quarter day which is in excess of £500m divided by 4.

Administrative fees payable to the Investment Manager under the IMA are now:

- 0.125% of the NAV of the Company as at the relevant quarter day which is less than or equal to £200m divided by 4;
- 0.08% of the NAV of the Company as at the relevant quarter day which is in excess of £200m but below £500m divided by 4;
- 0.05% of the NAV of the Company as at the relevant quarter day which is in excess of £500m but below £750m divided by 4; plus
- 0.03% of the NAV of the Company as at the relevant quarter day which is in excess of £750m divided by 4.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2020

18 Related party transactions continued

Investment Management Agreement continued

The IMA is terminable by either party by giving not less than 12 months' prior written notice to the other, which notice may only be given after the expiry of the three year term. The IMA may also be terminated on the occurrence of an insolvency event in relation to either party, if the Investment Manager is fraudulent, grossly negligent or commits a material breach which, if capable of remedy, is not remedied within three months, or on a force majeure event continuing for more than 90 days.

The Investment Manager receives a marketing fee of 0.25% (2019: 0.25%) of the aggregate gross proceeds from any issue of new shares in consideration of the marketing services it provides to the Company.

During the year the Investment Manager charged the Company £4.01m (2019: £3.95m) comprising £3.52m (2019: £3.49m) in respect of annual management fees, £0.43m (2019: £0.43m) in respect of administrative fees and £0.06m (2019: £0.03m) in respect of marketing fees.

Properties

The Company owns 1, Penman Way, Leicester (formerly MW House) and Gateway House located at Grove Park, Leicester, which were partially let to Mattioli Woods for part of the prior year. On 31 October 2018 Mattioli Woods surrendered one lease and terminated its other lease over parts of Gateway House, paying the remaining 13 months' rent in full, and on 26 November 2018 Mattioli Woods assigned its lease over MW House for the remainder of its term. Mattioli Woods paid the Company rentals of £nil (2019: £0.26m) and £nil (2019: £0.56m) in dilapidation settlements during the year.

19 Financial risk management

Capital risk management

The Company manages its capital to ensure it can continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance within the parameters of its investment policy. The capital structure of the Company consists of debt, which includes the borrowings disclosed below, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued ordinary share capital, share premium and retained earnings.

Net gearing ratio

The Board reviews the capital structure of the Company on a regular basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. The Company has a target net gearing ratio of 25% determined as the proportion of debt (net of unrestricted cash) to investment property. The net gearing ratio at the year end was 22.4% (2019: 24.1%).

Externally imposed capital requirements

The Company is not subject to externally imposed capital requirements, although there are restrictions on the level of interest that can be paid due to conditions imposed on REITs.

Financial risk management

The Company seeks to minimise the effects of interest rate risk, credit risk, liquidity risk and cash flow risk by using fixed and floating rate debt instruments with varying maturity profiles, at low levels of net gearing.

Interest rate risk management

The Company's activities expose it primarily to the financial risks of increases in interest rates, as it borrows funds at floating interest rates.
The risk is managed by maintaining:

- An appropriate balance between fixed and floating rate borrowings;
- A low level of net gearing; and
- The RCF whose flexibility allows the Company to manage the risk of changes in interest rates.

The Board periodically considers the availability and cost of hedging instruments to assess whether their use is appropriate and also considers the maturity profile of the Company's borrowings.

Interest rate sensitivity analysis

Interest rate risk arises on interest payable on the RCF only, as interest on all other debt facilities is payable on a fixed rate basis. At 31 March 2020, the RCF was drawn at £35m. Assuming this amount was outstanding for the whole year and based on the exposure to interest rates at the reporting date, if three-month LIBOR had been 0.5% higher/lower and all other variables were constant, the Company's profit for the year ended 31 March 2020 would decrease/increase by £0.2m due to its variable rate borrowings.

Market risk management

The Company manages its exposure to market risk by holding a portfolio of investment property diversified by sector, location and tenant.

Market risk sensitivity

Market risk arises on the valuation of the Company's property portfolio in complying with its bank loan covenants (Note 15). The Company would breach its overall borrowing covenant if the valuation of its property portfolio fell by 35% (2019: 31%).

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company. The Company's credit risk is primarily attributable to its trade receivables and cash balances. The amounts included in the statement of financial position are net of allowances for bad and doubtful debts. An allowance for impairment is made where a debtor is in breach of its financial covenants, available information indicates a debtor can't pay or where balances are significantly past due.

The Company has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The maximum credit risk on financial assets at 31 March 2020 was £4.4m (2019: £2.5m).

The Company has no significant concentration of credit risk, with exposure spread over a large number of tenants covering a wide variety of business types. Further detail on the Company's credit risk management process is included within the Strategic report.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profile of financial assets and liabilities.

The following tables detail the Company's contractual maturity for its financial liabilities. The table has been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

Group	Weighted average effective interest rate %	31 March 2020 0 – 3 months £000	31 March 2020 3 months – 1 year £000	31 March 2020 1 – 5 years £000	31 March 2020 5 years + £000
Trade and other payables		7,794	–	151	425
Borrowings:					
Variable rate	1.988	174	522	37,413	–
Fixed rate	3.935	197	590	3,148	20,295
Fixed rate	2.987	336	1,008	5,377	49,279
Fixed rate	3.020	264	793	4,228	42,419
Fixed rate	3.260	122	367	1,956	18,716
		8,887	**3,280**	**52,273**	**131,134**

Company	Weighted average effective interest rate %	31 March 2020 0 – 3 months £000	31 March 2020 3 months – 1 year £000	31 March 2020 1 – 5 years £000	31 March 2020 5 years + £000
Trade and other payables		11,199	–	151	425
Borrowings:					
Variable rate	1.988	174	522	37,413	–
Fixed rate	3.935	197	590	3,148	20,295
Fixed rate	2.987	336	1,008	5,377	49,279
Fixed rate	3.020	264	793	4,228	42,419
Fixed rate	3.260	122	367	1,956	18,715
		12,292	**3,280**	**52,273**	**131,134**

Group	Weighted average effective interest rate %	31 March 2019 0 – 3 months £000	31 March 2019 3 months – 1 year £000	31 March 2019 1 – 5 years £000	31 March 2019 5 years + £000
Trade and other payables		6,851	–	151	425
Borrowings:					
Variable rate	3.143	189	566	24,473	–
Fixed rate	3.935	197	590	3,148	21,082
Fixed rate	2.987	336	1,008	5,377	50,623
Fixed rate	3.020	264	793	4,228	43,476
Fixed rate	3.260	122	367	1,956	19,205
		7,959	**3,324**	**39,333**	**134,811**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

19 Financial risk management continued
Liquidity risk management continued

Company	Weighted average effective interest rate %	31 March 2019 0 – 3 months £000	31 March 2019 3 months – 1 year £000	31 March 2019 1 – 5 years £000	31 March 2019 5 years + £000
Trade and other payables		7,352	–	151	425
Borrowings:					
Variable rate	3.143	189	566	24,473	–
Fixed rate	3.935	197	590	3,148	21,082
Fixed rate	2.987	336	1,008	5,377	50,623
Fixed rate	3.020	264	793	4,228	43,476
Fixed rate	3.260	122	367	1,956	19,205
		8,460	**3,324**	**39,333**	**134,811**

Fair values
The fair values of financial assets and liabilities are not materially different from their carrying values in the financial statements. The fair value hierarchy levels are as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

There have been no transfers between levels 1, 2 and 3 during the year. The main methods and assumptions used in estimating the fair values of financial instruments and investment property are detailed below.

Investment property – level 3
Fair value is based on valuations provided by an independent firm of chartered surveyors and registered appraisers, which uses the inputs set out in Note 10. These values were determined after having taken into consideration recent market transactions for similar properties in similar locations to the investment properties held by the Company. The fair value hierarchy of investment property is level 3. At 31 March 2020, the fair value of the Company's investment properties was £559.8m (2019: £572.7m).

Interest bearing loans and borrowings – level 3
As at 31 March 2020 the value of the Company's loans was £150m (2019: £137.5m) and the amortised cost of the Company's loans with Lloyds, SWIP and Aviva approximated their fair value.

Trade and other receivables/payables – level 3
The carrying amount of all receivables and payables deemed to be due within one year are considered to reflect their fair value.

Impact of Brexit and the COVID-19 pandemic
As set out in the Principal risks and uncertainties section of the Strategic report, the Board believes it too early to understand fully the impact of the COVID-19 pandemic and Brexit, but the Board believes the Company is well placed to weather any short-term impact due to the reasons set out in the Strategic report.

The Board does not therefore consider it necessary or possible to carry out sensitivity analysis on its valuation or cash flow assumptions.

20 Events after the reporting date
On 22 June 2020 the IMA was renewed as detailed in Note 18.

21 Alternative performance measures

NAV per share total return

A measure of performance taking into account both capital returns and dividends by assuming dividends declared are reinvested at NAV at the time the shares are quoted ex-dividend, shown as a percentage change from the start of the year.

	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Net assets (£000)	**426,752**	426,623
Shares in issue at 31 March (thousands)	**420,053**	398,203
NAV per share at the start of the year (p)	**107.1**	107.3
Dividends per share for the year (p)	**6.65**	6.55
NAV per share at the end of the year (p)	**101.6**	107.1
NAV per share total return	**1.1%**	5.9%

Share price total return

A measure of performance taking into account both share price returns and dividends by assuming dividends declared are reinvested at the ex-dividend share price, shown as a percentage change from the start of the year.

	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Share price at the start of the year (p)	**111.2**	113.0
Dividends per share for the year (p)	**6.65**	6.55
Share price at the end of the year (p)	**99.0**	111.2
Share price total return	**(5.0%)**	4.2%

Dividend cover

The extent to which dividends relating to the year are supported by recurring net income.

	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Dividends paid relating to the year	**20,481**	19,246
Dividends approved relating to the year	**6,983**	6,521
	27,464	25,767
Profit after tax	**2,123**	23,646
One-off costs	**–**	170
Net loss on investment property	**26,550**	4,640
	28,673	28,456
Dividend cover	**104.4%**	110.4%

Premium of share price to NAV per share

The difference between the Company's share price and NAV, shown as a percentage at the end of the year.

	Year ended 31 March 2020	Year ended 31 March 2019
NAV per share (p)	**101.6**	107.1
Share price at the end of the year (p)	**99.0**	111.2
(Discount)/premium	**(2.6%)**	3.8%

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

21 Alternative performance measures continued

Net gearing
Gross borrowings less cash (excluding rent deposits), divided by property portfolio value.

	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Gross borrowings	150,000	139,000
Cash	(25,399)	(2,472)
Cash held on behalf of tenants	911	1,369
Net borrowings	125,512	137,897
Investment property	559,817	572,745
Net gearing	22.4%	24.1%

Ongoing charges
A measure of the regular, recurring costs of running an investment company expressed as a percentage of average NAV.

	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Average quarterly NAV during the year	428,979	422,574
Expenses	7,547	7,185
Operating expenses of rental property rechargeable to tenants	(880)	(866)
	6,667	6,319
Operating expenses of rental property directly incurred	(1,883)	(1,400)
One-off costs	–	(170)
	4,784	4,749
OCR	1.55%	1.50%
OCR excluding direct property expenses	1.12%	1.12%

EPRA performance measures
EPRA promotes, develops and represents the European public real estate sector, providing leadership in matters of common interest by publishing research and encouraging discussion of issues impacting the property industry, both within the membership and with a wide range of stakeholders, including the EU institutions, governmental and regulatory bodies and business partners. The Board supports EPRA's drive to bring parity to the comparability and quality of information provided in this report to investors and other key stakeholders.

EPRA earnings per share
A measure of the Company's operating results excluding gains or losses on investment property, giving a better indication than basic EPS of the extent to which dividends paid in the year are supported by recurring net income:

	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Profit for the year after taxation	2,120	23,646
Net loss on investment property	26,550	4,640
One-off abortive acquisition costs	–	170
EPRA earnings	28,670	28,456
Weighted average number of shares in issue (thousands)	409,711	391,868
EPRA earnings per share (p)	7.0	7.3

EPRA NAV per share

The EPRA NAV highlights the fair value of net assets on an ongoing, long-term basis. It excludes assets and liabilities that are not expected to crystallise in normal circumstances such as the fair value of financial derivatives and deferred taxes on property valuation surpluses.

	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Net assets	**426,751**	426,623
Fair value of financial instruments	**–**	–
Deferred tax	**–**	–
EPRA NAV	**426,751**	426,623
Closing number of shares in issue (thousands)	**420,053**	398,203
EPRA NAV per share (p)	**101.6**	107.1

EPRA NNNAV per share

The EPRA triple NAV is the EPRA NAV adjusted to reflect the fair value of debt and derivatives and to include deferred taxation on revaluations.

	31 March 2020 £000	31 March 2019 £000
EPRA NAV	**426,751**	426,623
Fair value of debt	**–**	–
Deferred tax	**–**	–
EPRA NNNAV	**426,751**	426,623
Closing number of shares in issue (thousands)	**420,053**	398,203
EPRA NNNAV per share (p)	**101.6**	107.1

There is no difference between the carrying value of the Company's interest-bearing loans included in the balance sheet at amortised cost and their fair value. Fair value excludes 'break' costs chargeable should the Company settle loans ahead of their contractual expiry.

EPRA NIY and EPRA 'topped-up' NIY

EPRA NIY represents annualised rental income based on cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the gross property valuation. The EPRA 'topped-up' NIY is calculated by making an adjustment to the EPRA NIY in respect of the expiration of rent free periods (or other unexpired lease incentives such as discounted rent periods and stepped rents).

	31 March 2020 £000	31 March 2019 £000
Investment property	**559,817**	572,745
Allowance for estimated purchasers' costs[35]	**36,388**	37,228
Gross up property portfolio valuation	**596,205**	609,973
Annualised cash passing rental income	**38,196**	38,977
Property outgoings	**(1,451)**	(914)
Annualised net rents	**36,745**	38,063
Impact of expiry of current lease incentives	**2,553**	1,274
	39,298	39,337
EPRA NIY	**6.2%**	6.2%
EPRA 'topped-up' NIY	**6.6%**	6.4%

35. Assumed at 6.5% of investment property valuation.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2020

21 Alternative performance measures continued

EPRA vacancy rate
EPRA vacancy rate is the ERV of vacant space as a percentage of the ERV of the whole property portfolio.

	31 March 2020 £000	31 March 2019 £000
Annualised potential rental value of vacant premises	1,745	1,728
Annualised potential rental value for the property portfolio	42,494	42,012
EPRA vacancy rate	4.1%	4.1%

EPRA cost ratios
EPRA cost ratios reflect overheads and operating costs as a percentage of gross rental income.

	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Directly incurred operating expenses and administrative fees	6,667	6,319
Ground rent costs	(37)	(37)
EPRA costs (including direct vacancy costs)	6,630	6,282
Property void costs	(836)	(609)
EPRA costs (excluding direct vacancy costs)	5,794	5,673
Gross rental income	40,022	39,108
Ground rent costs	(37)	(37)
Rental income net of ground rent costs	39,985	39,071
EPRA cost ratio (including direct vacancy costs)	16.6%	16.1%
EPRA cost ratio (excluding direct vacancy costs)	14.5%	14.5%

EPRA capital expenditure
Capital expenditure incurred on the Company's property portfolio during the year.

	31 March 2020 £000	31 March 2019 £000
Acquisitions	–	–
Development	79	693
Like-for-like portfolio	2,725	1,837
Total capital expenditure	2,804	2,530

EPRA like-for-like rental growth

Like-for-like rental growth of the property portfolio by sector.

2020	Industrial £000	Retail Warehouse £000	Retail £000	Other £000	Office £000	**Total £000**
Like-for-like rent	15,128	8,928	4,689	6,656	3,601	**39,002**
Acquired properties	424	–	–	–	–	**424**
Sold properties	208	–	–	–	388	**596**
	15,760	8,928	4,689	6,656	3,989	**40,022**

2019	Industrial £000	Retail Warehouse £000	Retail £000	Other £000	Office £000	Total £000
Like-for-like rent	14,714	7,362	5,060	5,568	4,045	36,749
Acquired properties	516	591	64	780	197	2,148
Sold properties	193	18	–	–	–	211
	15,423	7,971	5,124	6,348	4,242	39,108

SUSTAINABILITY DISCLOSURES (UNAUDITED)

EPRA Sustainability Best Practice Recommendations ("sBPR") Guidelines

Custodian REIT recognises the importance of disclosing its ESG information as it creates transparency to potential investors and sets a direction towards improving the integration of ESG into the management of the Company's property portfolio. Furthermore, EPRA sBPR ratings are considered best practice and are utilised across the real estate industry, enabling a comparison against our peers and helping set clear benchmarks for the Company moving forwards.

Materiality

The scope of our EPRA sBPR data disclosure was influenced by our application of materiality. Custodian REIT undertook a materiality assessment to review the applicability of the full set of EPRA indicators. Based on professional judgement, each indicator was assessed in terms of its impact on the Company and its importance to stakeholders. This calculation resulted in an overall score which determined if an issue was material, set out below:

Environmental Sustainability Performance Measures		Relevance assessment	Annual Report reference
Elec-Abs	Total electricity consumption	Material	Sustainability disclosures
Elec-LfL	Like-for-like total electricity consumption	Material	Sustainability disclosures
DH&C-Abs	Total district heating & cooling consumption	Not material	
DH&C-LfL	Like-for-like total district heating & cooling consumption	Not material	
Fuels-Abs	Total fuel consumption	Material	Sustainability disclosures
Fuels-LfL	Like-for-like total fuel consumption	Material	Sustainability disclosures
Energy-Int	Building energy intensity	Material	Sustainability disclosures
GHG-Dir-Abs	Total direct GHG emissions	Material	Sustainability disclosures
GHG-Indir-Abs	Total indirect GHG emissions	Material	Sustainability disclosures
GHG-Int	GHG emissions intensity from building energy consumption	Material	Sustainability disclosures
Water-Abs	Total water consumption	Not material	
Water-LfL	Like-for-like total water consumption	Not material	
Water-Int	Building water intensity	Not material	
Waste-Abs	Total weight of waste by disposal route	Not material	
Waste-LfL	Like-for-like total weight of waste by disposal route	Not material	
Cert-Tot	Type and number of sustainably certified assets	Material	Sustainability disclosures
Social Performance Measures			
Diversity-Emp	Employee gender diversity	Not material	
Diversity-Pay	Gender pay ratio	Not material	
Emp-Training	Employee training and development	Material	Governance report
Emp-Dev	Employee performance appraisals	Not material	
Emp-Turnover	New hires and turnover	Not material	
H&S-Emp	Employee health and safety	Material	Sustainability disclosures
H&S-Asset	Asset health and safety assessments	Material	Sustainability disclosures
H&S-Comp	Asset health and safety compliance	Not material	
Comty-Eng	Community engagement, impact assessments and development programs	Not material	
Governance Performance Measures			
Gov-Board	Composition of the highest governance body	Material	Business model and strategy
Gov-Selec	Process for nominating and selecting the highest governance body	Material	Nominations Committee report
Gov-CoI	Process for managing conflicts of interest	Material	Governance report

Custodian REIT is an externally managed real estate investment trust and has no employees. Directors are appointed under letters of appointment. The Investment Manager to Custodian REIT is Custodian Capital Limited which has responsibility for the employees that support the Company. As a number of the social performance measures relate to employees, particularly employee performance appraisals, new hires and staff turnover, these measures are not relevant for reporting at the 'fund' level.

Custodian REIT predominantly has full repairing and insuring leases meaning the tenant has responsibility for the building, including maintenance and repairs, thus the landlord has very little control over the asset. Therefore, the tenant is responsible for maintaining the health and safety of the asset. As a result, the two social performance measures, 'asset health and safety compliance' and the 'community engagement, impact assessments and development programs', are not considered material to Custodian REIT as it has low control over such issues.

The organisational boundary and data coverage is set out in the GHG section of the Directors' report. Like-for-like performance only includes assets which Custodian REIT has owned for at least two years and where data was available for both reporting years to allow for more accurate comparison between the datasets for 2019 and 2020. Net lettable area is used as the denominator for all intensities reported in this section. This is the most appropriate choice for the Company's portfolio as it is the most widely available metric. It enables year-on-year comparisons within the portfolio to be made.

Social indicators

Every asset in the portfolio (i.e. 100% coverage) was subject to a health and safety inspection and fire risk assessment during the reporting year, with no incidents of non-compliance with regulations or injuries identified.

ENVIRONMENTAL PERFORMANCE MEASURES
TOTAL PORTFOLIO

Impact Area	EPRA Code	Indicator	Unit	Metric	Coverage (% floor area included in absolute performance metric)		Absolute performance		
					2020	2019	2020	2019	% Change
Energy	Elec-Abs; Elec-Lfl	kWh	Electricity	Total electricity consumption – landlord obtained	100.0%	100.0%	887,160.2	900,815.9	(1.5%)
				Total electricity consumption – tenant obtained	33.5%	30.5%	8,722,738.9	9,668,816.5	(9.8%)
				Proportion of landlord obtained electricity from renewable sources	21.3%	21.3%	49,367.0	51,803.0	(4.7%)
				Proportion of tenant obtained electricity from renewable sources	4.7%	3.3%	1,077,277.8	874,201.0	23.2%
				Total landlord and tenant obtained electricity consumption	41.3%	38.7%	9,609,899.2	10,569,632.4	(9.1%)
				Proportion of electricity estimated	N/A	N/A	11.7%	10.8%	N/A
	DH&C-Abs; DH&C-Lfl		District heating and cooling	Total heating & cooling – landlord obtained	0%	0%	–	–	0%
				Total heating & cooling – tenant obtained	0%	0%	–	–	0%
				Proportion of landlord obtained heating & cooling from renewable sources	0%	0%	–	–	0%
				Proportion of tenant obtained heating & cooling from renewable sources	0%	0%	–	–	0%
				Total landlord and tenant obtained electricity consumption	0%	0%	–	–	0%
				Proportion of heating and cooling estimated	N/A	N/A	0%	0%	0%
	Fuels-Abs; Fuels-Lfl		Fuels	Total fuels – landlord obtained	79.5%	89.7%	96,511.2	154,549.9	(37.6%)
				Total fuels – tenant obtained	33.0%	28.3%	13,590,394.5	13,965,960.8	(2.7%)
				Proportion of landlord obtained fuels from renewable sources	2.4%	2.4%	12,407.0	19,091.0	(35.0%)
				Proportion of tenant obtained fuels from renewable sources	0%	0%	–	–	0%
				Total landlord and tenant obtained fuel consumption	31%	27%	13,686,906	14,120,511	(3.1%)
				Proportion of fuel estimated	N/A	N/A	13.3%	4.9%	N/A
	Energy-Int	kWh / m2 / year	Energy intensity	Energy intensity per m^2	N/A	N/A	125.4	127.9	(2.0%)
Greenhouse gas emissions	GHG-Dir-Abs	tonnes CO2e	Direct	Scope 1	79.5%	89.7%	15.6	24.9	(37.4%)
	GHG-Indir-Abs		Indirect	Scope 2	100.0%	100.0%	214.1	240.3	(10.9%)
			Indirect	Scope 3	33.6%	33.9%	4,697.8	5,325.0	(11.8%)
	GHG-Int	tCO2e/ m2/ yr	GHG emissions intensity	Scope 1 and 2	N/A	N/A	0.004	0.005	(13.4%)
				Scope 3	N/A	N/A	0.033	0.037	(11.8%)
Water	Water-Abs; Water-Lfl	L	Water	Total water consumption	26.6%	25.1%	34,657,941.3	47,019,200.8	(26.3%)
				Proportion of water estimated	N/A	N/A	9.6%	12.8%	N/A
	Water-Int	L/ m2 / yr	Water intensity	Building water intensity	N/A	N/A	289.6	416.1	(30.4%)
Waste	Waste-Abs; Waste-Lfl	tonnes	Waste	Total waste sent to landfill	18.4%	16.5%	371.2	383.9	(3.3%)
				Total waste diverted from landfill	18.0%	15.5%	1,265.9	1,185.4	6.8%
				Proportion of waste sent to landfill estimated	N/A	N/A	27.6%	18.9%	N/A
				Proportion of waste diverted from landfill estimated	N/A	N/A	10.9%	5.1%	N/A
Certifications	Cert-Tot	BREEAM	% of portfolio certified by floor area	Number of buildings which are BREEAM rated	100.0%	100.0%	1.4%	1.4%	0%
		EPC	% of portfolio certified by floor area	Number of buildings with an EPC rating	100.0%	100.0%	96.6%	99.3%	(2.7%)
Health & Safety	H&S Asset	Health & Safety	% of floor area	Asset health and safety assessments	100.0%	100.0%	17.4%	17.4%	0%

Coverage (% floor area included in like-for-like performance metric)		Like-for-like performance		
2020	2019	2020	2019	% Change
100.0%	100.0%	828,233.2	820,781.7	0.9%
29.5%	24.0%	5,396,292.1	5,530,547.5	(2.4%)
22.6%	22.6%	49,367.0	51,803.0	(4.7%)
4.9%	3.1%	651,865.0	648,880.0	0.5%
39.1%	34.4%	6,224,525.3	6,351,329.2	(2.0%)
N/A	N/A	15.3%	10.5%	N/A
0%	0%	–	–	0%
0%	0%	–	–	0%
0%	0%	–	–	0%
0%	0%	–	–	0%
0%	0%	–	–	0%
N/A	N/A	0%	0%	N/A
79.5%	89.7%	96,511.2	121,501.2	(20.6%)
29.5%	21.9%	7,835,465.2	7,357,496.7	6.5%
2.6%	2.6%	12,407.0	19,091.0	(35.0%)
0%	0%	–	–	0%
27.5%	21.2%	7,931,976	7,478,998	6.1%
N/A	N/A	13.1%	4.5%	N/A
N/A	N/A	213.4	208.5	2.4%
79.5%	89.7%	15.5	18.8	(17.9%)
100.0%	100.0%	199.1	217.7	(8.5%)
27.9%	28.3%	2,827.9	2,841.9	(0.5%)
N/A	N/A	0.036	0.039	(9.3%)
N/A	N/A	0.032	0.033	(0.5%)
21.2%	19.3%	18,872,188.5	17,947,510.7	5.2%
N/A	N/A	14.8%	17.1%	N/A
N/A	N/A	267.5	254.4	5.2%
15.3%	12.9%	107.8	141.4	(23.7%)
12.7%	11.0%	824.8	790.5	4.3%
N/A	N/A	41.2%	29.8%	N/A
N/A	N/A	19.1%	8.9%	N/A
100.0%	100.0%	1.4%	1.4%	0%
100.0%	100.0%	96.4%	100.0%	(3.7%)
100.0%	100.0%	18.8%	18.8%	0%

ENVIRONMENTAL PERFORMANCE MEASURES CONTINUED

INDUSTRIAL

Impact Area	EPRA Code	Indicator	Unit	Metric	Absolute performance 2020	Absolute performance 2019	Absolute performance % Change	Like-for-like performance 2020	Like-for-like performance 2019	Like-for-like performance % Change
Energy	Elec-Abs; Elec-Lfl	kWh	Electricity	Total electricity consumption – landlord obtained	278,812.0	270,585.0	3.0%	278,812.0	270,585.0	3.0%
				Total electricity consumption – tenant obtained	5,754,695.5	6,677,631.9	(13.8%)	3,050,826.4	3,233,683.9	(5.7%)
				Proportion of landlord obtained electricity from renewable sources	–	–	0%	–	–	0%
				Proportion of tenant obtained electricity from renewable sources	543,458.8	329,812.0	64.8%	318,344.0	329,812.0	(3.5%)
				Total landlord and tenant obtained electricity consumption	6,033,507.5	6,948,216.9	(13.2%)	3,329,638.4	3,504,268.9	(5.0%)
				Proportion of electricity estimated	7.9%	0%	N/A	11.7%	0%	N/A
	DH&C-Abs; DH&C-Lfl		District heating and cooling	Total heating & cooling – landlord obtained	–	–	0%	–	–	0%
				Total heating & cooling – tenant obtained	–	–	0%	–	–	0%
				Proportion of landlord obtained heating & cooling from renewable sources	–	–	0%	–	–	0%
				Proportion of tenant obtained heating & cooling from renewable sources	–	–	0%	–	–	0%
				Total landlord and tenant obtained electricity consumption	–	–	–	–	–	–
				Proportion of heating and cooling estimated	0%	0%	N/A	0%	0%	N/A
	Fuels-Abs; Fuels-Lfl		Fuels	Total fuels – landlord obtained	–	–	0%	–	–	0%
				Total fuels – tenant obtained	9,945,738.9	10,095,070.9	(1.5%)	4,645,569.7	4,292,165.9	8.2%
				Proportion of landlord obtained fuels from renewable sources	–	–	0%	–	–	0%
				Proportion of tenant obtained fuels from renewable sources	–	–	0%	–	–	0%
				Total landlord and tenant obtained fuel consumption	9,945,739	10,095,071	(1.5%)	4,645,570	4,292,166	8.2%
				Proportion of fuel estimated	9.7%	0%	N/A	10.1%	0%	N/A
	Energy-Int	kWh / m^2 / year	Energy intensity	Energy intensity per m^2	155.0	180.6	(14.2%)	216.0	211.1	2.3%
Greenhouse gas emissions	GHG-Dir-Abs	tonnes CO_2e	Direct	Scope 1	–	–	0%	–	–	0%
	GHG-Indir-Abs		Indirect	Scope 2	71.3	76.6	(7.0%)	71.3	76.6	(7.0%)
			Indirect	Scope 3	3,385.8	3,897.1	(13.1%)	1,701.7	1,696.1	0.3%
	GHG-Int	$tCO_2e/ m^2/ yr$	GHG emissions intensity	Scope 1 and 2	0.012	0.013	(7.0%)	0.012	0.013	(7.0%)
				Scope 3	0.033	0.038	(13.1%)	0.031	0.031	0.3%
Water	Water-Abs; Water-Lfl	L	Water	Total water consumption	19,726,320	33,594,750.0	(41.3%)	6,537,320.0	7,687,750.0	(15.0%)
				Proportion of water estimated	0%	0%	N/A	0%	0%	N/A
	Water-Int	L/ m^2 / yr	Water intensity	Building water intensity	238.4	437.0	(45.4%)	159.9	188.1	(15.0%)
Waste	Waste-Abs; Waste-Lfl	tonnes	Waste	Total waste sent to landfill	341.1	356.1	(4.2%)	77.8	113.7	(31.6%)
				Total waste diverted from landfill	1,059.1	1,070.6	(1.1%)	693.8	694.5	(0.1%)
				Proportion of waste sent to landfill estimated	31.7%	22.1%	N/A	50.9%	38.6%	N/A
				Proportion of waste diverted from landfill estimated	9.9%	6.4%	N/A	19.1%	13.7%	N/A
Certifications	Cert-Tot	BREEAM	% of portfolio certified by floor area	Number of buildings which are BREEAM rated	1.4%	1.4%	0%	1.4%	1.4%	0%
		EPC	% of portfolio certified by floor area	Number of buildings with an EPC rating	96.1%	98.8%	(2.7%)	95.3%	100.0%	(4.7%)
Health & Safety	H&S Asset	Health & Safety	% of floor area	Asset health and safety assessments	3.5%	3.5%	0%	3.5%	3.5%	0%

Impact Area	EPRA Code	Indicator	Unit	Metric	Absolute performance 2020	Absolute performance 2019	Absolute performance % Change	Like-for-like performance 2020	Like-for-like performance 2019	Like-for-like performance % Change
Energy	Elec-Abs; Elec-Lfl	kWh	Electricity	Total electricity consumption – landlord obtained	77,290.0	71,254.8	8.5%	39,312.0	38,012.0	3.4%
				Total electricity consumption – tenant obtained	1,503,214.2	1,463,872.3	2.7%	1,133,439.5	1,022,030.3	10.9%
				Proportion of landlord obtained electricity from renewable sources	–	–	0%	–	–	0%
				Proportion of tenant obtained electricity from renewable sources	533,819.0	544,389.0	(1.9%)	333,521.0	319,068.0	4.5%
				Total landlord and tenant obtained electricity consumption	1,580,504.2	1,535,127.1	3.0%	1,172,751.5	1.060,042.3	10.6%
				Proportion of electricity estimated	9.4%	0%	N/A	12.0%	0.8%	N/A
	DH&C-Abs; DH&C-Lfl		District heating and cooling	Total heating & cooling – landlord obtained	–	–	0%	–	–	0%
				Total heating & cooling – tenant obtained	–	–	0%	–	–	0%
				Proportion of landlord obtained heating & cooling from renewable sources	–	–	0%	–	–	0%
				Proportion of tenant obtained heating & cooling from renewable sources	–	–	0%	–	–	0%
				Total landlord and tenant obtained electricity consumption	–	–	–	–	–	–
				Proportion of heating and cooling estimated	0%	0%	N/A	0%	0%	N/A
	Fuels-Abs; Fuels-Lfl		Fuels	Total fuels – landlord obtained	–	–	0%	–	–	0%
				Total fuels – tenant obtained	2,422,715.3	2,658,370.9	(8.9%)	2,032,019.5	2,208,561.9	(8.0%)
				Proportion of landlord obtained fuels from renewable sources	–	–	0%	–	–	0%
				Proportion of tenant obtained fuels from renewable sources	–	–	0%	–	–	0%
				Total landlord and tenant obtained fuel consumption	2,422,715	2,658,371	(8.9%)	2,032,019	2,208,562	(0.8%)
				Proportion of fuel estimated	24.8%	0%	N/A	29.1%	0%	N/A
	Energy-Int	kWh / m^2 / year	Energy intensity	Energy intensity per m^2	118.1	136.6	(13.5%)	198.9	202.9	(2.0%)
Greenhouse gas emissions	GHG-Dir-Abs	tonnes CO_2e	Direct	Scope 1	–	–	0%	–	–	0%
	GHG-Indir-Abs		Indirect	Scope 2	19.8	20.2	(2.1%)	10.0	10.8	(6.6%)
			Indirect	Scope 3	690.6	752.5	(8.2%)	581.9	608.1	(4.3%)
	GHG-Int	$tCO_2e/m^2/yr$	GHG emissions intensity	Scope 1 and 2	0.002	0.002	(2.1%)	0.002	0.002	(6.6%)
				Scope 3	0.028	0.030	(8.2%)	0.033	0.035	(4.3%)
Water	Water-Abs; Water-Lfl	L	Water	Total water consumption	5,790,036.2	3,940,142.4	46.9%	4,522,945.3	3,027,142.4	49.4%
				Proportion of water estimated	54.2%	43.4%	N/A	54.2%	54.2%	N/A
	Water-Int	L/ m^2 / yr	Water intensity	Building water intensity	286.8	203.2	41.1%	294.2	196.9	49.4%
Waste	Waste-Abs; Waste-Lfl	tonnes	Waste	Total waste sent to landfill	3.4	3.1	0%	3.4	3.1	7.7%
				Total waste diverted from landfill	23.5	11.7	101.9%	–	–	0%
				Proportion of waste sent to landfill estimated	0%	0%	N/A	0%	0%	N/A
				Proportion of waste diverted from landfill estimated	100.0%	0%	N/A	100.0%	0%	N/A
Certifications	Cert-Tot	BREEAM	% of portfolio certified by floor area	Number of buildings which are BREEAM rated	0%	0%	0%	0%	0%	0%
		EPC	% of portfolio certified by floor area	Number of buildings with an EPC rating	96.6%	99.3%	0%	100.0%	100.0%	0%
Health & Safety	H&S Asset	Health & Safety	% of floor area	Asset health and safety assessments	24.1%	24.1%	0%	17.8%	17.8%	0%

FIVE YEAR PERFORMANCE SUMMARY (UNAUDITED)

Income statement	2020 £000	2019 £000	2018 £000	2017 £000	2016 £000
Revenue	**40,903**	39,974	34,813	27,610	19,012
Expenses and net finance costs	**(12,230)**	(11,688)	(9,646)	(7,917)	(5,124)
One-off costs	**–**	170	–	165	–
Tax	**–**	–	–	–	–
EPRA profit	**28,673**	28,456	25,167	19,858	13,888
Property (losses)/gains and one-off costs	**(26,550)**	(4,810)	7,253	4,347	(2,681)
Profit after tax	**2,123**	23,646	32,420	24,205	11,207
Dividends relating to the year	**27,464**	25,767	23,847	19,664	13,775
Statement of financial position					
Investment property	**559,817**	572,745	528,943	418,548	318,966
Net borrowings	**(125,512)**	(137,897)	(111,282)	(60,500)	(61,035)
Other assets and liabilities	**(7,554)**	(8,225)	(2,459)	(6,171)	(2,871)
NAV	**426,751**	426,623	415,202	351,877	255,060
Financial highlights					
NAV per share total return	**1.1%**	5.9%	9.6%	8.5%	6.4%
NAV per share (p)	**101.6**	107.1	107.3	103.8	101.5
EPRA earnings per share (p)	**7.0**	7.3	6.9	6.6	6.8
Dividends per share (p)	**6.65**	6.55	6.45	6.35	6.25
Dividend cover	**104.4%**	110.4%	105.5%	101.0%	100.8%
Share price total return (%)	**(5.0)**	4.2	6.7	10.3	3.5
New equity raised	**25.3**	13.4	54.7	92.4	77.7
Net gearing (%)	**22.4**	24.1	21.0	14.5	19.1
OCR excluding direct property expenses (%)	**1.12**	1.12	1.15	1.20	1.30

Financial calendar

23 April 2020	Ex-dividend date for Q4 dividend
24 April 2020	Record date for Q4 dividend
29 May 2020	Payment of Q4 dividend
23 June 2020	Announcement of results for the year ended 31 March 2020
1 September 2020	AGM

COMPANY INFORMATION

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Independent Non-Executive Chairman

Barry Gilbertson
Senior Independent Non-Executive Director

Matthew Thorne
Independent Non-Executive Director

Hazel Adam
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