

# TR Property Investment Trust plc

Report & Accounts for the  
year ended 31 March 2018

PARENTS ACCOUNTS FOR

NEW ENGLAND (SOUTHERN) LIMITED

CO NO: 1787371

- PAGE 87

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# TR Property Investment Trust plc

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The investment objective of TR Property Investment Trust plc is to maximise shareholders' total returns by investing in the shares and securities of property companies and property related businesses internationally and also in investment property located in the UK.

## Introduction

TR Property Investment Trust plc (the "Company") was formed in 1905 and has been a dedicated property investor since 1982. The Company is an Investment Trust and its shares are premium listed on the London Stock Exchange.

## Benchmark

The benchmark is the FTSE EPRA/NAREIT Developed Europe Capped Net Total Return Index in Sterling.

## Investment Policy

The Company seeks to achieve its objective by investing in shares and securities of property companies and property related businesses on an international basis, although, with a Pan-European benchmark, the majority of the investments will be located in that geographical area. The Company also invests in investment property located in the UK only.

Further details of the Investment Policies, the Asset Allocation Guidelines and policies regarding the use of gearing are set out in the Strategic Report on pages 24 to 25 and the entire portfolio is shown on page 17.

## Investment Manager

F&C Investment Business Limited acts as the Company's alternative investment fund manager ("AIFM") with portfolio management delegated to Thames River Capital LLP ("the Portfolio Manager" or "the Manager"). Marcus Phayre-Mudge has managed the portfolio since 1 April 2011 and been part of the Fund Management team since 1997.

## Independent Board

The directors are all independent of the Manager and meet regularly to consider investment strategy, to monitor adherence to the stated objective and investment policies and to review performance. Details of how the Board operates and fulfils its responsibilities are set out in the Report of Directors on page 41.

## Performance

The Financial Highlights for the current year are set out opposite and Historical Performance can be found on page 2. Key Performance Indicators are set out in the Strategic Report on pages 26 and 27.

## Retail Investors advised by IFAs

The Company currently conducts its affairs so that its shares can be recommended by Independent Financial Advisers ("IFAs") in the UK to ordinary retail investors in accordance with the Financial Conduct Authority ("FCA") rules in relation to non-mainstream investment products and intends to continue to do so. The shares are excluded from the FCA's restrictions, which apply to non-mainstream investment products, because they are shares in an authorised investment trust.

## Further information

General shareholder information and details of how to invest in TR Property Investment Trust plc, including an investment through an ISA or saving scheme, can be found on pages 96 to 99. This information can also be found on the Trust's website [www.trproperty.com](http://www.trproperty.com)

# Financial Highlights and Performance

	Year ended 31 March 2018	Year ended 31 March 2017	% Change
<b>Balance Sheet</b>			
Net asset value per share	<b>395.64p</b>	352.42p	+12.3%
Shareholders' funds (£'000)	<b>1,255,559</b>	1,118,424	+12.3%
Shares in issue at the end of the year (m)	<b>317.4</b>	317.4	+0.0%
Net debt <sup>1</sup>	<b>14.6%</b>	13.3%	
<b>Share Price</b>			
Share price	<b>382.50p</b>	314.50p	+21.6%
Market capitalisation	<b>£1,214m</b>	£998m	+21.6%
	Year ended 31 March 2018	Year ended 31 March 2017	% Change
<b>Revenue</b>			
Revenue earnings per share	<b>13.22p</b>	11.38p	+16.2%
<b>Dividends<sup>2</sup></b>			
Interim dividend per share	<b>4.65p</b>	4.10p	+13.4%
Final dividend per share	<b>7.55p</b>	6.40p	+18.0%
Total dividend per share	<b>12.20p</b>	10.50p	+16.2%
<b>Performance: Assets and Benchmark</b>			
Net Asset Value total return <sup>3</sup>	<b>+15.5%</b>	+8.0%	
Benchmark total return	<b>+10.2%</b>	+6.5%	
Share price total return <sup>4</sup>	<b>+25.5%</b>	+9.1%	
<b>Ongoing Charges<sup>5</sup></b>			
Including performance fee	<b>+1.48%</b>	+0.80%	
Excluding performance fee	<b>+0.65%</b>	+0.69%	
Excluding performance fee and direct property costs	<b>+0.61%</b>	+0.64%	

1. Net debt is the total value of loan notes, loans (including notional exposure to CFDs) less cash as a proportion of net asset value.
2. Dividends per share are the dividends in respect of the financial year ended 31 March 2018. An interim dividend of 4.65p was paid in January 2018. A final dividend of 7.55p (2017: 6.40p) will be paid on 31 July 2018 to shareholders on the register on 22 June 2018.  
The shares will be quoted ex-dividend on 21 June 2018.
3. The total return NAV performance for the year is calculated by reinvesting the dividends in the assets of the Company from the relevant ex-dividend date. Dividends are deemed to be reinvested on the ex-dividend date as this is the protocol used by the Company's benchmark and other indices.
4. The total return share price performance is calculated by reinvesting the dividends in the shares of the Company from the relevant ex-dividend date.
5. Ongoing charges calculated in accordance with the AIC methodology.

# Historical Performance

For the years ended 31 March

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Performance for the year:</b>											
<b>Total Return (%)</b>											
<b>NAV<sup>(A)</sup></b>	-22.9	-40.5	52.6	15.4	-8.5	21.5	22.4	28.3	8.2	8.0	<b>15.5</b>
<b>Benchmark<sup>(B)</sup></b>	-23.0	-48.6	60.6	15.2	-8.9	17.8	14.9	23.3	5.4	6.5	<b>10.2</b>
<b>Share Price<sup>(C)</sup></b>	-24.8	-41.2	60.3	12.6	-9.5	25.8	37.7	29.5	-1.6	9.1	<b>25.5</b>
<b>Shareholders' funds</b>											
<b>(£'m)</b>											
Total	707	400	598	670	588	684	809	1,010	1,065	1,118	<b>1,256</b>
Ordinary shares	568	324	476	531	470	684	809	1,010	1,065	1,118	<b>1,256</b>
Sigma shares <sup>(D)</sup>	139	76	123	140	118	-	-	-	-	-	-
<b>Ordinary shares</b>											
<b>Net revenue</b>											
<b>(pence per share)</b>											
Earnings	5.79	6.49	5.18	6.94	7.07	6.74	8.09	8.89	8.36	11.38	<b>13.22</b>
Dividends	5.60	5.75	5.75	6.00	6.60	7.00	7.45	7.70	8.35	10.50	<b>12.20</b>
<b>NAV per share</b>											
<b>(pence)</b>	219.60	126.10	185.20	207.10	183.60	215.25	254.94	318.12	335.56	352.42	<b>395.64</b>
<b>Share price</b>											
<b>(pence)</b>	188.25	106.00	159.40	177.10	154.50	186.30	247.50	310.50	297.50	314.50	<b>382.50</b>
<b>Indices of growth</b>											
Share price <sup>(E)</sup>	100	56	85	94	82	99	131	165	158	167	<b>203</b>
Net Asset value <sup>(F)</sup>	100	57	84	94	84	98	116	145	153	160	<b>180</b>
Dividend	100	103	103	107	118	125	133	138	149	188	<b>218</b>
RPI	100	100	104	110	114	117	120	121	123	127	<b>131</b>
Benchmark <sup>(G)</sup>	100	49	75	82	72	81	87	104	107	111	<b>119</b>

Figures have been prepared in accordance with IFRS

(A) The total income NAV performance for each year is calculated by reinvesting the dividends in the assets of the Company from the relevant ex-dividend date. Dividends are deemed to be reinvested at the ex-dividend date as this is the protocol used by the Company's benchmark and other indices.

(B) Benchmark Index: composite index comprising the FTSE EPRA/NAREIT Developed Europe TR Index up to March 2013, and thereafter the FTSE EPRA/NAREIT Developed Europe Capped Index. Source: Thames River Capital.

(C) The total return share price performance is calculated by reinvesting the dividends in the shares of the Company from the relevant ex-dividend date.

(D) The Sigma share class was launched in 2007 and Sigma shares redesignated as Ordinary shares on 17 December 2012.

(E) Share prices only. These do not reflect dividends paid.

(F) Capital only values. These do not reflect dividends paid.

(G) Price only value of the indices set out in (B) above.

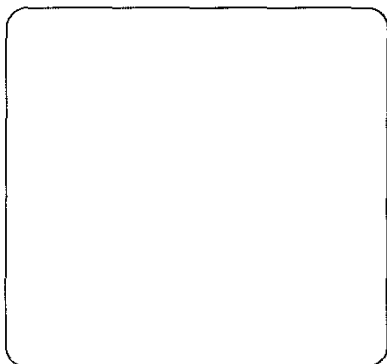
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Front cover: Uarda 6, Stockholm, development by Fabage, completed 2017

# Chairman's Statement



**Hugh Seaborn**  
Chairman

## Introduction

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

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

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

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

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

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

## NAV and Share Price performance

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

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

## Revenue Results and Dividend

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

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

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

\* Share price discount to capital only NAV

# Chairman's Statement

*continued*

## Ordinary Share Class Performance: Total Return over 10 years (rebased)

### Revenue Outlook

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

### Debt

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

### Currencies

Currency movements have been more significant to the revenue account than the capital account over the period

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

Shareholders can see the currency exposure in Note 11 to the Financial Statements.

### Discount and Share Repurchases

The discount\* narrowed during the year from 10.7% to 3.2% at the year-end, well ahead of the 10-year average of 8.6%.

No shares were repurchased during the year.

### New Regulation

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

MiFID II which came into effect at the beginning of January has been a huge challenge for the industry introducing onerous trade reporting obligations on the Manager and a change to the way in which research from brokers is paid for. Commissions on transactions have

\* share price discount to capital only NAV

# Chairman's Statement

*continued*

reduced significantly, resulting in lower charges to the capital account when the Trust buys and sells shares, as the cost of research, previously covered as part of the (higher) transaction commission, is now agreed in advance through Research Agreements and charged separately to the Manager. As noted in the Management Engagement Committee report on page 46 the Board has negotiated revised terms for the Investment Management Agreement to reflect these changes and to ensure that the research and investment capability available to the manager remains appropriately remunerated and protected.

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

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

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

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

## Awards

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

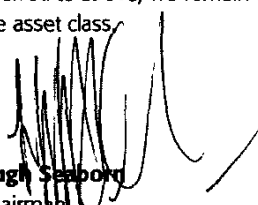
## Board Changes

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

## Outlook

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

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



**Hugh Seaborn**  
Chairman  
6 June 2018



# Manager's Report



**Marcus Phayre-Mudge MRICS**  
**Fund Manager**

## Performance

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

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

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

Retail property remains deeply unpopular whilst the other side of the online, omni-channel retailing phenomenon, namely warehousing, continues to experience stellar returns. In the UK our principal retail exposure was through Capital & Regional, whose centres focus on a local catchment and where rents remain affordable. While the stock underperformed the broader index it was the best performing UK retail stock. We remain firmly of the view

that the value of prime shopping centres are on a downward glide path which is being smoothed by a lack of market transactions allowing independent valuers multiple reporting periods to get to the current market values. It is now merely a matter of time. Sharp eyed investors will notice that we have acquired a holding in Hammerson. This occurred just a few days before the year end and was entirely driven by our expectation of corporate activity which I will explain later. Intu (which we do not hold) once again 'won' the prize for poorest performing UK stock with a total return of -20.6%. Negative investor sentiment towards this particular sector is geographically agnostic and European names also suffered regardless of whether they are well run businesses exposed to premier malls (Unibail) or own secondary malls and lack management skills (Wereldhave).

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

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

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

## Property Investment Markets

Capital continues to flow into the asset class. Investors remain focused on income even as we move to a world of tightening monetary policy and a reduction in unorthodox stimulus (the ECB reduced their bond buying from €60bn to €30bn in October). Bond yields rose over the period but

# Manager's Report

*continued*

the 10 year Bund peaked in February at 76bps. Three quarters of 1% for 10 years and your money back not adjusting for inflation doesn't seem very appealing when the German economy is expected to grow at 2.5% this year (IMF forecast). Hence investors continue to seek alternatives.

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

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

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

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

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

## Offices

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

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

# Manager's Report

*continued*

significantly lower than average. We would characterise this profile as a healthy but contained level of space completion.

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

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

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

According to JLL, Germany's 7 top cities collectively reached an all time high take up of 4.2m sq m beating the previous 2016 record by 7%. Vacancy at 4.7% is the lowest in 15 years. Once again supply is anaemic with lower levels of new space delivery in 2017 than in 2016. The top performer in terms of rental growth was, again, Berlin (+11%) but Stuttgart, Munich and Hamburg also all saw 4.0%.

## Retail

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

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

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

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

# Manager's Report

*continued*

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

## Distribution and Industrial

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

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

Amazon continue to be at the forefront of this land grab. In April 2017, it announced that it was seeking 1,300

warehouses across Europe primarily to serve as last mile centres for its Prime service. They remain the largest acquirer of logistics space across Europe as the ability to provide same day delivery is rolled out beyond the largest cities in the UK to those in France, Italy, Spain, Germany and the Netherlands.

## Residential

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

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

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

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

## Debt and Equity Markets

I commented in the Interim on the amount of capital raised in the UK over the previous 12 months (£2bn) and the second half of the period saw an acceleration in that rate with a further £2bn raised in the final six months of the financial year. The previous period had been marked by a large number of IPOs focused either on assets with secure income (social housing, healthcare, supermarkets) or industrial/warehousing, the 'secteur du jour'. The Trust

# Manager's Report

*continued*

participated in a number of the former but none of the latter. Our industrial exposure is focused on businesses which already own the assets (and the development opportunities) as opposed to investing in blind pools of cash seeking to acquire in an increasingly heated environment.

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

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

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

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

## Property Shares

At the interim, I reported the stark gap in performance between Continental Europe and the UK which had reached nearly 6% in local currency terms. The second half saw the gap narrow with the twelve month performance of Continental Europe reaching a total return of 10.3% (in EUR) versus 6.6% for the UK (in GBP). The underperformance in the UK in the first half was driven by weakness in the largest companies. Landsec, British Land

and Hammerson all of whom are focused on the two markets which investors are least enthused about, namely retail and Central London offices. The second half saw a recovery in sentiment towards Central London offices with Derwent London, Great Portland and British Land all rallying +10%. The laggard was Landsec which has record low leverage and is clearly positioned for a bear market.

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

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

# Manager's Report

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

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

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

The Nordics were a microcosm of sector performance. City centre office owners, Fabeg (Stockholm) and Entra (Oslo) performed well returning 26.9% and 17.9% respectively, whilst the logistics focused Catena returned 28.2%. Retail

focused stocks suffered with Hufvudstaden (central Stockholm retail and offices) the only negative performer in the region returning -4.1%.

## Investment Activity

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

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

# Manager's Report

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acquire a portfolio of long let budget hotels and the Manchester Arena leisure complex.

I maintained our Central London office positioning through Great Portland, Derwent London and Workspace.

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

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

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

for Hammerson was a mix of cash and shares and the share price plunged as investors realised how much paper might need to be issued. With that saga temporarily in abeyance the shares have recovered.

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

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

## Revenue and Revenue Outlook

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

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

# Manager's Report

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

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

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

## Gearing and Debt

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

## Direct Physical Portfolio

The physical property portfolio produced a total return of 14.6% for the twelve months to March 2018 with an income return of 3.5% and a capital return of 11.1%. This compares well to the total return from the IPD All Property Index of 11.3% which comprised a higher income return of 5.4% but lower capital return of 5.5%.

During the year the Trust completed the sale of two properties. An industrial unit in Plymouth was sold for £4.3m following the settlement of the August 2016 rent review at a 14.4% uplift to the previous passing rent. The asset, the smallest in the portfolio, had 3.5 years to lease

expiry and the tenant was not in occupation. The sale was concluded 2.6% ahead of the September 2017 valuation and 8.6% ahead of the March 2017 valuation. The sale of our office building in Wimbledon, for £5.8m, was reported at the Interim and completed as expected in November 2017. Whilst the rationale for the sale of Plymouth was the conclusion of an asset management initiative (the rent review) in line with the business plan, the sale of Wimbledon was an opportunity to crystallise profit at a specific point in the market without the need to commit further capital on a risky planning application.

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

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

## Regulation

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

The Chairman has referred to MiFID II and the PRIIPS regulation in his report so I will not expand on that much here other than to endorse that we welcome the statement from the AIC on KIDs. There has been widespread concern across the Investment Trust industry that the investment performance scenarios which are based on short-term recent performance may indicate over optimistic future



# Manager's Report

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returns and this is particularly pertinent after the sustained period of strong positive performance that we have seen over recent years. The AIC warn that KIDs will encourage investors to "buy high, sell low". Due to the way the forecast returns have to be produced, KIDs will suggest to investors that after a sustained bull market they will get higher returns in the future and after a sustained bear market, that investors will get lower future returns. They have called on the FCA to take steps to protect consumers. We hope that the FCA will be quick to respond but in the meantime the Board and the Manager are keen to ensure the investors understand the nature of this document.

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

## Outlook

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

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

broad to provide effective probabilities. We remain wary particularly for London offices and retail. Our additional exposure over the year has been to alternatives and longer dated indexed income from a variety of property types. This is set to continue.

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

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

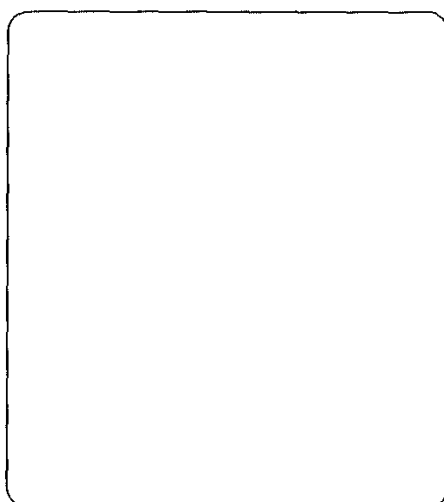
Whilst I have highlighted the political backdrop, particularly in the UK, we also consider the lack of progress in the development of a banking union across the Eurozone as a potential existential issue. The European Union still has much more harmonisation to complete amongst the remaining 27 countries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

## Marcus Phayre-Mudge

Fund Manager

6 June 2018

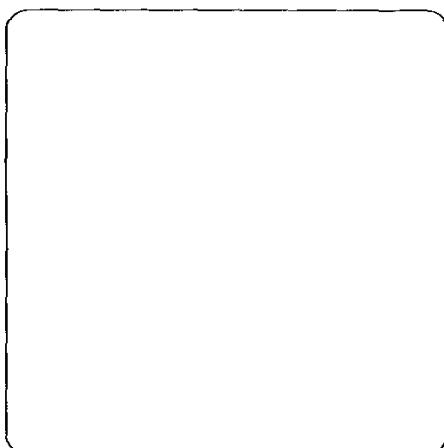
# Portfolio



## Distribution of Investments

as at 31 March

	2018 £'000	2018 %	2017 £'000	2017 %
UK Securities				
– quoted	402,120	30.6	329,153	28.7
UK Investment Properties	98,011	7.4	97,304	8.5
<b>UK Total</b>	<b>500,131</b>	<b>38.0</b>	426,457	37.2
Continental Europe Securities				
– quoted	815,915	62.0	718,319	62.6
Investments held at fair value	1,316,046	100.0	1,144,776	99.8
– CFD debtor <sup>1</sup>	495	–	2,146	0.2
<b>Total Investment Positions</b>	<b>1,316,541</b>	<b>100.0</b>	1,146,922	100.0



## Investment Exposure

as at 31 March

	2018 £'000	2018 %	2017 £'000	2017 %
UK Securities				
– quoted	402,120	27.9	329,153	26.1
– CFD exposure <sup>2</sup>	79,440	5.5	65,119	5.2
UK Investment Properties	98,011	6.8	97,304	7.7
<b>UK Total</b>	<b>579,571</b>	<b>40.2</b>	491,576	39.0
Continental Europe Securities				
– quoted	815,915	56.6	718,319	57.1
– CFD exposure <sup>2</sup>	46,237	3.2	49,067	3.9
<b>Total Investment Exposure<sup>3</sup></b>	<b>1,441,723</b>	<b>100.0</b>	1,258,962	100.0

## Portfolio Summary

as at 31 March

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Total investments	£1,316m	£1,145m	£1,099m	£1,056m	£880m
Net assets	£1,256m	£1,118m	£1,065m	£1,010m	£809m
UK quoted property shares	31%	29%	31%	41%	41%
UK fixed interest	0%	0%	0%	1%	1%
Overseas quoted property shares	62%	63%	60%	51%	50%
Overseas fixed interest	0%	0%	0%	0%	0%
Direct property (externally valued)	7%	8%	9%	7%	8%

## Net Currency Exposures

as at 31 March

	Fund %	Benchmark %
GBP	29.1	29.0
EUR	56.9	57.0
CHF	5.5	5.5
SEK	8.0	7.9
NOK	0.5	0.6

1 Net unrealised gain on CFD contracts held as balance sheet debtor

2 Gross value of CFD positions

3 Total investments illustrating market exposure including the gross value of CFD positions.

# Investment Portfolio by Country

as at 31 March 2018

	Market value £'000	%		Market value £'000	%
<b>Austria</b>			<b>Switzerland</b>		
CA Immobilien	12,077	0.9	PSP Swiss Property	18,771	1.4
	<b>12,077</b>	<b>0.9</b>		<b>18,771</b>	<b>1.4</b>
<b>Belgium</b>			<b>United Kingdom</b>		
Warehousing and Distribution de Pauw	13,362	1.0	Landsec	55,805	4.2
Befimmo	2,009	0.2	SEGRO	40,314	3.1
Wereldhave	532	-	Unite Group	36,379	2.8
	<b>15,903</b>	<b>1.2</b>	CLS Holdings	35,433	2.7
<b>France</b>			Great Portland Estates	29,225	2.2
Unibail-Rodamco	90,597	6.9	McKay Securities	25,625	1.9
Foncière des Régions	29,710	2.3	Londonmetric Property	23,510	1.8
Geana	27,545	2.1	Shaftesbury	18,621	1.4
Argan	22,610	1.7	Safestore Holdings	15,235	1.2
Terreis	20,216	1.6	Workspace Group	11,705	0.9
Mercalys	11,823	0.9	St Modwen	11,697	0.9
Klépierre	11,096	0.8	PRS REIT	10,895	0.8
Altarea	1,774	0.1	Secure Income REIT	10,542	0.8
	<b>215,371</b>	<b>16.4</b>	Capital & Regional	10,164	0.8
<b>Germany</b>			Supermarket Income REIT	9,999	0.8
Vonovia	123,895	9.4	Derwent London	8,798	0.7
LEG	75,937	5.8	Telford Homes	8,443	0.6
Deutsche Wohnen	67,779	5.1	Assura	8,442	0.6
VIB Vermoegen	17,149	1.3	NewRiver	6,473	0.5
Aroundtown	14,013	1.1	Big Yellow Group	6,284	0.5
	<b>298,773</b>	<b>22.7</b>	Sinus	6,162	0.5
<b>Ireland</b>			Primary Health Properties	4,182	0.3
Green Reit	14,921	1.1	Picton	2,977	0.2
	<b>14,921</b>	<b>1.1</b>	Target Healthcare	2,223	0.2
<b>Netherlands</b>			Hammerson	1,979	0.1
Eurocommercial Properties	22,782	1.7	Local Shopping REIT	855	0.1
Interwest Offices & Warehouses	2,061	0.2	Atrato Capital	153	-
	<b>24,843</b>	<b>1.9</b>		<b>402,120</b>	<b>30.6</b>
<b>Norway</b>			<b>Direct Property</b>	<b>98,011</b>	<b>7.4</b>
Entra	20,349	1.6		<b>1,316,046</b>	<b>100.0</b>
Norwegian Property	1,511	0.1	<b>CFD Positions (included in current assets)</b>	<b>495</b>	<b>-</b>
	<b>21,860</b>	<b>1.7</b>	<b>Total Investment Positions</b>	<b>1,316,541</b>	<b>100.0</b>
<b>Spain</b>					
Hispania Activos	53,019	4.0			
Merlin	18,004	1.4			
Inmobiliaria Colonial	5,422	0.4			
	<b>76,445</b>	<b>5.8</b>			
<b>Sweden</b>					
Fabege	32,895	2.5			
Kungsleden	21,542	1.6			
Wihlborgs	18,788	1.4			
Fastighets Balder	16,583	1.3			
Castellum	8,977	0.7			
Pandox	8,355	0.6			
Catena	7,309	0.6			
D Carnegie	2,258	0.2			
Victoria Park	244	-			
	<b>116,951</b>	<b>8.9</b>			

# Twelve Largest Equity Investments

## 1 Vonovia (Germany)

	31 March 2018	31 March 2017
Shareholding value	£123.9m	£66.9m
% of investment portfolio <sup>†</sup>	10.0%	6.0%
% of equity owned	0.7%	0.5%
Share price	€40.25	€33.03

Vonovia is the largest German residential landlord following the acquisition of Gagfah in 2014, Sudewo portfolio in 2015, conwert in 2016 and Buwog in 2017 with more than 350,000 units under management. In the last couple of months, the company has been exploring further international expansion (after a first-step in Austria through conwert and Buwog acquisitions) by announcing a cooperation agreement with French CDC Habitat (SNI) and launching a bid for Swedish company Victoria Park which owns 14,000 residential units in the Stockholm, Gothenburg and Malmö regions valued at EUR1.5bn. Vonovia runs a large in-house craftsman organization which enables the company to run an innovative strategy focusing on improving and modernising its €34bn portfolio, whilst offering further economies of scale by acquiring additional portfolios and modular construction. In addition, the acquisition of Buwog allows the company to add development for sale to its business model. Vonovia reported a like-for-like rental growth of 4.2% in 2017 while indicating a mid-term target level of around 5%. In the first quarter, the company increased its FFO guidance following the integration of Buwog assets while completing a capital increase of EUR996m to fund the Victoria Park acquisition. The total shareholder return since listing in July 2013 has been 173%.

## 2 Unibail-Rodamco (France)

	31 March 2018	31 March 2017
Shareholding value	£105.6m	£125.3m
% of investment portfolio <sup>†</sup>	8.5%	11.2%
% of equity owned	0.6%	0.7%
Share price	€185.65	€219.1

Europe's largest quoted property company by both market cap and gross assets with a €43bn portfolio located in France (54%), Central Europe (12%), Scandinavia (9%), Spain (9%), Germany and Austria (14%) and the Netherlands (4%). The focus is on large dominant shopping centers in the main European cities, which generate higher sales density/footfall and lower structural vacancy. To supplement returns the group also pursues an opportunistic strategy (buy/build and sell) in offices (9%) mostly located in Paris CBD and La Défense. At the end of 2017, the company announced an offer for Westfield which would create a EUR61bn REIT with exposure to the US (22% of GAV) and to the UK (8% of GAV). This transformational transaction would also create a EUR13bn development pipeline, this compares with Klepierre's pipeline standing at EUR3.1bn. Post acceptance from both Unibail and Westfield shareholders, the deal will close on the 7 of June. On a standalone basis the company is guiding for 6% EPS growth in 2018 and 6-8% for the medium term. The guidance is likely to be updated following the integration of Westfield. The five-year total shareholder return has been 30.4%.

## 3 LEG (Germany)

	31 March 2018	31 March 2017
Shareholding value	£75.9m	£68.4m
% of investment portfolio <sup>†</sup>	6.1%	6.1%
% of equity owned	1.5%	1.7%
Share price	€91.34	€76.84

LEG is a German residential company focused on the economically strong region of North Rhine-Westphalia. The company is one of the largest real estate companies in Germany with nearly 130,000 units under management with a combined value of €9.0bn. LEG is characterized by a strong balance sheet with a net LTV of 42%, an average debt maturity of more than 8yrs and an average cost of debt of 1.8%. The company is run by a well-regarded management team and has a well-maintained portfolio with 97.2% occupancy and an efficient platform from which it intends to grow further. The company discloses a two-year guidance illustrating the good visibility on earnings. For 2018, the company is guiding for a like-for-like rental growth at 3.0% and a FFO increasing by 8% compared to 2017. For 2019, the company is seeing a 3.5% like-for-like rental growth and a FFO per share growing by 7% while on mid-term horizon the like-for-like rental growth is expected to range between 3.0% and 3.5%. The five-year total shareholder return has been 150.7%.

<sup>†</sup>Percentage of Investment Portfolio, positions include exposure through CFDs.

**Note:** The Portfolio set out on page 17 includes the physical holdings only included in Investments held at fair value in the Balance Sheet. The CFD profit or loss position is included in Current assets

# Twelve Largest Equity Investments

continued

## 4 Deutsche Wohnen (Germany)

	31 March 2018	31 March 2017
Shareholding value	€67.8m	€21.2m
% of investment portfolio <sup>1</sup>	5.5%	1.8%
% of equity owned	0.6%	0.2%
Share price	€37.9	€30.9

Deutsche Wohnen is Germany's second largest residential company with the bulk of its exposure to Greater Berlin (78%). The company owns a high-quality portfolio consisting of more than 160,000 units with a combined value of nearly €19bn. Deutsche Wohnen experienced another strong year in Berlin with valuation uplift of +17%, thereby increasing its NAV by 20% compared to a year earlier. In addition to its residential exposure, the company is developing a Nursing and Assisted Living business which currently represents 8% of the Group EBITDA and could grow to 15% in the coming years. Management is guiding to FFO growth of 9% and like-for-like rental growth between 4% and 5% for 2018. The five-year total shareholder return has been 197.7%.

## 5 Landsec (UK)

	31 March 2018	31 March 2017
Shareholding value	£65.8m	£90.6m
% of investment portfolio <sup>1</sup>	5.3%	8.1%
% of equity owned	0.9%	1.1%
Share price	937.1p	1,059.0p

The UK's largest real estate investment trust (REIT) by market cap and portfolio value, with a portfolio of £13.9bn including share of joint ventures and developments. The company is exposed to Central London Offices and Retail (56%), Shopping Centres (28%), Retail Warehouses & Supermarkets (6%) and other investments (predominantly Accor hotels and leisure-focused assets) (10%). The group has recently undertaken multiple refinancing actions by purchasing expensive legacy bonds and reissuing cheaper alternatives. While this has reduced NAV and increased LTV slightly (last reported LTCV of 23% likely to increase to c. 27% at year-end), it will lead to superior earnings growth giving LAND a higher earnings yield than its main peer British Land. Management hold a negative outlook for the UK real estate market and especially Central London Offices. As a result, management are remaining cautious and waiting for a correction before becoming active. The group completed all its outstanding developments in the current financial year and now has no further development risk. The five-year total shareholder return has been 33.4%.

## 6 Hispania Activos (Spain)

	31 March 2018	31 March 2017
Shareholding value	€53.0m	€35.6m
% of investment portfolio <sup>1</sup>	4.3%	3.2%
% of equity owned	3.2%	2.8%
Share price	€1728	€13.47

Hispania is a Spanish socimi (REIT) invested in hotels in the Canary and Balearic Islands (65%), offices (25%) and residential units (10%). The company is benefitting from strong tourism numbers as many traditional travel destinations are out of favour due to continued threat of terrorist attacks. Unlike traditional triple net hotel leases, Hispania is benefitting from this favourable trend as most of the contracts have a substantial variable element. In March 2017 the company announced it would crystallise the value of the portfolio by the end of 2020 and return all proceeds back to shareholders. This was in-line with the original proposal at the time of the IPO in 2014. In the meantime the company is upgrading and refurbishing existing hotels which will drive further revenue growth. In April 2018, following the purchase of a 16.56% stake owned by Soros, Blackstone made an unsolicited offer to buy all the reminder shares of the company at EUR17.45. In May, the bid was approved by the Spanish's competition regulator CNMC while the CNMV (stock exchange regulator) is due to approve or reject the deal in the coming weeks. The total shareholder return since listing in March 2014 has been 90.7%.

<sup>1</sup>Percentage of Investment Exposure, positions include exposure through CFDs

# Twelve Largest Equity Investments

continued

## 7 Foncière des Régions (France)

	31 March 2018	31 March 2017
Shareholding value	€48.1m	€37.0m
% of investment portfolio <sup>1</sup>	3.9%	3.3%
% of equity owned	0.8%	0.8%
Share price	€89.65	€78.3

Foncière des Régions is a diversified European property company with a consolidated portfolio of €21bn of assets (€12.8bn in group share). The company is mainly invested in French and Italian offices (56% group share), German Residential exposure (24% group share) and hotels (14%). In April 2018, the company announced its intention to merge with Beni Stabili, its 52.4% owned subsidiary, with the aim of simplifying the company structure while increasing its exposure to an Italian market which is showing signs of recovery. Foncière des Régions also holds a 42% stake in Foncière des Murs (FDM), a French German and Spanish leisure and lodging business. In May 2018, FDM signed an agreement with Starwood Capital to acquire a portfolio of fourteen 4 and 5-star hotels, located in the main cities of the UK for £858m. This marks a first step in to the UK. The company saw on average a 6.2% uplift in valuation over the year, mainly driven by strong revaluations in its German Residential portfolio (+15.0%). The group has a 40.4% LTV, with an average cost of debt of 1.9%, down from 2.2% a year ago, with an average maturity of 6.2 years. The five-year shareholder total return has been 97.4%.

## 8 Segro (UK)

	31 March 2018	31 March 2017
Shareholding value	£47.2m	£38.4m
% of investment portfolio <sup>1</sup>	3.8%	3.4%
% of equity owned	0.8%	0.8%
Share price	601.2p	456.0p

Segro is the largest operator of logistics and industrial property listed in the UK, with a total portfolio of £7.2bn split 70% in the UK and 30% in Continental Europe. In the UK, the group is exposed to Greater London industrial and logistics space and national logistics space. Rental growth in these markets is running at record levels as there remains an acute supply-demand imbalance. In Europe, Germany and France are the group's largest markets with Poland in third, these markets have a flatter rental outlook but are experiencing yield compression as investors continue to chase income. The group also has an extensive development exposure that it manages to largely pre-let and develop at yields significantly in excess of investment values. We expect this to drive strong earnings growth over the short to medium term and high shareholder total returns. The loan-to-value ratio is c.30% and is expected to be maintained at these levels despite the large development expenditure. The five-year total shareholder return has been 197.6%.

## 9 Unite Group (UK)

	31 March 2018	31 March 2017
Shareholding value	£41.8m	£27.9m
% of investment portfolio <sup>1</sup>	3.4%	2.5%
% of equity owned	2.0%	2.0%
Share price	791.5p	636.5p

Unite is the UK's largest purpose-built student housing developer, owner and operator. The group manages just over 49,600 student beds either wholly-owned or within joint ventures. Over 2017/18 the asset class has remained attractive for institutional investment. While yield compression has slowed rental growth has remained strong and Unite continues to outperform the market. Unite offers a strong development pipeline funded through retained resources and active portfolio recycling. This, alongside continued 3-4% rental growth, is expected to drive 13.4% compound annual growth in earnings per share over the next three years. Concerns over a collapse in EU student numbers post the UK-EU referendum have proven to be unfounded. While the UK is experiencing a demographic decline in the numbers of 18-yr-olds and this has led to a decline in overall student applications, there remains an excess of applicants to university acceptances. As a result, the demand-supply dynamic remains strongly in landlords' favour. The LTV of 31% continues to decline and provides the group with sufficient firepower to continue its development activity. The five-year total shareholder return has been 176.1%.

<sup>1</sup>Percentage of Shareholding Value and Equity Investment Portfolio, positions include exposure through CFDs

# Twelve Largest Equity Investments

continued

## 10 McKay Securities (UK)

	31 March 2018	31 March 2017
Shareholding value	£40.3m	£16.8m
% of investment portfolio <sup>†</sup>	3.3%	1.4%
% of equity owned	15.6%	8.5%
Share price	275.0p	210.0p

McKay Securities owns and manages a £404m South East focused portfolio split 61% Thames Valley Offices, 14% London Offices, 20% Thames Valley Industrial and 5% in Other sectors. The group recently de-risked its large development pipeline with pre-lettings at its major schemes. Management also announced a refinancing of the group's remaining legacy, very expensive interest rate swaps. These actions will deliver significant earnings growth in the coming years in a portfolio that we believe is undervalued. The pro-forma LTV will be c. 32%. The five-year total shareholder return has been 138.5%.

## 11 Gecina (France)

	31 March 2018	31 March 2017
Shareholding value	£39.0m	£17.2m
% of investment portfolio <sup>†</sup>	3.2%	1.5%
% of equity owned	0.4%	0.3%
Share price	€141.1	€127.2

Following the acquisition of Eurosic realized in 2017, Gecina has reinforced its number 1 position in offices within Europe. Its total portfolio is valued at more than EUR19bn and split between French Offices (73%), Residential (17%) and Retail (7%). Despite the low yielding nature of the residential assets (c. 3.5% net yield) it provides a very resilient cash flow. In addition, this portfolio saw a significant value uplift of +27% in 2017 as a result of substantial yield compression (90bps). In an environment where portfolio yields for offices are hitting rock bottom for most of the companies, Gecina can rely on its large development pipeline of EUR5.2bn (27% of current GAV) to create further value in the coming years. The company is following a total return strategy which is illustrated by a disposal programme of EUR1.2bn. At the end of the Q1-18, the company had secured 70% of the planned sales with EUR436m realised at 10% above appraisal values. The five-year shareholder total return has been 101.5%.

## 12 CLS Holdings (UK)

	31 March 2018	31 March 2017
Shareholding value	£35.4m	£22.7m
% of investment portfolio <sup>†</sup>	2.9%	2.0%
% of equity owned	3.7%	3.1%
Share price	235.5p	177.0p*

CLS Holdings is a pan-European office owner with a £1.8bn portfolio split 51% UK (mainly London), 16% France and 32% Germany. Management has actively been growing its German exposure, with this area doubling as a proportion of total assets over the last two years. Typically the group targets higher yielding assets with a preference for leases which include fixed annual rental growth and aims to finance these with a very low cost of debt. It recently improved its attraction to institutional shareholders by moving to a normal annual dividend (previously it undertook tender offers for shares). It also simplified the investments by disposing of its large Vauxhall Square development for a significant profit in 2017. While the balance sheet gearing is higher than peers (LTV 39%) it has reduced substantially in the last year through disposals and property revaluations. We believe the group's assets remain conservatively valued and the LTV will continue to reduce. The five-year total shareholder return has been 186.3%.

\* Historic price adjusted for 10 for 1 stock split in May 2017

<sup>†</sup>Percentage of Investment Portfolio, positions include exposure through CFDs

# Investment Properties

as at 31 March 2018

<b>Spread of Direct Portfolio by Capital Value (%)</b> as at 31 March 2018						
	Office	Retail	Industrial	Residential and Ground Rents	Other	Total
West End of London	–	38.9	–	13.1	0.5	52.5
Inner London	5.2	1.2	15.8	–	–	22.2
Around M25	9.0	–	–	–	–	9.0
Other South East	–	–	–	–	–	–
South West	–	–	16.3	–	–	16.3
<b>Total</b>	<b>14.2</b>	<b>40.1</b>	<b>32.1</b>	<b>13.1</b>	<b>0.5</b>	<b>100.0</b>
*Inner London defined as inside the North and South circular						

<b>Lease Lengths within the Direct Property Portfolio</b> as at 31 March 2018	
Gross rental income	
0 to 5 years	40%
5 to 10 years	26%
10 to 15 years	0%
15 to 20 years	33%
20+ years	1%
	100%

<b>Contracted Rent</b>	
Year 1	£4,100,000
Years 2-5	£12,000,000
Years 5+	£18,850,000

## Value in excess of £10 million

### The Colonnades, Bishops Bridge Road, London W2

<b>Sector</b>	<b>Mixed Use</b>	
<b>Tenure</b>	<b>Freehold</b>	
<b>Size (sq ft)</b>	<b>64,000</b>	
<b>Principal tenants</b>	<b>Waitrose Ltd Graham &amp; Green</b>	<b>1Rebel Babaji Pide Ltd</b>

The property comprises a large mixed-use block in Bayswater, constructed in the mid-1970s. The site extends to approximately 2 acres on the north east corner of the junction of Bishops Bridge Road and Porchester Road, close to Bayswater tube station and the Whiteleys Shopping Centre. The commercial element was extended and refurbished in 2015 with a new 20 year lease being agreed with Waitrose.

### Ferrier Street Industrial Estate, Wandsworth, London SW18

<b>Sector</b>	<b>Industrial</b>	
<b>Tenure</b>	<b>Freehold</b>	
<b>Size (sq ft)</b>	<b>36,000</b>	
<b>Principal tenants</b>	<b>Absolute Taste Kougar Tool Hire Ltd</b>	<b>Mossimans Page Lacquer</b>

Site of just over an acre, 50 metres from Wandsworth Town railway station in an area that is predominantly residential. The estate comprises 16 small industrial units generally let to a mix of small to medium-sized private companies.



# Investment Properties

as at 31 March 2018 – continued

## Value less than £10 million

### Yodel Unit, Woodlands Park, Almondsbury, Bristol BS32

<b>Sector</b>	<b>Industrial</b>
<b>Tenure</b>	<b>Freehold</b>
<b>Size (sq ft)</b>	<b>53,000</b>
<b>Principal tenants</b>	<b>Yodel Delivery Network Ltd</b>

Located on the junction of the M4 and M5, this industrial building is let to Yodel, the parcel delivery company, on a lease expiring in 2019 at a low rent of £5 per sq ft. The building sits on a 5.75-acre site giving a low site density and a large yard offering a variety of alternative uses for the site.

### IO Centre, Gloucester Business Park, Gloucester GL3

<b>Sector</b>	<b>Industrial</b>
<b>Tenure</b>	<b>Freehold</b>
<b>Size (sq ft)</b>	<b>63,000</b>
<b>Principal tenants</b>	<b>SCI-MX Investments Infusion GB</b>

The IO Centre comprises six industrial units occupied by five tenants and sits on a 4.5-acre site. Gloucester Business Park is located to the east of Junction 11A of the M5 and one mile to the east of Gloucester City Centre. The property also has easy access to the A417 providing good links to the M4 via junction 15.

### Field House, Station Approach, Harlow CM20

<b>Sector</b>	<b>Offices</b>
<b>Tenure</b>	<b>Freehold</b>
<b>Size (sq ft)</b>	<b>66,000</b>
<b>Principal tenants</b>	<b>Teva UK Ltd</b>

Located next to Harlow Town railway station, the building was constructed in the late 1980s and comprises a 66,000-sq ft office building on a site of 3.5 acres. 80% of the building by ERV is let to Teva UK Ltd on leases expiring in 2023.

## Investment Objective and Benchmark

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

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

## Business Model

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

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

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

Further information in relation to the Board and the arrangements under the Investment Management Agreement can be found in the Report of the Directors on pages 36 and 46 to 47.

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

The specific terms of the Investment Management Agreement are set out on pages 46 to 47.

# Strategy and Investment Policies

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

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

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

## Asset allocation guidelines

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

The Manager currently applies the following guidelines for asset allocation,

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

## Gearing

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

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

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

## Property Valuation

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

## Allocation of costs between Revenue & Capital

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

## Key Performance Indicators

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

KPI	Board monitoring and outcome											
<p><b>Net Asset Value Total Return relative to the benchmark.</b></p> <p>The Directors regard the Company's net asset value total return performance in comparison with the benchmark as being an overall measure of value delivered to the shareholders' over the longer-term.</p>	<ul style="list-style-type: none"><li>The Board reviews the performance in detail at each meeting and discusses the results and outlook with the Manager.</li></ul> <table><tr><th rowspan="2"></th><th colspan="2">Outcome</th></tr><tr><th>1 Year</th><th>5 Years</th></tr><tr><td>NAV Total Return* (Annualised)</td><td>15.5%</td><td>16.1%</td></tr><tr><td>Benchmark Total Return (Annualised)</td><td>10.2%</td><td>11.9%</td></tr></table> <p>* NAV Total Return is calculated by re-investing the dividends in the assets and the Company from the relevant ex-dividend date. Dividends are deemed to be re-invested on the ex-dividends date</p>		Outcome		1 Year	5 Years	NAV Total Return* (Annualised)	15.5%	16.1%	Benchmark Total Return (Annualised)	10.2%	11.9%
	Outcome											
	1 Year	5 Years										
NAV Total Return* (Annualised)	15.5%	16.1%										
Benchmark Total Return (Annualised)	10.2%	11.9%										
<p><b>Delivering a reliable dividend which is growing over the longer term</b></p> <p>The principal objective of the Company is a total return objective, however, the fund manager aims to deliver a reliable dividend with growth over the longer-term.</p>	<ul style="list-style-type: none"><li>The Board reviews statements on income received to date and income forecasts at each meeting.</li></ul> <table><tr><th rowspan="2"></th><th colspan="2">Outcome</th></tr><tr><th>1 Year</th><th>5 Years</th></tr><tr><td>Compound Annual Dividend Growth*</td><td>16.2%</td><td>11.8%</td></tr><tr><td>Compound Annual RPI</td><td>3.3%</td><td>2.3%</td></tr></table> <p>* The final dividend in the time series divided by the initial dividend in the period raised to the power of 1 divided by the number of years in the series</p>		Outcome		1 Year	5 Years	Compound Annual Dividend Growth*	16.2%	11.8%	Compound Annual RPI	3.3%	2.3%
	Outcome											
	1 Year	5 Years										
Compound Annual Dividend Growth*	16.2%	11.8%										
Compound Annual RPI	3.3%	2.3%										
<p><b>The Discount or Premium at which the Company's shares trade compared with Net Asset Value</b></p> <p>Whilst expectations of investment performance is a key driver of the share price discount or premium to the net asset value of an investment trust over the longer-term, there are periods when the discount can widen. The Board is aware of the vulnerability of a sector-specialist trust to a change of investor sentiment towards that sector, and the impact that can have on the discount.</p>	<ul style="list-style-type: none"><li>The Board takes powers at each AGM to buy-back and issue shares. When considering the merits of share buy-back or issuance, the Board looks at a number of factors in addition to the short and longer-term discount or premium to NAV to assess whether action would be beneficial to the shareholders overall. Particular attention is paid to the current market sentiment, the potential impact of any share buy-back activity on the liquidity of the shares and on Ongoing Charges over the longer-term.</li></ul> <table><tr><th rowspan="2"></th><th colspan="2">Outcome</th></tr><tr><th>1 Year</th><th>5 Years</th></tr><tr><td>Average discount*</td><td>5.6%</td><td>5.2%</td></tr><tr><td>Total number of shares repurchased</td><td>Nil</td><td>525,000</td></tr></table> <p>* Average daily discount throughout the period of share price to capital only NAV. Source: Bloomberg</p>		Outcome		1 Year	5 Years	Average discount*	5.6%	5.2%	Total number of shares repurchased	Nil	525,000
	Outcome											
	1 Year	5 Years										
Average discount*	5.6%	5.2%										
Total number of shares repurchased	Nil	525,000										

# Key Performance Indicators

continued

KPI	Board monitoring and outcome											
<p><b>Level of Ongoing Charges</b></p> <p>The Board is conscious of expenses and aims to deliver a balance between excellent service and costs.</p> <p>The AIC definition of Ongoing Charges includes any direct property costs in addition to the management fees and all other expenses incurred in running a publicly listed company. As no other investment trusts hold part of their portfolio in direct property (they either hold 100% of their portfolio as property securities or as direct property), in addition to Ongoing Charges as defined by the AIC, this statistic is shown without direct property costs to allow a clearer comparison of overall administration costs with other funds investing in securities.</p> <p>The Board monitors the Ongoing Charges, in comparison to a range of other Investment Trusts of a similar size, both property sector specialists and other sector specialists.</p>	<ul style="list-style-type: none"><li>Expenses are budgeted for each financial year and the Board reviews regular reports on actual and forecast expenses throughout the year.</li></ul> <table><tr><th rowspan="2"></th><th colspan="2">Outcome</th></tr><tr><th>1 Year</th><th>5 Years*</th></tr><tr><td>Ongoing charges excluding performance fees</td><td>0.65%</td><td>0.72%</td></tr><tr><td>Ongoing charges excluding Performance Fees and Direct Property Costs</td><td>0.61%</td><td>0.67%</td></tr></table> <ul style="list-style-type: none"><li>The ongoing charges are competitive when compared to the peer group.</li></ul>		Outcome		1 Year	5 Years*	Ongoing charges excluding performance fees	0.65%	0.72%	Ongoing charges excluding Performance Fees and Direct Property Costs	0.61%	0.67%
	Outcome											
	1 Year	5 Years*										
Ongoing charges excluding performance fees	0.65%	0.72%										
Ongoing charges excluding Performance Fees and Direct Property Costs	0.61%	0.67%										
<p><b>Investment Trust Status</b></p> <p>The Company must continue to operate in order to meet the requirements for Section 1158 of the Corporation Tax Act 2010.</p>	<ul style="list-style-type: none"><li>The Board reviews financial information and forecasts at each meeting which set out the requirements outlined in Section 1158.</li><li>The Directors believe that the conditions and ongoing requirements have been met in respect of the year to 31 March 2018 and that the Company will continue to meet the requirements.</li></ul>											

## Principal Risks and Uncertainties

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

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

Risk Identified	Board monitoring and mitigation
<p><b>Share price performs poorly in comparison to the underlying NAV</b></p> <p>The shares of the Company are listed on the London Stock Exchange and the share price is determined by supply and demand. The shares may trade at a discount or premium to the Company's underlying NAV and this discount or premium may fluctuate over time.</p>	<ul style="list-style-type: none"> <li>• The Board monitors the level of discount or premium at which the shares are trading over the short and longer-term.</li> <li>• The Board encourages engagement with the shareholders. The Board receives reports at each meeting on the activity of the Company's brokers, PR agent and meetings and events attended by the Fund Manager.</li> <li>• The Company's shares are available through the F&amp;C share schemes and the Company participates in the active marketing of these schemes. The shares are also widely available on open architecture platforms and can be held directly through the Company's registrar.</li> <li>• The Board takes the powers to buy-back and to issue shares at each AGM.</li> </ul>
<p><b>Poor investment performance of the portfolio relative to the benchmark.</b></p> <p>The Company's portfolio is actively managed. In addition to investment securities the Company also invests in commercial property and accordingly, the portfolio may not follow or outperform the return of the benchmark.</p>	<ul style="list-style-type: none"> <li>• The Manager's objective is to outperform the benchmark. The Board regularly reviews the Company's long-term strategy and investment guidelines and the manager's relative positions against these.</li> <li>• The Management Engagement Committee reviews the Manager's performance annually. The Board has the powers to change the Manager if deemed appropriate.</li> </ul>
<p><b>Market risk</b></p> <p>Both share prices and exchange rates may move rapidly and adversely impact the value of the Company's portfolio.</p> <p>Although the portfolio is diversified across a number of geographical regions, the investment mandate is focused on a single sector and therefore the portfolio will be sensitive towards the property sector, as well as global equity markets more generally.</p> <p>Property companies are subject to many factors which can adversely affect their investment performance, these</p>	<ul style="list-style-type: none"> <li>• The Board receives and considers a regular report from the Manager detailing asset allocation, investment decisions, currency exposures, gearing levels and rationale in relation to the prevailing market conditions.</li> <li>• The report considers the potential impact of Brexit and the Manager's response in positioning the portfolio.</li> </ul>

# Principal Risks and Uncertainties

continued

Risk Identified	Board monitoring and mitigation
<p>include the general economic and financial environment in which their tenants operate, interest rates, availability of investment and development finance and regulations issued by governments and authorities.</p> <p>As highlighted since the result of the UK referendum in June 2016, parts of the UK property market may be adversely affected by Brexit. The negotiations are still in progress and the implications are unclear together with the impact on occupation across each sector.</p>	
<p><b>The Company is unable to maintain dividend growth</b></p> <p>Lower earnings in the underlying portfolio putting pressure on the Company's ability to grow the dividend could result from a number of factors;</p> <ul style="list-style-type: none"> <li>• lower earnings and distributions in investee companies</li> <li>• prolonged vacancies in the direct property portfolio</li> <li>• strengthening sterling reducing the value of overseas dividend receipts in sterling terms</li> <li>• adverse changes in the tax treatment of dividends or other income received by the company</li> <li>• changes in the timing of dividend receipts from investee companies .</li> </ul> <p>The Company has seen a material increase in the level of earnings in the last two years. A significant factor in this has been the weakening of sterling following the Brexit decision. This may reverse in the near or medium term as the negotiations progress, leading to a fall in earnings.</p>	<ul style="list-style-type: none"> <li>• The Board receives and considers regular income forecasts.</li> <li>• Income forecast sensitivity to changes in FX rates is also monitored.</li> <li>• The Company has revenue reserves which can be drawn upon when required.</li> </ul>
<p><b>Accounting and operational risks</b></p> <p>Disruption or failure of systems and processes underpinning the services provided by third parties and the risk that these suppliers provide a sub-standard service.</p>	<ul style="list-style-type: none"> <li>• Third party service providers produce periodic reports to the Board on their control environments and business continuation provisions on a regular basis.</li> <li>• The Management Engagement Committee considers the performance of each of the service providers on a regular basis and considers their ongoing appointment and terms and conditions.</li> <li>• The Custodian and Depository are responsible for the safeguarding of assets. In the event of a loss of assets the Depository must return assets of an identical type or corresponding amount unless able to demonstrate that the loss was the result of an event beyond their reasonable control.</li> </ul>

# Principal Risks and Uncertainties

*continued*

Risk Identified	Board monitoring and mitigation
<p><b>Financial risks</b></p> <p>The Company's investment activities expose it to a variety of financial risks which include counterparty credit risk, liquidity risk and the valuation of financial instruments.</p>	<ul style="list-style-type: none"> <li>Details of these risks together with the policies for managing these risks are found in the Notes to the Financial Statements on pages 63 to 88.</li> </ul>
<p><b>Loss of Investment Trust Status</b></p> <p>The Company has been accepted by HM Revenue &amp; Customs as an investment trust, subject to continuing to meet the relevant eligibility conditions. As such the Company is exempt from capital gains tax on the profits realised from the sale of investments.</p> <p>Any breach of the relevant eligibility conditions could lead to the Company losing investment trust status and being subject to corporation tax on capital gains realised within the Company's portfolio.</p>	<ul style="list-style-type: none"> <li>The Investment Manager monitors the investment portfolio, income and proposed dividend levels to ensure that the provisions of CTA 2010 are not breached. The results are reported to the Board at each meeting.</li> <li>The income forecasts are reviewed by the Company's tax advisor through the year who also reports to the Board on the year-end tax position and on CTA 2010 compliance.</li> </ul>
<p><b>Legal, regulatory and reporting risks</b></p> <p>Failure to comply with the London Stock Exchange Listing Rules and Disclosure Guidance and Transparency rules; failure to meet the requirements under the Alternative Investment Funds Directive, the provisions of the Companies Act 2006 and other UK, European and overseas legislation affecting UK companies. Failure to meet the required accounting standards or make appropriate disclosures in the Interim and Annual Reports.</p>	<ul style="list-style-type: none"> <li>The Board receives regular regulatory updates from the Manager, Company Secretary, legal advisors and Auditors. The Board considers these reports and recommendations and takes action accordingly.</li> <li>The Board receives an annual report and update from the Depository.</li> <li>Internal checklists and review procedures are in place at service providers.</li> <li>External auditors review Interim &amp; Annual Reports and audit year end Financial Statements.</li> </ul>
<p><b>Inappropriate use of gearing</b></p> <p>Gearing, either through the use of bank debt or through the use of derivatives may be utilised from time to time. Whilst the use of gearing is intended to enhance the NAV total return, it will have the opposite effect when the return of the Company's investment portfolio is negative.</p>	<ul style="list-style-type: none"> <li>The Board receives regular reports from the Manager on the levels of gearing in the portfolio. These are considered against the gearing limits set in the Investment Guidelines and also in the context of current market conditions and sentiment.</li> </ul>
<p><b>Personnel changes at Investment Manager</b></p> <p>Loss of portfolio manager or other key staff.</p>	<ul style="list-style-type: none"> <li>The Chairman conducts regular meetings with the Fund Management team.</li> <li>The fee basis protects the core infrastructure and depth and quality of resources. The fee structure incentivises good performance and is fundamental in the ability to retain key staff.</li> </ul>



# Viability Statement

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In accordance with provision C.2.2 of the UK Corporate Governance Code, which requires the Company to assess the prospects of the Company over the longer term, the Directors have assessed the prospects of the Company over the coming five years. This period is used by the Board during the strategic planning process and the Board consider this period of time appropriate for a business of our nature and size.

This assessment takes account of the Company's current position and the policies and processes for managing the principal risks set out on pages 28 to 30 and the Company's ability to continue in operation and meet its liabilities as they fall due over the period of assessment. In making this statement the Board carried out a robust assessment of the principal risks facing the Company, including those that might threaten its business model, future performance, solvency and liquidity.

In reaching their conclusions the Directors have reviewed five-year forecasts for the Company with sensitivity analysis to a number of assumptions; investee company dividend growth, interest rate, foreign exchange rate, tax rate and asset value growth.

## **In the assessment of the viability of the Company the Directors have noted that:**

- The Company has a long-term investment strategy under which it invests mainly in readily realisable, publicly listed securities and which restricts the level of borrowings.
- Of the current portfolio, 69% could be liquidated within ten trading days.
- Current liabilities exceed current assets at the Balance Sheet Date by a small amount. This net liability can be readily met through Investment Portfolio sales or drawing down on the loan facilities in place. At the Balance Sheet Date the Company had £24 million undrawn on its revolving loan facilities.
- The Company invests in real estate related companies which hold real estate assets, and invests in commercial real estate directly. These investments provide cash receipts in the form of dividends and rental income.
- The Company is able to take advantage of its closed-ended Investment Trust structure and able to hold a proportion of its portfolio in less liquid direct property with a view to long-term outperformance.
- The structure has also enabled the Company to secure finance in excess of 10 years.
- The expenses of the Company are predictable and modest in comparison with the assets. Regular and robust monitoring of revenue and expenditure forecasts are undertaken throughout the year.
- The Company has no employees and consequently does not have redundancy or other employment related liabilities or responsibilities.
- The Company retains title to its assets held by the Custodian which are subject to further safeguards imposed on the Depository.

## **The following assumptions have been made in assessing the longer-term viability:**

- Real Estate will continue to be an investable sector of international stock markets and investors will continue to wish to have exposure to that sector
- Closed-ended Investment Trusts will continue to be wanted by investors and regulation or tax legislation will not change to an extent to make the structure unattractive in comparison to other investment products.
- The performance of the Company will continue to be satisfactory. Should the performance be less than the Board deems to be satisfactory, it has the appropriate powers to replace the Investment Manager

**The Board has concluded that the Company will be able to continue in operation and meet its liabilities as they fall due over the coming five years. The Company's business model, capital structure and strategy have enabled the Company to operate over many decades, and the Board expects this to continue into the future.**

# Corporate Responsibility

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## Exercise of voting power

The Board has approved a corporate governance voting policy which, in its opinion, accords with current best practice whilst maintaining a primary focus on financial returns.

The exercise of voting rights attached to the Company's portfolio has been delegated to the Manager who takes a global approach to engagement with issuers and their management in all of the jurisdictions in which it invests. The Manager is required to include disclosure about the nature of their commitment to the Financial Reporting Committee's Stewardship Code and details may be found at [www.fandc.com](http://www.fandc.com)

## Environmental policy & Socially Responsible Investment

The Company considers that good corporate governance extends to policies on the environment, employment, human rights and community relationships. Corporates are playing an increasingly important role in global economic activity and the adoption of good corporate governance enhances a company's economic prospects by reducing the risk of government and regulatory intervention and any ensuing damage to its business or reputation.

The Company has adopted an environmental policy in respect of its investments in both physical property and listed property companies. Within the context of the overall aim of the Company to maximise shareholders' returns the Directors will seek to limit the Company's and its investee companies' impact on the environment and will comply with all relevant legislation relating to its operations and activities.

The environmental policies and behaviour of all the companies in which the Company invests are taken into account in decision making.

Good environmental management can play a role in overall risk management and also have a financial impact in terms of savings through energy and water efficiency. Where appropriate the Manager will engage with investee companies to raise concerns about environmental matters.

So far as direct property investments are concerned, the Company conducts environmental audits prior to purchase to identify contamination or materials considered environmentally harmful. The Company will take remedial action or enforce tenant obligations to do so wherever appropriate. The Company's advisers assess the environmental impact of its properties on an ongoing basis and will take all necessary action to comply with environmental responsibilities.

The Company has no greenhouse gas emissions to report from the operations of the Company, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013, including those within its underlying investment portfolio.

## Diversity, Gender Reporting and Human Rights Policy

The Board recognises the requirement under Section 414 of the Companies Act 2006 to detail information about employee and human rights; including information about any policies it has in relation to these matters and effectiveness of these policies. As the Trust has no employees, this requirement does not apply. The Directors are also satisfied that, to the best of their knowledge, the Company's principal suppliers, comply with the provisions of the UK Modern Slavery Act 2015.

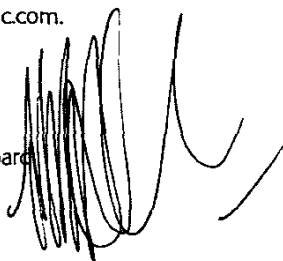
The Board currently comprises four male Directors and one female Director. The Board's diversity policy is outlined in more detail in the Corporate Governance Report. The Manager has an equal opportunity policy which is set out on its website [www.fandc.com](http://www.fandc.com).

By order of the Board

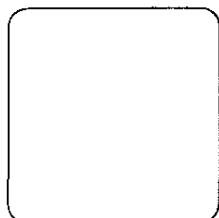
**Hugh Seaborn**

Chairman

6 June 2018

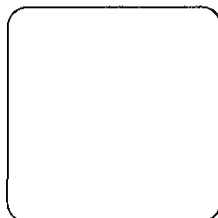


# Directors



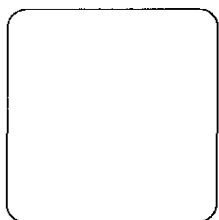
**Hugh Seaborn**

**Hugh Seaborn**, joined the Board of the Company on 24 July 2007 and became Chairman in July 2016. He is a Chartered Surveyor and has considerable experience in the property arena; he is the Chief Executive Officer of the Cadogan Estate. He was a member of the Council and Audit Committee of the Duchy of Lancaster until December 2013. From 2000 to 2009, he was Chief Executive Officer of the Portman Estate, he is Chairman of the Knightsbridge Business Group, is past Chairman of the Estates Business Group and past Chairman of the Westminster Property Owners Association.



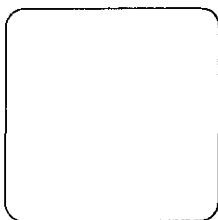
**Simon Marrison**

**Simon Marrison**, joined the Board of the Company on 28 September 2011. Mr Marrison is CEO of Europe at LaSalle Investment Management and has responsibility for a portfolio of over €20billion across Europe. Mr Marrison has been based in Paris since 1990 having started his career in London. Until 1997 he was a partner at Healey & Baker (now Cushman & Wakefield) and from 1997 to 2001 he was at Rodamco where he became Country Manager for France. He joined LaSalle in 2001 as Managing Director for Continental Europe and became CEO of the entire European business in 2007.



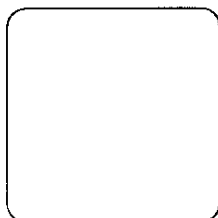
**David Watson**

**David Watson**, joined the Board of the Company on 1 April 2012. He became Chairman of the Company's Audit Committee on 1 January 2013 and also became the SID in July 2016. He is a Chartered Accountant and has had a distinguished career in the Financial Services Industry. He spent 9 years as Finance Director of M&G Group plc, where he was a director of four equity investment trusts, and more recently at Aviva plc as Chief Finance Officer of Aviva General Insurance. He is currently Deputy Chairman of Countrywide plc and a non-executive director of Kames Capital plc and Hermes Fund Managers Limited, where he is Chairman of the Audit Committee. He is also Chairman of The Tennis & Rackets Association Limited.



**Suzie Procter**

**Suzie Procter**, joined the Board of the Company on 1 March 2013. She has 36 years' experience in financial markets with specific expertise in asset management including 11 years as a global fixed income portfolio manager and 16 years in business development/marketing across all asset classes. Her executive roles include Head of Institutional Sales and Consultant Relations at INVESCO, Managing Director at Lazard Asset Management and Partner and member of the Executive Committee at Cantillon Capital Management.

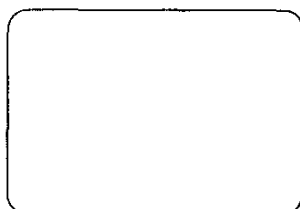


**Tim Gillbanks**

**Tim Gillbanks**, joined the Board of the Company on 23 January 2018. Tim is a Chartered Accountant, with 30 years' experience in the financial services and investments industry. Most recently he spent 13 years at Columbia Threadneedle Investments, initially as Chief Financial Officer, then Chief Operating Officer and finally as interim Chief Executive Officer. Tim brings a wide experience of investment management to the Board.

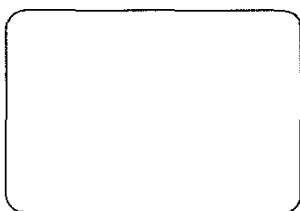
All directors are independent of the manager and are members of the Audit Committee

# Managers



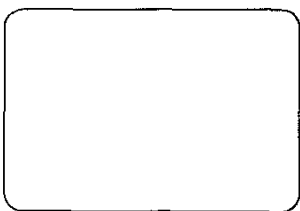
**Marcus Phayre-Mudge**

**Marcus Phayre-Mudge**, Fund Manager, joined the Management team for the Company at Henderson Global Investors in January 1997, initially managing the Company's direct property portfolio and latterly focusing on real estate equities, managing a number of UK and Pan European real estate equity funds in addition to activities in the Trust. Marcus moved to Thames River Capital in October 2004 where he is also fund manager of *Thames River Property Growth & Income Fund Limited*. Prior to joining Henderson, Marcus was an investment surveyor at Knight Frank (1990) and was made an Associate Partner in the fund management division (1995). He qualified as a Chartered Surveyor in 1992 and has a BSc (Hons) in Land Management from Reading University.



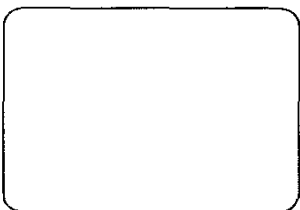
**Jo Elliott**

**Jo Elliott**, Finance Manager, has been Finance Manager since 1995, first at Henderson Global Investors then, since January 2005, at Thames River Capital, when she joined as CFO for the property team. She joined Henderson Global Investors in 1995, where she most recently held the position of Director of Property, Finance & Operations, Europe. Previously she was Corporate Finance Manager with London and Edinburgh Trust plc and prior to that was an investment/treasury analyst with Heron Corporation plc. Jo has a BSc (Hons) in Zoology from the University of Nottingham and qualified as a Chartered Accountant with Ernst & Young in 1988. Jo is a Non-Executive Director and Audit Committee Chair of Polar Capital Global Financials Trust plc.



**George Gay**

**George Gay**, Direct Property Fund Manager, has been the Direct Property Fund Manager since 2008. He joined Thames River Capital in 2005 as assistant direct property manager and qualified as a Chartered Surveyor in 2006. George was previously at niche City investment agent, Morgan Pepper where as an investment graduate he gained considerable industry experience. He has an MA in Property Valuation and Law from City University.



**Alban Lhonneur**

**Alban Lhonneur**, Deputy Fund Manager, joined Thames River Capital in August 2008. He was previously at Citigroup Global Markets as an Equity Research analyst focusing on Continental European Real Estate. Prior to that he was at Societe Generale Securities, where he focused on transport equity research. He has a BSc in Business and Management from the ESC Toulouse including one year at the Brunel University, London. He also attended CERAM Nice High Business School. In 2005 he obtained a post-graduate Specialised Master in Finance in 2005 from ESCP-EAP.

# Report of the Directors

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The Directors present the audited financial statements of the Group and the Company and their Strategic Report and Report of Directors for the year ended 31 March 2018. The Group comprises TR Property Investment Trust plc and its wholly owned subsidiaries. As permitted by legislation, some matters normally included in the Report of the Directors have been included in the Strategic Report because the Board considers them to be of strategic importance. Therefore review of the business of the Company, recent events and outlook can be found on pages 4 to 32.

## Status

The Company is an investment company, as defined in Section 833 of the Companies Act 2006, and operates as an investment trust in accordance with Section 1158 of the Corporation Tax Act 2010.

The Company has a single share class, Ordinary shares, with a nominal value of 25p each which are premium listed on the London Stock Exchange.

The Company has received confirmation from HM Revenue & Customs that the Company has been accepted as an approved investment trust for accounting periods commencing on or after 1 April 2012 subject to the Company continuing to meet the eligibility conditions of Section 1158 Corporation Tax Act 2010 and the ongoing requirements for approved companies in Chapter 3 of Part 2 Investment Trust (Approved Company) (Tax) Regulations 2011 (Statutory Instrument 2011/2999).

The Directors are of the opinion that the Company has conducted and will continue to conduct its affairs so as to maintain investment trust status. The Company has also conducted its affairs, and will continue to conduct its affairs, in such a way as to comply with the Individual Savings Accounts Regulations. The Ordinary shares can be held in Individual Savings Accounts (ISAs).

## Results and Dividends

At 31 March 2018 the net assets of the Company amounted to £1,256m (2017: £1,118m), on a per share basis 395.64p (2017: 352.42p) per share.

Revenue earnings for the year amounted to 13.22p (2017: 11.38p) and the Directors recommend the payment of a final dividend of 7.55p (2017: 6.40p) per share bringing the total dividend for the year to 12.20p (2017: 10.50p), an increase of 16.2% for the full year. In arriving at their dividend proposal, the Board also reviewed the income forecasts for the year to March 2019.

Performance details are set out in the Financial Highlights on page 1 and the outcome of what the Directors consider to be the Key Performance Indicators on pages 26 to 27. The Chairman's Statement and the Managers Report give full details and analysis of the results for the year.

## Share Capital and Buy-back Activity

At 1 April 2018 the Company had 317,350,980 (2017: 317,350,980) Ordinary shares in issue.

At the AGM in 2017 the Directors were given power to buy back 47,570,911 Ordinary shares. Since this AGM the Directors have not bought back any Ordinary shares at the nominal value of 25p each under this authority. The outstanding authority is therefore 47,570,911 shares.

This authority will expire at the 2018 AGM. The Company will seek to renew the power to make market purchases of Ordinary shares at this year's AGM.

Since 1 April 2018 to the date of this report, the Company has made no market purchases for cancellation. The Board has not set specific discount at which shares will be repurchased.

# Report of the Directors

*continued*

GOVERNANCE

## Management Arrangements and Fees

Details of the management arrangements and fees are set out in the Report of the Management Engagement Committee beginning on page 46. Total fees paid to the Manager in any one year (Management and Performance Fees) may not exceed 4.99% of Group Equity Shareholders' Funds. Total fees payable for the year to 31 March 2018 amount to 1.2% (2017: 0.6%) of Group Equity Shareholders Funds. Included in this were performance fees earned in the year ended 31 March 2018 of £10,188,000 (2017: £1,148,000).

## Basis of Accounting and IFRS

The Group and Company financial statements for the year ended 31 March 2018 have been prepared on a going concern basis in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the International Accounting Standards Board (IASB), together with interpretations of the International Accounting Standards and Standing Interpretations Committee approved by the International Accounting Standards Committee (IASC) that remain in effect, to the extent that they have been adopted by the European Union and as regards the Group and Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

The accounting policies are set out in note 1 to the Financial Statements on pages 63 to 67.

## Going Concern

The Directors' assessment of the longer-term viability of the Company is set out on page 31.

As the Board is of the opinion that the Company can continue in operation for the foreseeable future, being for a period of at least 12 months from the date that these financial statements were approved, it has been concluded that the going concern basis should be adopted for the preparation of the Financial Statements for the year ended 31 March 2018.

## Internal Controls

The Board has overall responsibility for the Group's systems of internal controls and for reviewing their effectiveness. The Portfolio Manager is responsible for the day to day investment management decisions on behalf of the Group. Accounting and company secretarial services have both been outsourced.

The internal controls aim to ensure that the assets of the Group are safeguarded, proper accounting records are maintained, and the financial information used within the business and for publication is reliable. Control of the risks identified, covering financial, operational, compliance and risk management, is embedded in the controls of the Group by a series of regular investment performance and attribution statements, financial and risk analyses, AIFM and Portfolio Manager reports and quarterly control reports. Key risks have been identified and controls put in place to mitigate them, including those not directly the responsibility of the AIFM or Portfolio Manager. The key risks are explained in more detail in the Strategic Report on pages 28 to 30.

The effectiveness of each third party provider's internal controls is assessed on a continuing basis by the Compliance and Risk departments of the AIFM and Portfolio Manager, the Administrator and the Company Secretary. Each maintains its own system of internal controls, and the Board and Audit Committee receive regular reports from them. The control systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage, rather than eliminate, risk of failure to achieve objectives.

# Report of the Directors

*continued*

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As the Company has no employees and its operational functions are undertaken by third parties, the Audit Committee does not consider it necessary for the Company to establish its own internal audit function. Instead, the Audit Committee relies on internal control reports received from its principal service providers to satisfy itself as to the controls in place.

The Board has established a process for identifying, evaluating and managing any major risks faced by the Group. The Board undertakes an annual review of the Group's system of internal controls in line with the Turnbull guidance. Business risks have also been analysed by the Board and recorded in a risk map that is reviewed regularly. Each quarter the Board receives a formal report from each of the AIFM, Portfolio Manager, the Administrator and the Company Secretary detailing the steps taken to monitor the areas of risk, including those that are not directly their responsibility, and which report the details of any known internal control failures.

The Board also considers the flow of information and the interaction between the third party service providers and the controls in place to ensure accuracy and completeness of the recording of assets and income. The Board receives a report from the Portfolio Manager setting out the key controls and the results of the audit testing of these.

The Board also has direct access to company secretarial advice and services provided by Link Company Matters (previously called Capita Company Secretarial Services) which, through its nominated representative, is responsible for ensuring that the Board and Committee procedures are followed and that applicable regulations are complied with.

These controls have been in place throughout the period under review and up to the date of signing the accounts.

Key risks identified by the Auditors are considered by the Audit Committee to ensure robust internal controls and monitoring procedures are in place in respect of these risks on an ongoing basis.

## Annual General Meeting (the "AGM")

The AGM will be held on 24 July 2018 at 2pm. The Notice of AGM is set out on pages 89 to 90. The full text of the resolutions and an explanation of each is contained in the Notice of AGM and explanatory notes on pages 93 to 94.

## Material Interests

There were no contracts subsisting during or at the end of the year in which a director of the Company is or was materially interested and which is or was significant in relation to the Company's business. No Director has a contract of service with the Company. Further details regarding the appointment letters can be found on page 44.

## Donations

The Company made no political or charitable donations during the year (2017: Nil).

# Report of the Directors

*continued*

GOVERNANCE

## Voting Interests

### Rights and Obligations Attaching to Shares

Subject to applicable statutes and other shareholders' rights, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide, or (if there is no such resolution or so far as it does not make specific provision) as the Board may decide. Subject to the Articles, the Companies Act 2006 and other shareholders' rights, unissued shares are at the disposal of the Board.

### Voting

At a general meeting of the Company, when voting is by a show of hands, each share affords its owner one vote.

### Restrictions on Voting

No member shall be entitled to vote if he has been served with a restriction notice (as defined in the Articles) after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Act 2006.

### Deadlines for Voting Rights

Votes are exercisable at the general meeting of the Company in respect of which the business being voted upon is being heard. Votes may be exercised in person, by proxy, or in relation to corporate members, by corporate representatives.

The Articles provide a deadline for submission of proxy forms of not less than 48 hours (or such shorter time as the Board may determine) before the meeting (not excluding non-working days).

### Transfer of Shares

Any shares in the Company may be held in uncertificated form and, subject to the Articles, title to uncertificated shares may be transferred by means of a relevant system. Subject to the Articles, any member may transfer all or any of his certificated shares by an instrument of transfer in any usual form or in any other form which the Board may approve.

### Significant Voting Rights

At 31 March 2018, no shareholders held over 3% of voting rights on a discretionary basis. However, at 31 March 2018 the following shareholders held over 3% of the voting rights on a non-discretionary basis:

Shareholder	% of Ordinary share voting rights*
Brewin Dolphin Ltd	8.6%
Alliance Trust plc	7.0%
Rathbone Investment Management Ltd	6.0%
Quilter Cheviot Investment Management Ltd	5.4%
Investec Wealth & Investment Ltd	5.2%
Hargreaves Lansdown Asset Management Ltd	4.1%
Charles Stanley Group plc	3.1%

\* See above for further information on the voting rights of Ordinary shares

Since 31 March 2018 to the date of this report, the Company has not been informed of any notifiable changes with respect to the Ordinary shares.



# Report of the Directors

*continued*

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## Corporate Governance Report

*The Board of Directors is accountable to shareholders for the governance of the Company's affairs.*

This statement describes how the principles of the UK Corporate Governance Code ("the Code") issued by the Financial Reporting Council (the "FRC") in 2016 have been applied to the affairs of the Company. The Code can be viewed at [www.frc.org.uk](http://www.frc.org.uk).

### Application of the AIC Code's Principles

In applying the principles of the Code, the Directors have also taken account of the Code of Corporate Governance published by the AIC ('the AIC Code'), which established the framework of best practice specifically for the Boards of investment trust companies. There is some overlap in the principles laid down by the two Codes and there are some areas where the AIC Code is more flexible for investment trust companies. The AIC Code can be viewed at [www.theaic.co.uk](http://www.theaic.co.uk).

The Directors believe that during the period under review they have complied with the Main Principles and relevant provisions of the Code, insofar as they apply to the Company's business, and with the provisions of the AIC Code.

### Compliance Statement

The Directors note that the Company did not comply with the following provisions of the Code in the year ended 31 March 2018;

A.2.1 Due to the nature and structure of the Company the Board of non-executive directors does not feel it is necessary to appoint a chief executive.

C.3.5 & C.3.6 As the Company has no employees and its operational functions are undertaken by third parties, the Audit Committee does not consider it necessary for the Company to establish its own internal audit function.

D.2.1 The Board does not have a separate Remuneration Committee. The functions of a Remuneration Committee are carried out by the Management Engagement Committee.

### Composition and Independence of the Board

The Board currently consists of five directors, all of whom are non-executive and are independent of the Manager. None of the Directors have any other links to the Manager. The Board believes that diversity of experience and approach, including gender diversity, amongst board members is of great importance and it is the Company's policy to give careful consideration to issues of board balance and diversity when making new appointments.

### Powers of the Directors

Subject to the Company's Articles of Association, the Companies Act 2006 and any directions given by special resolution, the business of the Company is managed by the Board who may exercise all the powers of the Company, whether relating to the management of the business of the Company or not. In particular, the Board may exercise all the powers of the Company to borrow money and to mortgage or charge any of its undertakings, property, assets and uncalled capital and to issue debentures and other securities and to give security for any debt, liability or obligation of the Company to any third party.

There are no contracts or arrangements with third parties which affect, alter or terminate upon a change of control of the Company.

# Report of the Directors

*continued*

## Directors

The Chairman is Mr Seaborn and the Senior Independent Director is Mr Watson. The Directors' biographies, on page 33, demonstrate the breadth of investment, commercial and professional experience relevant to their positions as Directors of the Company.

Directors' retirement by rotation and re-election is subject to the Articles of Association. In accordance with the Code, all directors will be subject to annual re-election.

Mr Marrison, Mr Seaborn, Ms Procter and Mr Watson will retire at the forthcoming AGM in accordance with the Code and, being eligible, will offer themselves for re-election. Mr Gillbanks was appointed to the Board with effect from 23 January 2018. In accordance with the Articles of Association, a resolution to elect Mr Gillbanks will be proposed at the forthcoming AGM. All Directors are regarded as being free of any conflicts of interest and no issues in respect of independence arise. The Board has concluded that all Directors continue to make valuable contributions and believe that they remain independent in character and judgement.

## Board Committees

The Board has established an Audit Committee, a Nomination Committee and a Management Engagement Committee, which also carries out the functions of a Remuneration Committee. All the Directors of the Company are non-executive and serve on each Committee of the Board. It has been the Company's policy to include all Directors on all Committees. This encourages unity, clear communication and prevents duplication of discussion between the Board and the Committees. The roles and responsibilities of each Committee are set out on the individual Committee reports which follow. Each Committee has written terms of reference which clearly defines its responsibilities and duties. These can be found on the Company's website, which are available on request and will also be available for inspection at the AGM.

## Board Meetings

The number of meetings of the Board and Committees held during the year under review, and the attendance of individual Directors, are shown below:

	Board		Audit		MEC		Nomination	
	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible
Hugh Seaborn	6	6	2	2	1	1	3	3
John Glen*	2	2	1	1	0	0	0	0
Simon Marrison	6	6	2	2	1	1	3	3
Suzie Procter	6	6	2	2	1	1	3	3
David Watson	6	6	2	2	1	1	3	3
Tim Gillbanks**	1	1	0	0	1	1	1	1

\*John Glen retired from the Board on 29 July 2017.

\*\*Tim Gillbanks was appointed to the Board on 23 January 2018.

In addition to formal Board and Committee meetings, the Directors also attend a number of informal meetings to represent the interests of the Company.

# Report of the Directors

*continued*

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## The Board

The Board is responsible for the effective stewardship of the Company's affairs. Certain strategic issues are monitored by the Board at meetings against a framework which has been agreed with the Manager. Additional meetings may be arranged as required. The Board has a formal schedule of matters specifically reserved for its decision, which are categorised under various headings, including strategy, management, structure, capital, financial reporting, internal controls, gearing, asset allocation, share price discount, contracts, investment policy, finance, risk, investment restrictions, performance, corporate governance and Board membership and appointments.

In order to enable them to discharge their responsibilities, all Directors have full and timely access to relevant information. At each meeting, the Board reviews the Company's investment performance and considers financial analyses and other reports of an operational nature. The Board monitors compliance with the Company's objectives and is responsible for setting asset allocation and investment and gearing limits within which the Portfolio Manager has discretion to act and thus supervises the management of the investment portfolio, which is contractually delegated to the Portfolio Manager.

The Board has responsibility for the approval of investments in unquoted investments and any investments in in-house funds managed or advised by the Portfolio Manager. It has also adopted a procedure for Directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company.

## Conflicts of Interest

In line with the Companies Act 2006, the Board has the power to authorise any potential conflicts of interest that may arise and impose such limits or conditions as it thinks fit. A register of potential conflicts is maintained and is reviewed at every Board meeting to ensure all details are kept up-to-date. Appropriate authorisation will be sought prior to the appointment of any new Director or if any new conflicts arise.

## Relations with Shareholders

Shareholder relations are given high priority by the Board, the AIFM and the Portfolio Manager. The prime medium by which the Company communicates with shareholders is through the Interim and Annual Reports which aim to provide shareholders with a clear understanding of the Company's activities and their results. This information is supplemented by the daily calculation of the Net Asset Value of the Company's Ordinary shares which is published on the London Stock Exchange.

This information is also available on the Company's website, [www.trproperty.com](http://www.trproperty.com) together with a monthly factsheet and Manager commentary.

At each AGM a presentation is made by the Manager following the business of the meeting. Shareholders have the opportunity to address questions to the Chairman and the Chairman of the Audit Committee at the AGM. All shareholders are encouraged to attend the AGM.

It is the intention of the Board that the Annual Report and Accounts and Notice of the AGM be issued to shareholders so as to provide at least twenty working days' notice of the AGM. Shareholders wishing to lodge questions in advance of the AGM, or to contact the Board at any other time, are invited to do so by writing to the Company Secretary at the registered address given on page 95.

General presentations are given to both shareholders and analysts following the publication of the annual results. All meetings between the Manager and shareholders are reported to the Board.

# Report of the Directors

*continued*

GOVERNANCE

## Directors' Indemnity

Directors' and Officers' liability insurance cover is in place in respect of the Directors. The Company's Articles of Association provide, subject to the provisions of UK legislation, an indemnity for Directors in respect of costs which they may incur relating to the defence of any proceedings brought against them arising out of their positions as Directors, in which they are acquitted or judgement is given in their favour by the court.

To the extent permitted by law and by the Company's Articles of Association, the Company has entered into deeds of indemnity for the benefit of each Director of the Company in respect of liabilities which may attach to them in their capacity as Directors of the Company. These provisions, which are qualifying third party indemnity provisions as defined by section 234 of the Companies Act 2006, were introduced in January 2007 and currently remain in force.

## Directors' statement as to disclosure of information to auditors

The Directors who were members of the board at the time of approving the Directors' report are listed on page 33. Having made enquiries of fellow directors and of the Company's auditors, each of these Directors confirms that:

- to the best of each director's knowledge and belief, there is no information (that is, information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware; and
- each Director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

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

By order of the Board

**Hugh Seaborn**

Chairman

6 June 2018



# Report of the Nomination Committee

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## Nomination Committee

Chairman: Mr Seaborn

## Key Responsibilities

- Review the Board and its Committees and make recommendations in relation to structure, size and composition, the balance of knowledge, experience and skill ranges;
- Consider succession planning and tenure policy; and
- Review the outcome of the board evaluation process.

The Nomination Committee meets at least on an annual basis, and more frequently as and when required and last met in March 2018.

## Activity during the year

A key issue that the Committee considered this year was the appointment of a new Non-Executive Director following the resignation of John Glen from the Board at the end of July 2017. Spencer Stuart, who do not have any connection with the Company, were engaged to assist in identifying potential candidates and were given a role profile outlining the skills, attributes and experience that the Board was looking for in a successful candidate. A range of candidates from various backgrounds and industries were considered and a short list was compiled. Those on the shortlist were then formally interviewed by the Chairman and the Senior Independent Director. The preferred candidates then met with the other Directors. Following this process, the Committee concluded that Tim Gillbanks was the best candidate for the role, with his wide experience of the investment management industry and background as a chartered accountant, which will be influential in contributing in the Audit Committee and supporting the Company's focus on succession planning by bringing valuable skills to the Board. On the recommendation of the Committee, the Board agreed the appointment.

The Committee annually reviews its size and structure of the Board and will continue to review succession planning and recruitment further. When considering future appointments of Directors, the Nomination Committee, will look at the balance of skills, knowledge and experience, including gender diversity of the Board and will also take into account recommendations from the external board evaluations. The Committee will also consider the use of external consultants, as appropriate, when shortlisting candidates.

## Board Evaluation

In order to review the effectiveness of the Board and its Committees and of its individual Directors, an evaluation was carried out for the Board. This was done in the form of a questionnaire. The process was considered by the Board to be constructive in terms of identifying areas for improving the functioning and performance of the Board and the Committees, areas for additional focus going forward, the contribution of individual Directors, as well as building on and developing individual and collective strengths.

The Chairman's effectiveness was assessed by all other Board members and views fed back to the Senior independent Director. The Chairman and Senior Independent Director confirm that the performance of each director continues to be effective and demonstrates their commitment to the role. This includes extensive time for ad hoc communications throughout the year in addition to formal Board and Committee meetings. The Board believes it has a good balance of skills, experience and length of service to ensure it operates effectively. The performance of the Company is considered in detail at each Board meeting. In accordance with the provisions of the Code, it is the intention of the Board to engage an external facilitator to assist with the performance evaluation every three years. An external Board evaluation was last carried out in January 2017.

# Report of the Nomination Committee

*continued*

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## Directors' Training

When a new Director is appointed, he/she is offered training to suit their needs. Directors are also provided with key information on the Company's activities on a regular basis, including regulatory and statutory requirements and internal controls. Changes affecting Directors' responsibilities are advised to the Board as they arise. Directors ensure that they are updated on regulatory, statutory and industry matters.

## Letters of Appointment

No Director has a contract of employment with the Company. Directors' terms and conditions for appointment are set out in letters of appointment which are available for inspection at the registered office of the Company and will be on display at the AGM.

**Hugh Seaborn**

*Chairman of the Nomination Committee*

6 June 2018

GOVERNANCE

# Report of the Management Engagement Committee

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## Management Engagement Committee

Chairman: Mr Seaborn

### Key Responsibilities

- Monitor and review the performance of the AIFM and Portfolio Manager;
- Review the terms of the Investment Manager Agreement;
- Annually review the contract of terms and agreements of each external third party service provider; and
- Review, on an annual basis, the remuneration of the Directors.

In addition to the Investment Management role, the Board has delegated to external third parties the depositary and custodial services (which include the safeguarding of assets), the day to day accounting, company secretarial services, administration and registration services. Each of these contracts was entered into after full and proper consideration of the quality of the services offered, including the control systems in operation insofar as they relate to the affairs of the Company.

The MEC determines and approves Directors' fees following proper consideration, having regard to the level of fees payable to non-executive Directors in the industry generally, the role that individual directors fulfil in respect of Board and Committee responsibilities and the time committed to the Company's affairs. For further details please see the Directors' Remuneration Report on page 48 to 49.

The MEC meets at least on an annual basis, towards the end of the financial year and last met in March 2018.

### Activity during the year

At the MEC meeting in March 2018, the Committee reviewed the overall performance of the AIFM and Portfolio Manager and considered both the appropriateness of the Manager's appointment and the contractual arrangements (including the structure and level of remuneration) with the Manager.

In addition to the reviews by the MEC, the Board reviewed and considered performance reports from the Portfolio Manager at each Board meeting. The Board also received regular reports from the Administrator and Company Secretary.

The Board believe that the Manager's track record and performance remains outstanding. As a result, the MEC confirmed that the AIFM and Portfolio Manager should be retained for the financial year ending 31 March 2019. A summary of the significant terms of the Investment Management Agreement and the third party service providers who support the Trust are set out below.

During the year the MEC also reviewed the performance of all their third party service providers including BNP Paribas, Link Company Matters, Computershare, both the Company's brokers and PwC (as tax advisors). The Portfolio Manager provides regular updates on the performance of all third party providers during the year and attended this part of the MEC Meeting. The MEC confirmed that they were satisfied with the level of services delivered by each third party provider.

# Report of the Management Engagement Committee

*continued*

## Management Arrangements and Fees

On 11 July 2014, the Board appointed F&C Investment Business Limited as the Alternative Investment Fund Manager (in accordance with the Alternative Investment Fund Managers Directive) with portfolio management delegated to the Investment Manager, Thames River Capital LLP.

The significant terms of the Investment Management Agreement with the Manager are as follows:

### Notice Period

The Investment Management Agreement ("IMA") provides for termination of the agreement by either party without compensation on the provision of not less than 12 months' written notice.

### Management Fees

The fee for the period under review was a fixed fee of £3,195,000 plus an *ad valorem* fee of 0.20% pa based on the net asset value (determined in accordance with the AIC method of valuation) on the last day of March, June, September and December, payable quarterly in advance.

The fee arrangements have been reviewed by the Board for the year to 31 March 2019. For this period the fixed element of the Management Fee will be £3,565,000.

This is a larger than usual increase and worthy of further comment. It arises from a combination of the increased costs of compliance and research for the manager as a result of MIFID II referred to elsewhere in this Annual Report. On a like for like basis (assuming an identical net asset value for the period as the prior year resulting in the same ad-valorum fee) this will represent an increase of 6.7%. However, the net cost increase to the Trust is expected to be under 3% after taking account of commission savings which will be made on transaction costs in the capital account. The Board continues to consider that the fee structure aligns the interests of the shareholder and the manager as well as being highly competitive.

The fee arrangements will continue to be reviewed on an annual basis.

### Performance Fees

In addition to the management fees, the Board has agreed to pay the Manager performance related fees in respect of an accounting period if certain performance objectives are achieved.

A performance fee is payable if the total return of adjusted net assets (after deduction of all Base Management Fees and other expenses), as defined in the IMA, at 31 March each year outperforms the total return of the Company's benchmark plus 1% (the "hurdle rate"); this outperformance (expressed as a percentage) is known as the "percentage outperformance". Any fee payable will be the amount equivalent to the adjusted net assets at 31 March each year multiplied by the percentage outperformance, then multiplied by 15%. The maximum performance fee payable for a period is capped at 1.5% of the adjusted net assets. However, if the adjusted net assets at the end of any period are less than at the beginning of the period, the maximum performance fee payable will be limited to 1% of the adjusted net assets.

If the total return of shareholders' funds for any performance period is less than the benchmark for the relevant performance period, such underperformance (expressed as a percentage) will be carried forward to future performance periods.

If any fee exceeds the cap, such excess performance (expressed as a percentage) will be carried forward and applied to offset any percentage underperformance in future performance periods.



# Report of the Management Engagement Committee

*continued*

In the event that the benchmark is exceeded but the hurdle is not, that outperformance of the benchmark can be used to offset past or future underperformance. These amounts can be used for offset purposes only and therefore cannot have the effect of creating a fee in a year where a fee would not otherwise be payable or increasing the fee in that year. At 31 March 2018 there is a carry forward of outperformance of 1.8% (2017: 1.8%).

No fee will be payable unless the adjusted net assets outperform the hurdle rate, after taking into account any accumulated percentage underperformance brought forward at the beginning of the financial year.

Performance fees earned in the year ended 31 March 2018 were £10,188,000 (2017: £1,148,000).

Total fees paid to the Manager in any one year (Management and Performance Fees) may not exceed 4.99% of Group Equity Shareholders' Funds. Total fees payable for the year to 31 March 2018 amount to 1.2% (2017: 0.6%) of Group Equity Shareholders Funds.

## Depository Arrangements and Fees

BNP Paribas was appointed as Depository on 14 July 2014 in accordance with the Alternative Investment Fund Managers Directive. The Depository's responsibilities include: cash monitoring; segregation and safe keeping of the Company's financial instruments; and monitoring the Company's compliance with investment and leverage requirements. The Depository receives for its services a fee of 2.0 basis points per annum on the first GBP 150m of the Company's assets, 1.4 basis points per annum on assets above GBP 150m and below GBP 500m and 0.75 basis points on assets above GBP 500m.

## Review of Third Party Provider's Fees

Custody and Administration Services are provided by BNP Paribas and Company Secretarial Services by Link Company Matters. The fees for these services are charged directly to the Company and separately disclosed in the accounts.

**Hugh Seaborn**

*Chairman of the Management Engagement Committee*

6 June 2018

GOVERNANCE

# Directors' Remuneration Report

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## Introduction

The Board has prepared this report and the Directors Remuneration Policy, in accordance with the requirements of Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2013. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

The law requires the Company's Auditors, KPMG LLP, to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditors' opinion is included in the 'Independent Auditors' Report'.

## Annual Statement from the Chairman of the Committee

The MEC met in March 2018 and considered the feedback received as part of the Board evaluation alongside other factors. Non-executive fees of listed companies continue to rise, and the regulatory burden continues ever upwards. Following the MEC meeting in March 2018, it was agreed that Non-executive Director's fees would be increased from £33,000 to £34,000 with effect from 1 April 2018. It was also agreed that those Directors holding the role of Audit Chairman and Senior Independent Director would continue to receive an additional £5,000 to reflect their responsibility. It was further agreed that the Chairman's fee would remain at £70,000 per annum.

## Directors' Remuneration Policy

The Company's policy is that the fees payable to the Directors should reflect the time spent by the Board on the Company's affairs and the responsibilities borne by the Directors and should be sufficient to enable candidates of high calibre to be recruited. The policy is for the Chairman of the Board, the Chairman of the Audit Committee and the Senior Independent Director to be paid higher fees than the other Directors in recognition of their more onerous roles. This policy was approved by the members at the 2017 AGM, and the Directors' intention is that this will continue for the year ending 31 March 2019 and subsequent years. In accordance with the regulations, an ordinary resolution to approve the Directors' remuneration policy will be put to Shareholders at least once every three years.

The Directors are remunerated in the form of fees, payable monthly in arrears, to the Director personally or to a third party specified by that Director. There are no long-term incentive schemes, share option schemes or pension arrangements and the fees are not specifically related to the Directors' performance, either individually or collectively.

The Board consists entirely of Non-executive Directors, who are appointed with the expectation that they will serve for a period of three years. Directors' appointments are reviewed formally every three years thereafter by the Board as a whole. None of the Directors have a contract of service and a director may resign by notice in writing to the Board at any time; there are no notice periods. The terms of their appointment are detailed in a letter to them when they join the Board. As the Directors do not have service contracts, the Company does not have a policy on termination payments.

There is no notice period and no payments for loss of office were made during the period. The Company's Articles of Association currently limit the total aggregate fees payable to the Board to £300,000 per annum.

Shareholders' views in respect of Directors' remuneration are communicated at the Company's AGM and are taken into account in formulating the Directors remuneration policy. At the last AGM, over 98.5% of Shareholders voted for the resolution approving the Directors' Remuneration Report (1.4% against), and over 98% voted for the resolution approving the Directors' Remuneration Policy (1.5% against), showing significant shareholder support.

# Directors' Remuneration Report

continued

GOVERNANCE

## Annual Remuneration Report

For the year ended 31 March 2018, Directors' fees were paid at the annual rates of Chairman: £70,000 (2017: £70,000) and all other directors: £33,000 (2017: £32,000). An additional £5,000 is paid per annum for each of the roles of Audit Committee Chairman and Senior Independent Director. The actual amounts paid to the Directors during the financial year under review are as shown below.

### Amount of each Director's emoluments (audited)

The fees payable in respect of each of the Directors who served during the financial year were as follows:

	31 March 2018 £	31 March 2017 £
Hugh Seaborn	70,000	59,412
Simon Marrison	33,000	32,000
Suzie Procter	33,000	32,000
David Watson	43,000	40,315
Tim Gillbanks (joined 23 January 2018)	6,388	—
John Glen (retired 29 July 2017)	10,409	32,000

## Company Performance

The graph below compares, for the eight years ended 31 March 2018, the percentage change over each period in the share price total return to shareholders compared to the share price total return of benchmark, which the Board considers to be the most appropriate benchmark for investment performance measurement purposes. An explanation of the performance of the Company is given in the Chairman's Statement and Manager's Report.

## Directors' Interests in Shares (audited)

The interests of the Directors in the shares of the Company, at the beginning and at the end of the year, or date of appointment, if later, were as follows:

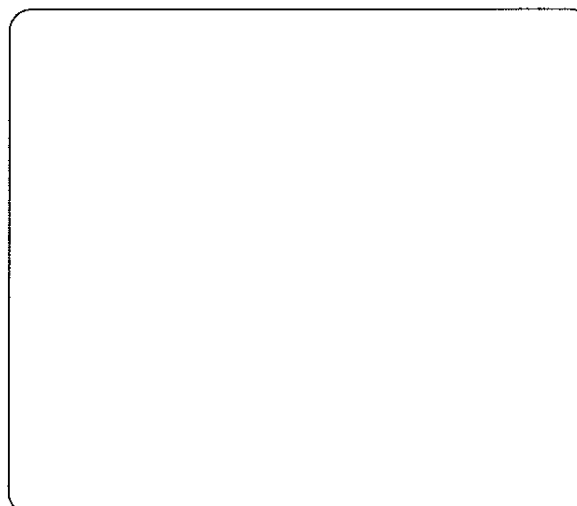
	31 March 2018 Ordinary shares of 25p	31 March 2017 Ordinary shares of 25p
J Glen	N/A	3,383
S Marrison	26,086	25,338
S E Procter	16,661	16,661
H Seaborn	34,668	34,668
D Watson	10,057	9,770
T Gillbanks	0	N/A

Since 31 March 2018 to the date of this report, there have been no subsequent changes to the Directors' interests in the shares of the Company.

### Relative Importance of Spend on Pay

	2018 £'000	2017 £'000	Percentage increase/ (decrease)
Dividends paid	35,067	29,521	18.8
Directors Fees	196	218	(10.1)

### Performance Graph – Share Price Total Return for Ordinary Share Class



For and on behalf of the Board

**Hugh Seaborn**

Chairman of the Management Engagement Committee  
6 June 2018

TR Property Investment Trust

# Report of the Audit Committee

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## Audit Committee

Chairman: Mr Watson

## Key Responsibilities

- Review the internal financial and non-financial controls;
- Review reports from key third party service providers;
- Consider and recommend to the Board for approval the contents of the draft Interim and Annual Reports;
- Review accounting policies and significant financial reporting judgements;
- Monitor, together with the Manager, the Company's compliance with financial reporting and regulatory requirements; and
- Review the performance and remuneration of the external auditor.

Representatives of the Manager's internal audit and compliance departments may attend these committee meetings at the Committee Chairman's request.

Representatives of the Company's Auditor attend the Committee meetings at which the draft Interim and Annual Report and Accounts are reviewed, and are given the opportunity to speak to the Committee members without the presence of the representatives of the Manager.

The Board recognises the requirement for the Audit Committee as a whole to have competence relevant to the sector and at least one member with recent and relevant financial experience. The Chairman and Mr Gillbanks are Chartered Accountants with extensive and recent experience in the Financial Services Industry. The other members of the Committee have a combination of property, financial, investment and business experience through senior positions held throughout their careers.

## Activity during the year

During the year the Committee met twice with all members at each meeting and considered the following:

- The Group's Internal Controls and consideration of the Reports thereon and Risk Map
- The ISAE/AAF and SSAE16 reports or their equivalent from F&C and BNP Paribas
- Whether the Company should have its own internal audit function.
- The impact and processes relating to the new regulation particularly MiFIDII, the requirements under PRIIPS and GDPR
- The External Auditor's Planning Memorandum setting out the scope of the annual audit and proposed key areas of focus
- The reports from the Auditors concerning their audit of the Financial Statements of the Company and Consideration of Significant issues in relation to the Financial Statements
- The appropriateness of, and any changes to, the accounting policies of the Company, including the reasonableness of any judgements required by such policies
- The Viability Statement and consideration of the preparation of the Financial Statements on a Going Concern Basis taking account of forward looking income forecasts, the liquidity of the investment portfolio and debt profile

# Report of the Audit Committee

continued

- The financial and other disclosures in the Financial Statements
- The information presented in the Interim and Annual Reports to assess whether, taken as a whole, the Reports are fair, balanced and understandable and the information presented will enable the shareholders to assess the Company's performance, business model and strategy
- The performance of the external auditors, to approve their audit fees and consider the assessment of independence

## Internal controls and management of risk

The Board has overall responsibility for the Group's system of Internal Controls and for reviewing their effectiveness. Key risks identified by the Auditors are considered by the Audit Committee to ensure that robust internal controls and monitoring procedures in respect of these are in place on an ongoing basis. Further details can be found on pages 28 to 30.

The Audit Committee received and considered reports on Internal Controls from the key service providers. No areas of concern were highlighted.

The Company's Risk Map was considered to identify any new risks and whether any adjustments were required to existing risks, and the controls and mitigation measures in place in respect of these risks.

Based on the processes and controls in place within the BMO Group and other significant service providers, the Board has concurred that there is no current need for the Company to have a dedicated internal audit function

## Significant Issues in relation to the Financial Statements

The Committee has considered this report and financial statements and the Viability Statement on page 31.

The Committee considered the Auditor's assessment of risk of material misstatement and reviewed the internal controls in place in respect of the key areas identified and the process by which the Board monitors each of the procedures to give the Committee comfort on these risks on an ongoing basis. These risks are also highlighted in the Company's Risk Map.

- **Valuation of the Group's Quoted investments** – The Group's investments are priced for the daily NAV by BNP Paribas. The quoted assets are priced by the Administrator's Global Pricing Platform which uses independent external pricing sources. The control process surrounding this is set out in the BNP Paribas AAF 01/06 Internal Controls Report and testing by the reporting accountant for the period reported to 31 December 2017 did not reveal any significant exceptions. The quarterly control report to the Board from BNP Paribas covering the period up to 31 March 2018 had no issues to report. In addition the Manager estimates the NAV using an alternative pricing source on a daily basis as an independent check.
- **Valuation of the Group's Direct Property Investments** – The physical property portfolio is valued every six months by professional independent valuers.

Knight Frank LLP value the portfolio on the basis of Fair Value in accordance with the RICS Valuation – Professional Standards VPS4 (1.5) Fair Value and VPGA 1 Valuations for Inclusion in Financial Statements, which apply the definition of Fair Value adopted by the International Financial Reporting Standards. IFRS 13 defines Fair Value as:

*"The amount for which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction"*

In undertaking their valuation of each property, Knight Frank have made their assessment on the basis of a collation and analysis of appropriate comparable investments, rental and sale transactions, together with evidence of demand

# Report of the Audit Committee

*continued*

within the vicinity of each property. This information has then been applied to the properties, taking into account size, location, terms, covenant and other material factors.

There has been nothing brought to the Committee's attention in respect of the financial statements for the period ended 31 March 2018, which was material or significant or that the Committee felt should be brought to shareholders' attention.

## Auditor assessment and independence

The Company's external auditor is KPMG LLP. In March 2016, the Company conducted a full audit tender process as the previous auditors, Ernst and Young, being in office for in excess of 20 years would have been required to retire under the new legislation following the 2019 audit. As a result of the tender process, KPMG LLP were appointed by shareholders at the 2016 AGM. The Committee expects to repeat a tender process in 2026 in respect of the audit for the year ended 31 March 2027, in line with the latest Corporate Governance provisions and EU Requirements.

During the year, KPMG presented their Audit Plan for the year end at the interim Committee meeting and the Committee considered the audit process and fee proposal. The Committee also reviewed KPMG's independence policies and procedures including quality assurance procedures, it was considered that these policies are fit for purpose and the Directors are satisfied that KPMG are independent.

Total fees payable to the Auditor in respect of the audit for the year to 31 March 2018 were: £70,000, (2017: £72,000), which were approved by the Audit Committee.

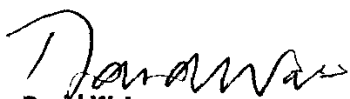
Additionally, during the year fees of £15,000 were paid to the Auditor in respect of the audit of subsidiaries of the Company for prior-period audits.

The Committee has approved and implemented a policy on the engagement of the Auditor to supply non-audit services, taking into account the recommendations of the Accounting Practices Board with a view to ensuring that the external Auditor does not provide non-audit services that have the potential to impair or appear to impair the independence of their audit role. The Committee does not believe there to be any impediment to the Auditor's objectivity and independence.

The fees for non-audit services for the year to 31 March 2018 were nil (2017: nil).

Full details of the Auditor's fees are provided in note 6 to the accounts on page 69.

Following each audit, the Committee reviews the audit process and considers its effectiveness and the quality of the services provided to the Company. The review following the completion of the 2018 Audit concluded that the Committee was satisfied with the Auditor's effectiveness and performance. The Committee felt that KPMG had run an effective and efficient audit process with appropriate challenge. The Committee was extremely satisfied with the auditors' performance and a resolution to re-appoint KPMG LLP as the Company's Auditor will be put to shareholders at the forthcoming AGM.



**David Watson**

*Chairman of the Audit Committee*

6 June 2018

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

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

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

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Responsibility statement

Each of the directors listed on page 33 confirms that to the best of their knowledge:

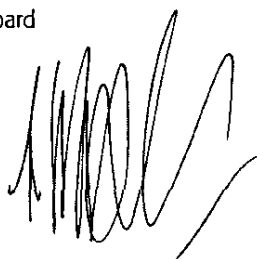
- the financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Company and the undertakings included in the consolidation taken as a whole; and
- the Annual Report, includes a fair review of the development and performance of the business and the position of the Trust, together with a description of the principal risks and uncertainties that it faces; and
- the accounting records have been properly maintained; and
- the Annual Report, taken as a whole, is fair, balanced and understandable and provides the necessary information for shareholders to assess the company's position and performance, business model and strategy.

By order of the Board

**Hugh Seaborn**

Chairman

6 June 2018





# Independent auditor's report

## to the members of TR Property Investment Trust plc

### 1. Our opinion is unmodified

We have audited the financial statements of TR Property Investment Trust plc ("the Company") for the year ended 31 March 2018 which comprise the Group Statement of Comprehensive Income, Group and Company Statement of Changes in Equity, Group and Company Balance Sheets, Group and Company Cash Flow Statements, and the related notes, including the accounting policies in note 1

#### In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2018 and of the Group's return for the year then ended,
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU 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.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the shareholders on 2 November 2016. The period of total uninterrupted engagement is for the two financial years ended 31 March 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

#### Overview

**Materiality:** group financial statements as a whole £13.7m  
1% of Total Assets

#### Risks of material misstatement

**Recurring risks** Carrying amount of quoted investments ◀▶

Valuation of direct property investments ◀▶



## 2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including 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. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters

	The risk	Our response
<b>Carrying amount of quoted investments (Group and Parent Company)</b> (£1,217.9m; 2017: £1,047.5m)  <i>Refer to pages 50 to 52 (Audit Committee Report), page 65 (accounting policy) and pages 72 (financial disclosures).</i>	<b>High value balance</b>  The Group's portfolio of quoted investments makes up 89.1% of the Group's total assets (by value) and is considered to be one of the key drivers of results. We note that the portfolio comprises liquid, quoted investments, however, due to their materiality in the context of the financial statements as a whole, they are considered to be one of the areas which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.	<b>Our procedures included</b>  — <b>Tests of detail:</b> Agreeing the valuation of 99.7 per cent of investments in the portfolio to externally quoted prices; and  — <b>Enquiry of custodians:</b> Agreeing 99.7 per cent of investment holdings in the portfolio to independently received third party confirmations from investment custodians.  <b>Our results</b>  — We found the carrying amount of quoted equity investments to be acceptable.
<b>Valuation of direct property investments (Group and Parent Company)</b> (£98.0m; 2017: £97.3m)  <i>Refer to pages 50 to 52 (Audit Committee Report), page 64 (accounting policy) and page 72 (financial disclosures)</i>	<b>Subjective valuation</b>  7.2% of the Group's total assets (by value) is held in investment properties where no quoted market price is available  Each property is unique and determination of the fair value requires judgement over the choice of valuation methodology to apply, as well as estimation, in particular over the key assumptions of the estimated rental value and the yield. The key assumptions will be impacted by a number of factors including location, quality and condition of the building and tenant credit rating.	<b>Our procedures included:</b>  — <b>Assessing valuer's credentials:</b> We assessed the objectivity and professional qualifications of the Group's external valuer, through discussions with the valuer and analysing their valuation report;  — <b>Methodology choice:</b> We held discussions with the external valuer to understand the valuation methodology used;  — <b>Benchmarking assumptions:</b> We held discussions with the external valuer to understand movements in property values. We challenged the key valuation assumptions by making a comparison to our own understanding of the market and to industry benchmarks;  — <b>Test of detail:</b> We compared a sample of rental income used in the valuations to lease contracts,  — <b>Assessing transparency:</b> we considered the adequacy of the Group's disclosures about the degree of estimation and sensitivity to key assumptions made when valuing investment properties.  <b>Our results</b>  — We found the carrying amount of direct property investments to be acceptable

### 3. Our application of materiality and an overview of the scope of our audit

Materiality for the group financial statements as a whole was set at £13.7m (2017: £11.9m), determined with reference to a benchmark of total assets, of which, it represents 1% (2017: 1%).

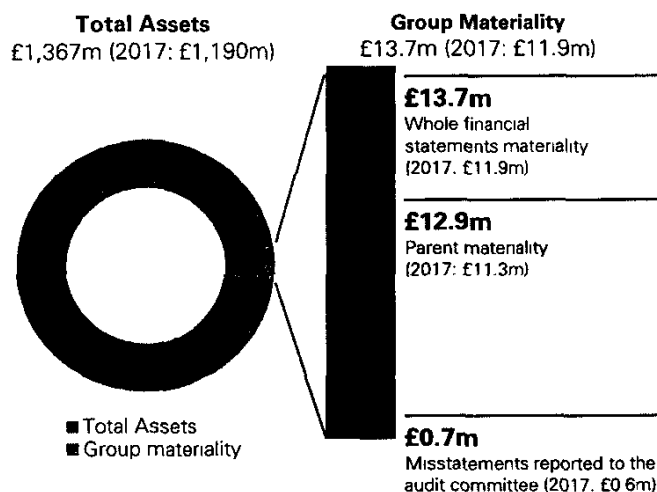
In addition, we applied materiality of £2.3m (2017: £2.0m), to investment income, gross rental income, net revenue returns on contracts for difference, management and performance fees, finance costs and taxation, for which we believe misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the company's members' assessment of the financial performance of the Group.

Materiality for the parent Company audit was set at £12.9m (2017: £11.3m), determined as 0.9% of the total assets of the parent Company (2017: 0.9%).

We reported to the Audit Committee any uncorrected identified misstatements exceeding £683,000 (2017: £595,000), in addition to other *identified misstatements that warranted reporting* on qualitative grounds. For those areas to which a lower materiality was applied, we reported any misstatements exceeding £114,000 (2017: £101,000). For the audit of the parent Company we reported any misstatements exceeding £645,000 (2017: £563,000).

Our audit of the Company was undertaken to the materiality level specified above and was performed at the administrator's head office in Dundee.

The audit team performed the audit of the Group as if it was a single aggregated set of financial information. This approach is unchanged from the prior year. The audit of the Group was performed using the Group materiality level set out above.



#### 4. We have nothing to report on going concern

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that *may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements*; or
- if the related statement under the Listing Rules set out on page 36 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

#### 5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

##### Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report,
- in our opinion the information given in those reports for the financial year is consistent with the financial statements, and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

##### Directors' remuneration report

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

#### Disclosures of principal risks and longer-term viability

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

- the Directors' confirmation within the Viability Statement on page 31 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity,
- the Principal Risks and Uncertainties disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the Viability Statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered 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

Under the Listing Rules we are required to review the Viability Statement. We have nothing to report in this respect.

#### Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

**6. We have nothing to report on the other matters on which we are required to report by exception**

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- 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 and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

**7. Respective responsibilities**

**Directors' responsibilities**

As explained more fully in their statement set out on page 53, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and 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 they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities**

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

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

**Irregularities – ability to detect**

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with the Directors, the manager and the administrator (as required by auditing standards)

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) as well as the Company's qualification as an Investment Trust under UK tax legislation, any breach of which could lead to the Company losing various deductions and exemptions from UK corporation tax. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations (irregularities), as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

**8. The purpose of our audit work and to whom we owe our responsibilities**

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.



**Richard Kelly (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*

15 Canada Square  
Canary Wharf  
London  
E14 5GL

6 June 2018

# Group Statement of Comprehensive Income

for the year ended 31 March 2018

	Notes	Year ended 31 March 2018			Year ended 31 March 2017		
		Revenue Return £'000	Capital Return £'000	Total £'000	Revenue Return £'000	Capital Return £'000	Total £'000
<b>Income</b>							
Investment income	2	<b>40,267</b>	–	<b>40,267</b>	35,574	–	35,574
Other operating income	4	<b>495</b>	–	<b>495</b>	62	–	62
Gross rental income	3	<b>3,971</b>	–	<b>3,971</b>	3,781	–	3,781
Service charge income	3	<b>1,397</b>	–	<b>1,397</b>	1,549	–	1,549
Gains on investments held at fair value	10	–	<b>140,470</b>	<b>140,470</b>	–	52,693	52,693
Net movement on foreign exchange; investments and loan notes		–	<b>(2,845)</b>	<b>(2,845)</b>	–	(1,130)	(1,130)
Net movement on foreign exchange; cash and cash equivalents		–	<b>921</b>	<b>921</b>	–	2,450	2,450
Net returns on contracts for difference	10	<b>4,624</b>	<b>6,358</b>	<b>10,982</b>	4,457	(1,487)	2,970
<b>Total Income</b>		<b>50,754</b>	<b>144,904</b>	<b>195,658</b>	45,423	52,526	97,949
<b>Expenses</b>							
Management and performance fees	5	<b>(1,389)</b>	<b>(14,355)</b>	<b>(15,744)</b>	(1,314)	(5,092)	(6,406)
Direct property expenses, rent payable and service charge costs	3	<b>(1,947)</b>	–	<b>(1,947)</b>	(2,078)	–	(2,078)
Other administrative expenses	6	<b>(1,308)</b>	<b>(558)</b>	<b>(1,866)</b>	(1,213)	(546)	(1,759)
<b>Total operating expenses</b>		<b>(4,644)</b>	<b>(14,913)</b>	<b>(19,557)</b>	(4,605)	(5,638)	(10,243)
Operating profit		<b>46,110</b>	<b>129,991</b>	<b>176,101</b>	40,818	46,888	87,706
Finance costs	7	<b>(772)</b>	<b>(2,070)</b>	<b>(2,842)</b>	(621)	(1,842)	(2,463)
<b>Profit from operations before tax</b>		<b>45,338</b>	<b>127,921</b>	<b>173,259</b>	40,197	45,046	85,243
Taxation	8	<b>(3,383)</b>	<b>2,326</b>	<b>(1,057)</b>	(4,080)	1,822	(2,258)
<b>Total comprehensive income</b>		<b>41,955</b>	<b>130,247</b>	<b>172,202</b>	36,117	46,868	82,985
<b>Earnings per Ordinary share</b>	9	<b>13.22p</b>	<b>41.04p</b>	<b>54.26p</b>	11.38p	14.76p	26.14p

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

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

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

The notes on pages 63 to 88 form part of these Financial Statements.

# Group and Company Statement of Changes in Equity

## Group

	Notes	Share Capital Ordinary £'000	Share Premium Account £'000	Capital Redemption Reserve £'000	Retained Earnings Ordinary £'000	Total £'000
<b>For the year ended 31 March 2018</b>						
<b>At 31 March 2017</b>		<b>79,338</b>	<b>43,162</b>	<b>43,971</b>	<b>951,953</b>	<b>1,118,424</b>
Net profit for the year		–	–	–	172,202	172,202
Dividends paid	17	–	–	–	(35,067)	(35,067)
<b>At 31 March 2018</b>		<b>79,338</b>	<b>43,162</b>	<b>43,971</b>	<b>1,089,088</b>	<b>1,255,559</b>

## Company

	Notes	Share Capital Ordinary £'000	Share Premium Account £'000	Capital Redemption Reserve £'000	Retained Earnings Ordinary £'000	Total £'000
<b>For the year ended 31 March 2018</b>						
<b>At 31 March 2017</b>		<b>79,338</b>	<b>43,162</b>	<b>43,971</b>	<b>951,953</b>	<b>1,118,424</b>
Net profit for the year		–	–	–	172,202	172,202
Dividends paid	17	–	–	–	(35,067)	(35,067)
<b>At 31 March 2018</b>		<b>79,338</b>	<b>43,162</b>	<b>43,971</b>	<b>1,089,088</b>	<b>1,255,559</b>

## Group

		Share Capital Ordinary £'000	Share Premium Account £'000	Capital Redemption Reserve £'000	Retained Earnings Ordinary £'000	Total £'000
<b>For the year ended 31 March 2017</b>						
<b>At 31 March 2016</b>		<b>79,375</b>	<b>43,162</b>	<b>43,934</b>	<b>898,948</b>	<b>1,065,419</b>
Net profit for the year		–	–	–	82,985	82,985
Shares repurchased	14	(37)	–	37	(459)	(459)
Dividends paid	17	–	–	–	(29,521)	(29,521)
<b>At 31 March 2017</b>		<b>79,338</b>	<b>43,162</b>	<b>43,971</b>	<b>951,953</b>	<b>1,118,424</b>

## Company

		Share Capital Ordinary £'000	Share Premium Account £'000	Capital Redemption Reserve £'000	Retained Earnings Ordinary £'000	Total £'000
<b>For the year ended 31 March 2017</b>						
<b>At 31 March 2016</b>		<b>79,375</b>	<b>43,162</b>	<b>43,934</b>	<b>898,948</b>	<b>1,065,419</b>
Net profit for the year		–	–	–	82,985	82,985
Shares repurchased	14	(37)	–	37	(459)	(459)
Dividends paid	17	–	–	–	(29,521)	(29,521)
<b>At 31 March 2017</b>		<b>79,338</b>	<b>43,162</b>	<b>43,971</b>	<b>951,953</b>	<b>1,118,424</b>

The notes on pages 63 to 88 form part of these Financial Statements.

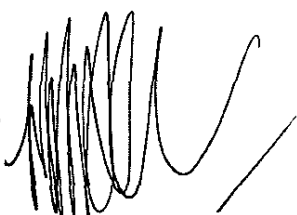
# Group and Company Balance Sheets

as at 31 March 2018

	Notes	Group 2018 £'000	Company 2018 £'000	Group 2017 £'000	Company 2017 £'000
<b>Non-current assets</b>					
Investments held at fair value	10	<b>1,316,046</b>	<b>1,316,046</b>	1,144,776	1,144,776
Investments in subsidiaries	10	–	<b>50,470</b>	–	50,531
		<b>1,316,046</b>	<b>1,366,516</b>	1,144,776	1,195,307
Deferred taxation asset	12	<b>243</b>	<b>243</b>	243	243
		<b>1,316,289</b>	<b>1,366,759</b>	1,145,019	1,195,550
<b>Current assets</b>					
Debtors	12	<b>32,574</b>	<b>32,452</b>	38,809	38,687
Cash and cash equivalents		<b>18,114</b>	<b>18,110</b>	6,445	6,420
		<b>50,688</b>	<b>50,562</b>	45,254	45,107
Current liabilities	13	<b>(52,543)</b>	<b>(102,887)</b>	(14,081)	(64,465)
Net current (liabilities)/assets		<b>(1,855)</b>	<b>(52,325)</b>	31,173	(19,358)
Total assets less current liabilities		<b>1,314,434</b>	<b>1,314,434</b>	1,176,192	1,176,192
Non-current liabilities	13	<b>(58,875)</b>	<b>(58,875)</b>	(57,768)	(57,768)
Net assets		<b>1,255,559</b>	<b>1,255,559</b>	1,118,424	1,118,424
<b>Capital and reserves</b>					
Called up share capital	14	<b>79,338</b>	<b>79,338</b>	79,338	79,338
Share premium account	15	<b>43,162</b>	<b>43,162</b>	43,162	43,162
Capital redemption reserve	15	<b>43,971</b>	<b>43,971</b>	43,971	43,971
Retained earnings	16	<b>1,089,088</b>	<b>1,089,088</b>	951,953	951,953
<b>Equity shareholders' funds</b>		<b>1,255,559</b>	<b>1,255,559</b>	1,118,424	1,118,424
<b>Net Asset Value per:</b>					
Ordinary share	19	<b>395.64p</b>	<b>395.64p</b>	352.42p	352.42p

These Financial Statements were approved by the directors of TR Property Investment Trust plc (Company No: 84492) and authorised for issue on 6 June 2018.

**H Seaborn**  
Director



The notes on pages 63 to 88 form part of these Financial Statements

FINANCIAL STATEMENTS

# Group and Company Cash Flow Statements

as at 31 March 2018

FINANCIAL STATEMENTS

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

The notes on pages 63 to 88 form part of these Financial Statements.



# Notes to the Financial Statements

## 1 Accounting policies

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

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

The preparation of the financial statements necessarily requires the exercise of judgement, both in application of accounting policies, which are set out below, and in the selection of assumptions used in the calculation of estimates. These estimates and judgements are reviewed on an ongoing basis and are continually evaluated based on historical experience and other factors. However, actual results may differ from these estimates. Such judgements are discussed further in section (f) of this note.

### a) Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiaries to 31 March 2018. *All the subsidiaries of the Company have been consolidated in these financial statements.*

In accordance with IFRS10 the Company has been designated as an investment entity on the basis that:

- It obtains funds from investors and provides those investors with investment management services;
- It commits to its investors that its business purpose is to invest solely for returns from capital appreciation and investment income; and
- It measures and evaluates performance of substantially all of its investments on a fair value basis.

Each of the subsidiaries of the Company was established for the sole purpose of operating or supporting the investment operations of the Company (including raising additional financing), and is not itself an investment entity. IFRS 10 sets out that in the case of controlled entities that support the investment activity of the investment entity, those entities should be consolidated rather than presented as investments at fair value. Accordingly the Company has consolidated the results and financial positions of those subsidiaries.

Subsidiaries are consolidated from the date of their acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of subsidiaries used in the preparation of the consolidated financial statements are based on consistent accounting policies. All intra-group balances and transactions, including unrealised profits arising therefrom, are eliminated. This is consistent with the presentation in previous years.

### b) Income

*Dividends receivable on equity shares are treated as revenue for the year on an ex-dividend basis. Where no ex-dividend date is available, dividends receivable on or before the year end are treated as revenue for the year. Provision is made for any dividends not expected to be received. Where the Group has elected to receive these dividends in the form of additional shares rather than cash the amount of cash dividend foregone is recognised as income. Differences between the value of shares received and the cash dividend foregone are recognised in the capital returns of the Group Statement of Comprehensive Income. The fixed returns on debt securities are recognised on a time apportionment basis so as to reflect the effective yield on each such security. Interest receivable from cash and short term deposits is accrued to the end of the year. Stock lending income is recognised on an accruals basis. Underwriting commission is taken to revenue, unless any shares underwritten are required to be taken up, in which case the proportionate commission received is deducted from the cost of the investment.*

Recognition of property rental income is set out in section (f) of this note.

### c) Expenses

*All expenses and finance costs are accounted for on an accruals basis. An analysis of retained earnings broken down into revenue and capital items is given in note 16. In arriving at this breakdown, expenses have been presented as revenue items except as follows:*

- Expenses which are incidental to the acquisition or disposal of an investment;

# Notes to the Financial Statements

*continued*

## 1 Accounting policies *continued*

- Expenses are presented as capital where a connection with the maintenance or enhancement of the value of the investments can be demonstrated, this includes irrecoverable VAT incurred on costs relating to the extension of residential leases as premiums received for extending or terminating leases are recognised in the capital account,
- One quarter of the base management fee is charged to revenue, with three quarters allocated to capital return to reflect the Board's expectations of long term investment returns. All performance fees are charged to capital return;
- The fund administration, depositary, custody and company secretarial services are charged directly to the Company and are included within 'Other administrative expenses' in note 6. These expenses are charged on the same basis as the base management fee, one quarter to income and three quarters to capital

### d) Finance costs

The finance cost in respect of capital instruments other than equity shares is calculated so as to give a constant rate of return on the outstanding balance. One quarter of the finance cost is charged to revenue and three quarters to capital return.

### e) Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the Group Statement of Comprehensive Income.

The tax effect of different items of expenditure is allocated between capital and revenue using the Group's effective rate of tax for the year. The charge for taxation is based on the profit for the year and takes into account taxation deferred because of temporary differences between the treatment of certain items for taxation and accounting purposes.

In accordance with the recommendations of the SORP, the allocation method used to calculate tax relief on expenses presented against capital returns in the supplementary information in the Statement of Comprehensive Income is the "marginal basis". Under this basis, if taxable income is capable of being offset entirely by expenses presented in the revenue return column of the Statement of Comprehensive Income, then no tax relief is transferred to the capital column.

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

The Company is an investment trust under s.1158 of the Corporation Tax Act 2010 and, as such, is not liable for tax on capital gains. Capital gains arising in subsidiary companies are subject to capital gains tax.

### f) Investment property

Investment property is measured initially at cost including transaction costs. Transaction costs include transfer taxes, professional fees for legal services and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating. The carrying amount also includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met. The purchase and sale of properties is recognised to be effected on the date unconditional contracts are exchanged

Subsequent to initial recognition, investment property is stated at fair value. Gains or losses arising from changes in the fair values are included in the Group Statement of Comprehensive Income in the year in which they arise.

Investment property is derecognised when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses are recognised in the Group Statement of Comprehensive Income in the year of disposal.

Gains or losses on the disposal of investment property are determined as the difference between net disposal proceeds and the carrying value of the asset at the date of disposal.

### Revaluation of investment properties

The Group carries its investment properties at fair value in accordance with IFRS 13, revalued twice a year, with changes in fair values being recognised in the Group Statement of Comprehensive Income. The Group engaged Knight Frank LLP as independent valuation specialists to determine fair value as at 31 March 2018.

# Notes to the Financial Statements

*continued*

## 1 Accounting policies *continued*

### **Valuations of investment properties**

Determination of the fair value of investment properties has been prepared on the basis defined by the RICS Valuation Standards 6th Edition (The Red Book) as follows:

"The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

The valuation takes into account future cash flow from assets (such as lettings, tenants' profiles, future revenue streams, capital values of fixtures and fittings, plant and machinery, any environmental matters and the overall repair and condition of the property) and discount rates applicable to those assets. These assumptions are based on local market conditions existing at the balance sheet date.

In arriving at their estimates of fair values as at 31 March 2018, the valuers have used their market knowledge and professional judgement and have not only relied solely on historical transactional comparables. Examples of inputs to the valuation can be seen in the sensitivity analysis disclosed in note 10(f)

### **Rental income**

Rental income receivable under operating leases is recognised on a straight-line basis over the term of the lease, except for contingent rental income which is recognised when it arises

Incentives for lessees to enter into lease agreements are spread evenly over the lease term, even if the payments are not made on such a basis. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, the directors are reasonably certain that the tenant will exercise that option. Premiums received to terminate or extend leases are recognised in the capital account of the Group Statement of Comprehensive Income when they arise.

### **Service charges and expenses recoverable from tenants**

Income arising from expenses recharged to tenants is recognised in the period in which the expense can be contractually recovered. Service charges and other such receipts are included gross of the related costs in revenue as the directors consider that the Group acts as principal in this respect.

### **g) Investments**

When a purchase or sale is made under contract, the terms of which require delivery within the timeframe of the relevant market, the investments concerned are recognised or derecognised on the trade date.

All the Group's investments are defined under IFRS as investments designated as fair value through profit or loss but are also described in these financial statements as investments held at fair value.

*All investments are designated upon initial recognition as held at fair value, and are measured at subsequent reporting dates at fair value, which, for quoted investments, is deemed to be closing prices for stocks sourced from European stock exchanges and for SETS stocks sourced from the London Stock Exchange. SETS is the London Stock Exchange electronic trading service covering most of the market including all the FTSE All-Share and the most liquid AIM constituents. Unquoted investments or investments for which there is only an inactive market are held at fair value which is based on valuations made by the directors in accordance with IPEVCA guidelines and using current market prices, trading conditions and the general economic climate*

In its financial statements the Company recognises its investments in subsidiaries at adjusted net asset value. The subsidiaries have historically been holding vehicles for direct property investment or financing vehicles. No assets are currently held through the subsidiary structure and all financing instruments are directly held by the company.

Changes in the fair value are recognised in the Group Statement of Comprehensive Income. On disposal, realised gains and losses are also recognised in the Group Statement of Comprehensive Income.

### **Derivatives**

Derivatives are held at fair value based on traded prices. Gains and losses on derivative transactions are recognised in the Group Statement of Comprehensive Income. Gains and losses on CFDs resulting from movements in the price of the underlying stock are treated as capital. Dividends from the underlying investment and financing costs of CFDs are treated as revenue/revenue expenses.

Gains and losses on forward currency contracts used for capital hedging purposes are treated as capital.

# Notes to the Financial Statements

*continued*

## 1 Accounting policies *continued*

Contracts for Difference ("CFDs") are synthetic equities and are valued by reference to the investments' underlying market values. The sources of the returns under the derivative contract (e.g. notional dividends, financing costs, interest returns and capital changes) are allocated to the revenue and capital accounts in alignment with the nature of the underlying source of income and in accordance with the guidance given in the AIC SORP. Notional dividend income or expenses arising on long or short positions are apportioned wholly to the revenue account. Notional interest expense on long positions is apportioned between revenue and capital in accordance with the Board's long term expected returns of the Company (currently determined to be 25% to the revenue account and 75% to capital reserves). Changes in value relating to underlying price movements of securities in relation to CFD exposures are allocated wholly to capital reserves.

### **h) Borrowings, loan notes and debentures**

All loans and debentures are initially recognised at cost, being the fair value of the consideration received, less issue costs where applicable. After initial recognition, all interest bearing loans and borrowings are subsequently measured at amortised cost.

Amortised cost is calculated by taking into account any discount or premium on settlement. The costs of arranging any interest bearing loans are capitalised and amortised over the life of the loan on an effective interest rate basis.

### **i) Foreign currency translation**

Transactions involving foreign currencies are converted at the rate ruling at the date of the transaction.

Foreign currency monetary assets and liabilities are translated into Sterling at the rate ruling on the balance sheet date. Foreign exchange differences are recognised in the Group Statement of Comprehensive Income.

### **j) Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand and demand deposits.

### **k) Dividends payable to shareholders**

Interim dividends are recognised in the period in which they are paid and final dividends are recognised when approved by shareholders.

### **l) Adoption of new and revised Standards**

#### ***Standards and Interpretations effective in the current period***

The accounting policies adopted are consistent with those of the previous consolidated financial statements.

#### ***Early adoption of standards and interpretations***

The standards issued before the reporting date that become effective after 31 March 2018 will not have a material effect on equity or profit for the subsequent period. The Group has not early adopted any new International Financial Reporting Standard or Interpretation Standards, amendments and interpretations issued but not yet effective up to the date of issuance of the Group financial statements are listed below:

IFRS 9 – Financial Instruments (2014) replaces IAS 39 and deals with a package of improvements including principally a revised model for classification and measurement of financial instruments, a forward looking expected loss impairment model and a revised framework for hedge accounting. In terms of classification and measurement the revised standard is principles based depending on the business model and nature of cash flows. Under this approach, instruments are measured at either amortised cost or fair value, though the standard retains the fair value option allowing designation of debt instruments at initial recognition to be measured at fair value. The standard is effective from 1 January 2018 with earlier application permitted.

The Group has not early adopted this standard and expects the eventual impact to be insignificant for its current investment portfolio, which is substantially comprised of quoted equities.

IFRS 15 – Revenue from Contracts with Customers (effective 1 January 2018) specifies how and when an entity should recognise revenue and enhances the nature of revenue disclosures. Given the nature of the Group's revenue streams from financial instruments, the provisions of this standard are not expected to have a material impact.

Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions (effective 1 January 2018). The amendments relate to specific areas of classification and measurement and are not expected to have a material impact on the Group's financial statements as such transactions are not undertaken.

# Notes to the Financial Statements

continued

## 1 Accounting policies *continued*

Transfers of Investment Property (Amendments to IAS 40) (effective 1 January 2018). The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments are not expected to have a material impact on the Group's financial statements.

IFRIC Interpretation 22 Foreign Currency Transaction and Advance Consideration (effective 1 January 2018).

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration.

Annual improvements to IFRSs 2014-2016 Cycle (effective 1 January 2018) (Amendments to IFRS 1 First time Adoption of IFRSs and IAS 28 Investments in Associates and Joint Ventures).

IFRS 16 – Leases (effective 1 January 2019). The Group does not expect the financial impact of this standard on the financial statements to be material. The standard requires more extensive disclosures than are currently required.

IFRIC 23 Uncertainty over Income Tax Treatments (effective 1 January 2019).

Prepayment Features with Negative Compensation (Amendments to IFRS 9) (effective 1 January 2019)

Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28) (effective 1 January 2019)

Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) (effective 1 January 2019).

Annual Improvements to IFRS Standards 2015-2017 Cycle - various standards (effective 1 January 2019).

IFRS 17 Insurance Contracts (effective 1 January 2021).

None of the above are expected to have a material impact on the Group's financial statements.

## 2 Investment income

	2018 £'000	2017 £'000
Dividends from UK listed investments	3,658	2,660
Dividends from overseas listed investments	24,806	26,018
Scrp dividends from listed investments	4,623	935
Interest from listed investments	–	21
Property income distributions	7,180	5,940
	<b>40,267</b>	<b>35,574</b>

## 3 Net rental income

	2018 £'000	2017 £'000
Gross rental income	3,971	3,781
Service charge income	1,397	1,549
Direct property expenses, rent payable and service charge costs	(1,947)	(2,078)
	<b>3,421</b>	<b>3,252</b>

# Notes to the Financial Statements

continued

## 3 Net rental income *continued*

### Operating leases

The Group has entered into commercial leases on its property portfolio. Commercial property leases typically have lease terms between 5 and 15 years and include clauses to enable periodic upward revision of the rental charge according to prevailing market conditions. Some leases contain options to break before the end of the lease term.

Future minimum rentals under non-cancellable operating leases as at 31 March are as follows:

	2018 £'000	2017 £'000
Within 1 year	4,100	3,850
After 1 year but not more than 5 years	12,000	12,000
More than 5 years	18,850	15,500
	<b>34,950</b>	<b>31,350</b>

## 4 Other operating income

	2018 £'000	2017 £'000
Interest receivable	35	7
Interest on refund of overseas withholding tax	460	–
Underwriting commission	–	55
	<b>495</b>	<b>62</b>

Underwriting is part of the process of introducing new securities to the market. The Company may participate in the underwriting of investee companies' securities, as one of a number of participants, for which compensation in the form of commission is received. The Company only participates in underwriting having assessed the risks involved and in securities in which it is prepared to increase its holding should that be the outcome. The commission earned is taken to revenue unless any securities underwritten are required to be taken up in which case the proportionate commission is deducted from the cost of the investment. During the year the Company participated in no (2017: one) underwriting and no commission was earned. All commission earned in 2017 was taken to revenue.

## 5 Management and performance fees

	2018 Revenue Return £'000	2018 Capital Return £'000	2018 Total £'000	2017 Revenue Return £'000	2017 Capital Return £'000	2017 Total £'000
Management fee	1,389	4,167	5,556	1,314	3,944	5,258
Performance fee	–	10,188	10,188	–	1,148	1,148
	<b>1,389</b>	<b>14,355</b>	<b>15,744</b>	<b>1,314</b>	<b>5,092</b>	<b>6,406</b>

A summary of the terms of the management agreement is given in the Report of the Directors on pages 46 to 47.

# Notes to the Financial Statements

continued

## 6 Other administrative expenses

	2018 £'000	2017 £'000
Directors' fees (Directors' Remuneration Report on pages 48 to 49)	196	218
Auditors' remuneration:		
– for audit of the consolidated and parent company financial statements	70	72
– for audit of prior period financial statements of subsidiaries	15	–
Legal fees	17	2
Taxation fees	172	117
Other administrative expenses	184	177
Other expenses	499	444
Irrecoverable VAT	155	183
Expenses charged to Revenue	1,308	1,213
Expenses charged to Capital	558	546
	<b>1,866</b>	<b>1,759</b>

The audit of the prior period financial statements of subsidiaries related to the 18 month period from 1 April 2015 to 30 September 2016

Other administrative expenses include depository, custody and company secretarial services. These expenses are charged on the same basis as the base management fee; one quarter to income and three quarters to capital.

Other expenses include broker fees, marketing and PR costs, Director National Insurance and recruitment, Registrars and listing fees, and annual report and other publication printing and distribution costs. These expenses are charged solely to the revenue account.

VAT on costs incurred in connection with the extension of the residential leases on The Colonnades are charged to the capital account.

## 7 Finance costs

	2018 £'000	2017 £'000
Bank loans and overdrafts repayable within 1 year	1,364	1,094
Loan notes repayable after 5 years	1,396	1,362
HMRC interest	82	7
	<b>2,842</b>	<b>2,463</b>
Amount allocated to capital return	<b>(2,070)</b>	<b>(1,842)</b>
	<b>772</b>	<b>621</b>

# Notes to the Financial Statements

continued

## 8 Taxation

### a) Analysis of charge in the year

	2018 Revenue Return £'000	2018 Capital Return £'000	2018 Total £'000	2017 Revenue Return £'000	2017 Capital Return £'000	2017 Total £'000
UK corporation tax at 19% (2017: 20%)	2,374	(2,374)	–	2,180	(2,180)	–
Overseas taxation	2,864	44	2,908	2,060	–	2,060
	5,238	(2,330)	2,908	4,240	(2,180)	2,060
(Over)/under provision in respect of prior years	(1,855)	4	(1,851)	(160)	358	198
Current tax charge for the year	3,383	(2,326)	1,057	4,080	(1,822)	2,258

### b) Factors affecting total tax charge for the year

The tax assessed for the year is lower (2017: lower) than the standard rate of corporate tax in the UK for a large company of 19% (2017: 20%).

The difference is explained below:

	2018 Revenue Return £'000	2018 Capital Return £'000	2018 Total £'000	2017 Revenue Return £'000	2017 Capital Return £'000	2017 Total £'000
Net profit on ordinary activities before taxation	45,338	127,921	173,259	40,197	45,046	85,243
Corporation tax charge at 19% (2017: 20%)	8,614	24,305	32,919	8,039	9,009	17,048
Effects of:						
Non taxable gains on investments	–	(26,689)	(26,689)	–	(10,539)	(10,539)
Currency movements not taxable	–	366	366	–	(264)	(264)
Tax relief on expenses credited/(charged) to capital	–	803	803	–	(683)	(683)
Non-taxable returns	–	(1,208)	(1,208)	–	297	297
Non-taxable UK dividends	(936)	–	(936)	(719)	–	(719)
Non-taxable overseas dividends	(5,350)	–	(5,350)	(5,208)	–	(5,208)
Overseas withholding taxes	2,864	44	2,908	2,060	–	2,060
(Over)/under provision in respect of prior years	(1,855)	4	(1,851)	(160)	358	198
Disallowable expenses	19	–	19	23	–	23
Deferred tax not provided	27	49	76	44	–	44
Rate change on deferred tax	–	–	–	1	–	1
	3,383	(2,326)	1,057	4,080	(1,822)	2,258

The Group has not recognised deferred tax assets of £1,802,000 (2017: £1,096,000) arising as a result of losses carried forward. It is considered too uncertain that the Group will generate profits in the relevant companies that the losses would be available to offset against and, on this basis, the deferred tax asset in respect of these expenses has not been recognised.

Due to the Company's status as an Investment Trust, and the intention to continue meeting the conditions required to obtain approval for the foreseeable future, the Company has not provided deferred tax on any capital gains arising on the revaluation or disposal of investments. In respect of properties held in subsidiaries, provision for capital gains tax has been made for revaluation surpluses not sheltered by brought forward capital losses or non-trade debits.



# Notes to the Financial Statements

continued

## 8 Taxation *continued*

### c) Provision for deferred taxation

The amounts for deferred taxation provided at 19% (2017: 20%) comprise:

<b>Group</b>	<b>2018 Revenue Return £'000</b>	<b>2018 Capital Return £'000</b>	<b>2018 Total £'000</b>	<b>2017 Revenue Return £'000</b>	<b>2017 Capital Return £'000</b>	<b>2017 Total £'000</b>
Accelerated capital allowances	107	–	107	107	–	107
Unutilised losses carried forward	–	(350)	(350)	–	(350)	(350)

Shown as:

Deferred tax liability/(asset)	107	(350)	(243)	107	(350)	(243)
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<b>Company</b>	<b>2018 Revenue Return £'000</b>	<b>2018 Capital Return £'000</b>	<b>2018 Total £'000</b>	<b>2017 Revenue Return £'000</b>	<b>2017 Capital Return £'000</b>	<b>2017 Total £'000</b>
Accelerated capital allowances	107	–	107	107	–	107
Unutilised losses carried forward	–	(350)	(350)	–	(350)	(350)

Shown as:

Deferred tax liability/(asset)	107	(350)	(243)	107	(350)	(243)
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The movement in provision in the year is as follows:

<b>Group</b>	<b>2018 Revenue Return £'000</b>	<b>2018 Capital Return £'000</b>	<b>2018 Total £'000</b>	<b>2017 Revenue Return £'000</b>	<b>2017 Capital Return £'000</b>	<b>2017 Total £'000</b>
Provision at the start of the year	107	(350)	(243)	107	(350)	(243)
Accelerated capital allowances	–	–	–	–	–	–
Provision at the end of the year	107	(350)	(243)	107	(350)	(243)

<b>Company</b>	<b>2018 Revenue Return £'000</b>	<b>2018 Capital Return £'000</b>	<b>2018 Total £'000</b>	<b>2017 Revenue Return £'000</b>	<b>2017 Capital Return £'000</b>	<b>2017 Total £'000</b>
Provision at the start of the year	107	(350)	(243)	107	(350)	(243)
Accelerated capital allowances	–	–	–	–	–	–
Provision at the end of the year	107	(350)	(243)	107	(350)	(243)

FINANCIAL STATEMENTS

# Notes to the Financial Statements

continued

## 9 Earnings per share

### Earnings per Ordinary share

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

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

The Group has no securities in issue that could dilute the return per Ordinary share. Therefore the basic and diluted return per Ordinary share are the same.

## 10 Investments held at fair value

### a) Analysis of investments

	Group 2018 £'000	Company 2018 £'000	Group 2017 £'000	Company 2017 £'000
Listed in the United Kingdom	401,967	401,967	329,151	329,151
Unlisted in the United Kingdom	153	153	2	2
Listed Overseas	815,915	815,915	718,319	718,319
Investment properties	98,011	98,011	97,304	97,304
Investments held at fair value	1,316,046	1,316,046	1,144,776	1,144,776
Investments in subsidiaries at fair value	-	50,470	-	50,531
	1,316,046	1,366,516	1,144,776	1,195,307

### b) Gains on investments held at fair value

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Gains on sale of investments	77,647	81,756
Movement in investment holding gains	62,823	(29,063)
Gains on investments held at fair value	140,470	52,693

# Notes to the Financial Statements

continued

## 10 Investments held at fair value *continued*

### c) Business segment reporting

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

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

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

### d) Geographical segment reporting

	Valuation 31 March 2017 £'000	Net additions/ (disposals) £'000	Net appreciation/ (depreciation) £'000	Valuation 31 March 2018 £'000	Gross revenue 31 March 2018 £'000	Gross revenue 31 March 2017 £'000
UK listed equities and convertibles	329,151	35,799	37,017	<b>401,967</b>	<b>10,838</b>	<b>8,600</b>
UK unlisted equities	2	–	151	<b>153</b>	<b>28</b>	<b>–</b>
UK direct property <sup>1</sup>	97,304	(10,152)	10,859	<b>98,011</b>	<b>5,368</b>	<b>5,330</b>
Continental European listed equities	718,319	5,153	92,443	<b>815,915</b>	<b>29,429</b>	<b>26,953</b>
European fixed interest	–	–	–	<b>–</b>	<b>–</b>	<b>21</b>
	1,144,776	30,800	140,470	<b>1,316,046</b>	<b>45,663</b>	<b>40,904</b>
UK contracts for difference <sup>2</sup>	1,323	(6,635)	6,232	<b>920</b>	<b>2,383</b>	<b>2,081</b>
European contracts for difference <sup>2</sup>	823	(1,374)	126	<b>(425)</b>	<b>2,241</b>	<b>2,376</b>
	<b>1,146,922</b>	<b>22,791</b>	<b>146,828</b>	<b>1,316,541</b>	<b>50,287</b>	<b>45,361</b>

Included in the above figures are purchase costs of £470,000 (2017: £768,000) and sales costs of £211,000 (2017: £298,000). These comprise mainly stamp duty and commission.

<sup>1</sup> Net additions/(disposals) includes £930,000 (2017: £1,177,000) of capital expenditure. Net appreciation/(depreciation) includes amounts in respect of rent free periods.

<sup>2</sup> Gross revenue for contracts for difference relates to dividends receivable, on an ex dividend basis, on the underlying positions held.

### e) Substantial share interests

The Group held interests in 3% or more of any class of capital in 8 companies we invest in. None of these investments is considered significant in the context of these financial statements. See note 21 on page 86 for further details of subsidiary investments.

# Notes to the Financial Statements

continued

## 10 Investments held at fair value *continued*

### f) Fair value of financial assets and financial liabilities

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

#### *Fair value hierarchy disclosures*

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

Level 1 – valued using quoted prices in an active market for identical assets.

Level 2 – valued by reference to valuation techniques using observable inputs other than quoted prices within Level 1.

Level 3 – valued by reference to valuation techniques using inputs that are not based on observable market data.

The valuation techniques used by the Group are explained in the accounting policies in notes 1(f) and 1(g).

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

#### *Financial assets at fair value through profit or loss*

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>At 31 March 2018</b>				
Equity investments	1,217,882	–	153	1,218,035
Investment properties	–	–	98,011	98,011
Contracts for difference	–	495	–	495
Foreign exchange forward contracts	–	644	–	644
	<b>1,217,882</b>	<b>1,139</b>	<b>98,164</b>	<b>1,317,185</b>
<b>At 31 March 2017</b>				
Equity investments	1,047,470	–	2	1,047,472
Investment properties	–	–	97,304	97,304
Contracts for difference	–	2,146	–	2,146
	<b>1,047,470</b>	<b>2,146</b>	<b>97,306</b>	<b>1,146,922</b>

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

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

# Notes to the Financial Statements

continued

## 10 Investments held at fair value *continued*

### f) Fair value of financial assets and financial liabilities *continued*

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

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

All appreciation/(depreciation) as stated above relates to unlisted equity investments and investment properties held at 31 March 2018. The Group held one unquoted investment at the year end (see 11.6 overleaf)

#### Transfers between hierarchy levels

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

Key assumptions used in value in use calculations are explained in the accounting policies in note 1(f).

#### Sensitivity information

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

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

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

## 11 Financial Instruments

### Risk management policies and procedures

The Group invests in equities and other instruments for the long term in the pursuit of the Investment Objective set out on page 24. The Group is exposed to a variety of risks that could result in either a reduction or an increase in the profits available for distribution by way of dividends

The principal risks the Group faces in its portfolio management activities are:

- Market risk (comprising price risk, currency risk and interest rate risk).
- Liquidity risk
- Credit risk

The Manager's policies and processes for managing these risks are summarised on pages 28 to 30 and have been applied throughout the year

# Notes to the Financial Statements

continued

## 11 Financial Instruments *continued*

### 11.1 Market price risk

By the very nature of its activities, the Group's investments are exposed to market price fluctuations.

#### **Management of the risk**

The Manager runs a diversified portfolio and reports to the Board on the portfolio activity and performance at each board meeting. The Board monitors the investment activity and strategy to ensure it is compatible with the stated objectives.

The Group's exposure to changes in market prices on its quoted equity investments, CFDs and investment property portfolio, was as follows:

	2018 £'000	2017 £'000
Investments held at fair value	1,316,046	1,144,776
CFD long gross exposure	125,677	114,186

#### **Concentration of exposure to price risks**

As set out in the Investment Policies on page 25, there are guidelines to the amount of exposure to a single company, geographical region or direct property. These guidelines ensure an appropriate spread of exposure to individual or sector price risks. As an investment company dedicated to investment in the property sector, the Group is exposed to price movements across the property asset class as a whole.

#### **Price risk sensitivity**

The following table illustrates the sensitivity of the profit after taxation for the year and the value of shareholders' funds to an increase or decrease of 15% in the fair values of the Group's equity, fixed interest, CFD and direct property investments. The level of change is consistent with the illustration shown in the previous year. The sensitivity based on the Group's equity, fixed interest, CFD and direct property exposure at each balance sheet date, with all other variables held constant.

	2018 Increase in fair value £'000	2018 Decrease in fair value £'000	2017 Increase in fair value £'000	2017 Decrease in fair value £'000
Statement of Comprehensive Income – profit after tax				
Revenue return	(92)	92	(77)	77
Capital return	197,241	(197,241)	171,832	(171,832)
Change to the profit after tax for the year/shareholders' funds	197,149	(197,149)	171,755	(171,755)
Change to total earnings per Ordinary share	62.12p	(62.12)p	54.12p	(54.12)p

### 11.2 Currency risk

A proportion of the Group's portfolio is invested in overseas securities and their Sterling value can be significantly affected by movements in foreign exchange rates.

#### **Management of the risk**

The Board receives a report at each board meeting on the proportion of the investment portfolio held in Sterling, Euros or other currencies. The Group may sometimes hedge foreign currency movements outside the Eurozone by funding investments in overseas securities with unsecured loans denominated in the same currency or through forward currency contracts.

Cash deposits are held in Sterling and/or Euro denominated accounts.

# Notes to the Financial Statements

continued

## 11 Financial Instruments *continued*

### 11.2 Currency risk *continued*

#### **Foreign currency exposure**

At the reporting date the Group had the following exposure:  
(Sterling has been shown for reference)

Currency	2018	2017
Sterling	<b>29.1%</b>	35.1%
Euro	<b>56.9%</b>	51.9%
Swedish Krona	<b>8.0%</b>	7.3%
Other	<b>6.0%</b>	5.7%

The following table sets out the Group's total exposure to foreign currency risk and the net exposure to foreign currencies of the net monetary assets and liabilities

	Sterling £'000	Euro £'000	Swedish Krona £'000	Other £'000
<b>2018</b>				
Receivables (due from brokers, dividends and other income receivable)	<b>7,535</b>	<b>24,450</b>	–	–
Cash at bank and on deposit	<b>3,523</b>	<b>12,773</b>	<b>561</b>	<b>1,257</b>
Bank loans, loan notes and overdrafts	<b>(56,000)</b>	<b>(43,875)</b>	–	–
Payables (due to brokers, accruals and other creditors)	<b>(11,428)</b>	<b>(170)</b>	–	–
FX forwards	<b>(78,883)</b>	<b>63,282</b>	<b>(16,940)</b>	<b>33,185</b>
Total foreign currency exposure on net monetary items	<b>(135,253)</b>	<b>56,460</b>	<b>(16,379)</b>	<b>34,442</b>
Investments held at fair value	<b>500,131</b>	<b>658,333</b>	<b>116,951</b>	<b>40,631</b>
Non-current assets	<b>243</b>	–	–	–
Total currency exposure	<b>365,121</b>	<b>714,793</b>	<b>100,572</b>	<b>75,073</b>
<b>2017</b>				
Receivables (due from brokers, dividends and other income receivable)	30,993	7,030	786	–
Cash at bank and on deposit	3,403	2,137	446	459
Bank loans, loan notes and overdrafts	(20,000)	(42,768)	–	–
Payables (due to brokers, accruals and other creditors)	(3,617)	(1,460)	(474)	(2,736)
FX forwards	(70,277)	47,070	–	22,413
CFD Positions (Gross exposure)	65,119	49,067	–	–
Total foreign currency exposure on net monetary items	5,621	61,076	758	20,136
Investments held at fair value	426,457	578,309	88,931	51,079
Non-current assets	243	–	–	–
Total currency exposure	432,321	639,385	89,689	71,215

#### **Foreign currency sensitivity**

The following table illustrates the sensitivity of the profit after tax for the year on the Group's equity in regard to the exchange rates for Sterling/Euro and Sterling/Swedish Krona and other currencies.

It assumes the following changes in exchange rates:

Sterling/Euro +/- 15% (2017: 15%).

Sterling/Swedish Krona +/- 15% (2017: 15%).

Sterling/Other +/- 15% (2017: 15%).

# Notes to the Financial Statements

continued

## 11 Financial Instruments *continued*

### 11.2 Currency risk *continued*

#### *Foreign currency sensitivity continued*

If Sterling had strengthened against the currencies shown, this would have the following effect:

	Year ended March 2018			Year ended March 2017		
	Euro £'000	Swedish Krona £'000	Other £'000	Euro £'000	Swedish Krona £'000	Other £'000
Statement of Comprehensive Income – profit after tax						
Revenue return	(2,841)	(231)	(235)	(2,454)	(288)	307
Capital return	(80,441)	(15,231)	(5,291)	(68,993)	(13,093)	(6,653)
Change to the profit after tax for the year/shareholders' funds	(83,282)	(15,462)	(5,526)	(71,447)	(13,381)	(6,346)
	2018			2017		
Change to total earnings per Ordinary share	(32.86)p			(28.72)p		

If Sterling had weakened against the currencies shown, this would have had the following effect:

	Year ended March 2018			Year ended March 2017		
	Euro £'000	Swedish Krona £'000	Other £'000	Euro £'000	Swedish Krona £'000	Other £'000
Statement of Comprehensive Income – profit after tax						
Revenue return	4,484	271	310	3,960	354	770
Capital return	115,241	20,622	7,164	101,810	17,727	9,000
Change to the profit after tax for the year/shareholders' funds	119,725	20,893	7,474	105,770	18,081	9,770
	2018			2017		
Change to total earnings per Ordinary share	46.67p			42.09p		

### 11.3 Interest rate risk

Interest rate movements may affect:

- the fair value of any investments in fixed interest securities;
- the fair value of the loan notes;
- the level of income receivable from cash at bank and on deposit;
- the level of interest expense on any variable rate bank loans; and
- the prices of the underlying securities held in the portfolios.

#### *Management of the risk*

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions. Property companies usually have borrowings themselves and the level of gearing and structure of its debt portfolio is a key factor when assessing the investment in a property company.

The Group has fixed and variable rate borrowings. The interest rates on the loan notes is fixed, details are set out in note 13. In addition to the loan notes the Group had unsecured, multi-currency revolving loan facilities which carry variable rates of interest based on the currencies drawn, plus a margin. These facilities total £65,000,000 (2017: £70,000,000).

The Manager considers both the level of debt on the balance sheet of the Group (i.e. the loan notes and any bank loans drawn) and the "see-through" gearing, taking into account the assets and liabilities of the underlying investments, when considering the investment portfolio. These gearing levels are reported regularly to the Board.



# Notes to the Financial Statements

continued

## 11 Financial Instruments *continued*

### 11.3 Interest rate risk *continued*

#### **Management of the risk *continued***

The majority of the Group's investment portfolio is non-interest bearing. As a result the Group's financial assets are not directly subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates.

#### **Interest rate exposure**

The exposure at 31 March of financial assets and financial liabilities to interest rate risk is shown by reference to:

- floating interest rates: when the interest rate is due to be re-set;
- fixed interest rates: when the financial instrument is due to be repaid

The Group's exposure to floating interest rates on assets is £42,564,000 (2017: £27,943,000)

The Group's exposure to fixed interest rates on assets: £nil (2017: £nil).

The Group's exposure to fixed interest rates on liabilities: £58,875,000 (2017: £57,768,000).

The Group's exposure to floating interest rates on liabilities: £41,000,000 (2017: £5,000,000).

Interest receivable and finance costs are at the following rates:

- Interest received on cash balances, or paid on bank overdrafts, is at a margin over LIBOR or its foreign currency equivalent (2017: same).
- Interest paid on borrowings under the multi-currency loan facilities, is at a margin over LIBOR or its foreign currency equivalent for the type of loan (2017: same)
- The finance charges on the €50m and £15m loan notes are at interest rates of 1.92% and 3.59% respectively

The year end amounts are not representative of the exposure to interest rates during the year as the level of exposure changes as investments are made in fixed interest securities, borrowings are drawn down and repaid, and the mix of borrowings between floating and fixed interest rates changes.

#### **Interest rate sensitivity**

A change of 2% on interest rates at the reporting date would have had the following direct impact:

	2018 2% Increase £'000	2018 2% Decrease £'000	2017 2% Increase £'000	2017 2% Decrease £'000
Change to shareholders' funds	(928)	928	(557)	557
Change to total earnings per Ordinary share	(0.29)p	0.29p	(0.18)p	0.18p

This level of change is not representative of the year as a whole, since the exposure changes throughout the period. This assessment does not take into account the impact of interest rate changes on the market value of the investments the Group holds.

### 11.4 Liquidity risk

Unquoted investments in the portfolio are subject to liquidity risk. The Group held one unquoted investment at the year end (see 11.6 below).

In certain market conditions, the liquidity of direct property investments may be reduced. At 31 March 2018, 7% (2017: 8%) of the Group's investment portfolio was held in direct property investments.

At 31 March 2018, 93% (2017: 92%) of the Group's investment portfolio is held in listed securities which are predominantly readily realisable.

Bank loan facilities are short term revolving loans which it is intended are renewed or replaced but renewal cannot be certain. Loan notes of €50m and £15m are repayable in February 2026 and 2031 respectively.

The table shows the timing of cash outflows to settle the Group's current liabilities together with anticipated interest costs

# Notes to the Financial Statements

continued

## 11 Financial Instruments *continued*

### 11.4 Liquidity risk *continued*

#### Debt and Financing maturity profile:

	Within 1 year £'000	Within 1-2 years £'000	Within 2-3 years £'000	Within 3-4 years £'000	Within 4-5 years £'000	More than 5 years £'000	Total £'000
<b>At 31 March 2018</b>							
Bank loans*	41,000	–	–	–	–	–	41,000
Loan notes	–	–	–	–	–	58,875	58,875
Projected interest cash flows on bank and loan notes	1,888	1,381	1,381	1,381	1,381	6,834	14,246
Accruals and deferred income	11,160	–	–	–	–	–	11,160
Other creditors	383	–	–	–	–	–	383
	<b>54,431</b>	<b>1,381</b>	<b>1,381</b>	<b>1,381</b>	<b>1,381</b>	<b>65,709</b>	<b>125,664</b>
<b>At 31 March 2017</b>							
Bank loans*	5,000	–	–	–	–	–	5,000
Loan notes	–	–	–	–	–	57,768	57,768
Projected interest cash flows on bank and loan notes	1,413	1,360	1,360	1,360	1,360	8,130	14,983
Securities and properties purchased for future settlement	5,869	–	–	–	–	–	5,869
Foreign exchange forward contracts for settlement	794	–	–	–	–	–	794
Accruals and deferred income	2,090	–	–	–	–	–	2,090
Other creditors	328	–	–	–	–	–	328
	<b>15,494</b>	<b>1,360</b>	<b>1,360</b>	<b>1,360</b>	<b>1,360</b>	<b>65,898</b>	<b>86,832</b>

\* A £40m one year multicurrency facility with RBS expired in January 2018. £35m was renewed for one year until January 2019. £31m was drawn on this facility at the balance sheet date. A £30m one year facility with ING Luxembourg was renewed in July 2017. £10m was drawn on this facility at the balance sheet date.

#### Management of the risk

The Manager sets guidelines for the maximum exposure of the portfolio to unquoted and direct property investments. These are set out in the *Investment Policies* on page 25. All unquoted investments with a value over £1m and direct property investments with a value over £5m must be approved by the Board for purchase.

The Company maintains regular contact with the banks providing revolving facilities and renewal discussions commence well ahead of facility renewal dates. In addition the Company is exploring new opportunities for the provision of debt on an ongoing basis.

### 11.5 Credit risk

The failure of a counterparty to a transaction to discharge its obligations under that transaction could result in the Group suffering a loss. At the period end the largest counterparty risk, which the Group was exposed to was within Debtors and Cash and cash equivalents where the total bank balances held with one counterparty was £24,450,000 (2017: £22,882,000).

#### Management of the risk

Investment transactions are carried out with a number of brokers, whose credit standing is reviewed periodically by the Manager, and limits are set on the amount that may be due from any one broker. Cash at bank is only held with banks with high quality external credit ratings.

# Notes to the Financial Statements

continued

## 11 Financial Instruments *continued*

### 11.5 Credit risk *continued*

#### Credit risk exposure

In summary, compared to the amounts in the Balance Sheet, the maximum exposure to credit risk at 31 March was as follows:

	2018 Balance Sheet £'000	2018 Maximum exposure £'000	2017 Balance Sheet £'000	2017 Maximum exposure £'000
Debtors	<b>32,574</b>	<b>32,574</b>	38,809	38,809
Cash and cash equivalents	<b>18,114</b>	<b>18,114</b>	6,445	6,445
	<b>50,688</b>	<b>50,688</b>	45,254	45,254

#### Offsetting disclosures

In order to better define its contractual rights and to secure rights that will help the Group mitigate its counterparty risk, the Group may enter into an ISDA Master Agreement or similar agreement with its OTC derivative contract counterparties. An ISDA Master Agreement is an agreement between the Group and the counterparty that governs OTC derivatives and foreign exchange contracts and typically contains, among other things, collateral posting terms and netting provisions in the event of a default and/or termination event. Under an ISDA Master Agreement, the Group has a contractual right to offset with the counterparty certain derivative financial instruments payables and/or receivables with collateral held and/or posted and create one single net payment in the event of default including the bankruptcy or insolvency of the counterparty. However, bankruptcy or insolvency laws of a particular jurisdiction may impose restrictions on or prohibitions against the right of offset in bankruptcy, insolvency or other events.

The disclosures set out in the following tables include financial assets and financial liabilities that are subject to an enforceable master netting arrangement or similar agreement.

At 31 March 2018 and 2017, the Group's derivative assets and liabilities (by type) are as follows:

Description	Year ended 2018			Year ended 2017		
	Gross amounts of recognised financial assets £'000	Net amounts of financial liabilities set off in the Statement of Financial Position £'000	Net amounts of financial assets presented in the Statement of Financial Position £'000	Gross amounts of recognised financial assets £'000	Net amounts of financial liabilities set off in the Statement of Financial Position £'000	Net amounts of financial assets presented in the Statement of Financial Position £'000
CFD positions	<b>2,228</b>	<b>(1,733)</b>	<b>495</b>	2,305	(159)	2,146
FX forward contracts	<b>145,783</b>	<b>(145,139)</b>	<b>644</b>	86,919	(87,713)	(794)
	<b>148,011</b>	<b>(146,872)</b>	<b>1,139</b>	89,224	(87,872)	1,352

Counterparties	Year ended 2018		Year ended 2017	
	Net amounts of financial assets presented in the Statement of Financial Position £'000	Cash collateral pledged £'000	Net amounts of financial assets presented in the Statement of Financial Position £'000	Cash collateral pledged £'000
ING	<b>495</b>	<b>24,450</b>	2,146	22,882
BNP Paribas	<b>644</b>	–	(794)	–
	<b>1,139</b>	<b>24,450</b>	1,352	22,882

# Notes to the Financial Statements

continued

## 11 Financial Instruments *continued*

### 11.6 Fair values of financial assets and financial liabilities

Except for the loan notes which are measured at amortised cost, the fair values of the financial assets and financial liabilities are either carried in the balance sheet at their fair value (investments) or the balance sheet amount is a reasonable approximation of fair value (debtors, creditors, cash at bank and bank overdrafts, accruals and prepayments).

The fair values of the listed investments are derived from the closing price or last traded price at which the securities are quoted on the London Stock Exchange and other recognised exchanges.

The fair value of contracts for difference are based on the underlying listed investment value as set out above and the amount due from or to the counterparty under the contract is recorded as an asset or liability accordingly.

The fair values of the properties are derived from an open market (Red Book) valuation of the properties on the Balance Sheet date by an independent firm of valuers (Frank Knight).

There was one unquoted investment at the Balance Sheet date, Atrato, with a total value of £153,000 (2017: Nanette, £2,000).

The amounts of change in fair value for investments recognised in the profit or loss for the year was a profit of £146,828,000 (2017: profit of £51,192,000).

### 11.7 Capital management policies and procedures

The Group's capital management objectives are:

- to ensure that it will be able to continue as a going concern; and
- to maximise the total return to its equity shareholders through an appropriate balance of equity capital and debt

The equity capital of the Group at 31 March 2018 consisted of called up share capital, share premium, capital redemption and revenue reserves totalling £1,255,559,000 (2017: £1,118,424,000). The Group does not regard the loan notes and loans as permanent capital

The loan notes agreement requires compliance with a set of financial covenants, including:

- Total Borrowings shall not exceed 33% of Adjusted Net Asset Value;
- the Adjusted Total Assets shall at all times be equivalent to a minimum of 300% of Total Borrowings; and
- the Adjusted NAV shall not be less than £260,000,000.

## 12 Debtors

	Group 2018 £'000	Company 2018 £'000	Group 2017 £'000	Company 2017 £'000
Amounts falling due within one year:				
Securities and properties sold for future settlement	269	269	8,557	8,557
Tax recoverable	1,296	1,174	728	606
Prepayments and accrued income <sup>1</sup>	4,537	4,537	4,755	4,755
Foreign exchange forward contracts for settlement	644	644	–	–
Amounts receivable in respect of Contracts for Difference	495	495	2,146	2,146
Other debtors <sup>2</sup>	25,333	25,333	22,623	22,623
	<b>32,574</b>	<b>32,452</b>	<b>38,809</b>	<b>38,687</b>
Non-current assets				
Deferred taxation asset	243	243	243	243

<sup>1</sup>Includes amounts in respect of rent free periods

<sup>2</sup>Includes CFD margin cash of £24,450,000 (2017: £21,498,000)

# Notes to the Financial Statements

continued

## 13 Current and non-current liabilities

	Group 2018 £'000	Company 2018 £'000	Group 2017 £'000	Company 2017 £'000
Amounts falling due within one year:				
Bank loans and overdrafts	41,000	41,000	5,000	5,000
Securities and properties purchased for future settlement	-	-	5,869	5,869
Amounts due to subsidiaries	-	50,361	-	50,390
Accruals and deferred income	11,160	11,149	2,090	2,090
Other creditors	383	377	328	322
Foreign exchange forward contracts for settlement	-	-	794	794
	<b>52,543</b>	<b>102,887</b>	14,081	64,465
Non-current liabilities				
1.92% Euro Loan Notes 2026	43,875	43,875	42,768	42,768
3.59% GBP Loan Notes 2031	15,000	15,000	15,000	15,000
	<b>58,875</b>	<b>58,875</b>	57,768	57,768

The total amount of secured creditors is £nil (2017: £nil).

### Loan Notes

On the 10th February 2016, the Company issued 1.92% Unsecured Euro 50,000,000 Loan Notes and 3.59% Unsecured GBP 15,000,000 Loan Notes which are due to be redeemed at par on the 10th February 2026 and 10th February 2031 respectively.

The fair value of the 1.92% Euro Loan Notes was £44,003,000 (2017: £42,918,000) and the 3.59% GBP Loan Notes was £15,271,000 (2017: £15,511,000) at 31 March 2018. Using the IFRS 13 fair value hierarchy the Loan Notes are deemed to be categorised within Level 2.

The loan notes agreement requires compliance with a set of financial covenants, including:

- Total Borrowings shall not exceed 33% of Adjusted Net Asset Value;
- the Adjusted Total Assets shall at all times be equivalent to a minimum of 300% of Total Borrowings; and
- the Adjusted NAV shall not be less than £260,000,000.

The Company and Group complied with the terms of the loan notes agreement throughout the year.

### Multi-currency revolving loan facilities

The Group also had unsecured, multi-currency, revolving short-term loan facilities totalling £65,000,000 (2017: £70,000,000) at 31 March 2018. At 31 March 2018 £41,000,000 was drawn on these facilities (2017: £5,000,000).

The maturity of these facilities and detail of their renewal is shown in notes 11.3 and 11.4.

### Reconciliation of liabilities arising from financing activities

	Long term debt £'000	Short term debt £'000	Total £'000
Group and Company			
Opening liabilities from financing activities at 31 March 2017	57,768	5,000	62,768
Cash flows:			
Drawdown of bank loans	-	36,000	36,000
Movement on foreign exchange	1,107	-	1,107
Closing liabilities from financing activities at 31 March 2018	58,875	41,000	99,875

# Notes to the Financial Statements

continued

## 13 Current and non-current liabilities *continued*

### Net debt

Net debt includes the value of the loan notes, loans, the notional exposure to CFDs, less cash (including cash collateral held by the CFD provider which is shown as a debtor in the Financial Statements) as a proportion of equity shareholders' funds.

The net gearing has been calculated as follows:

	Group 2018 £'000	Group 2017 £'000
Loan notes	58,875	57,768
Loans	41,000	5,000
CFD positions (notional exposure)	125,677	114,186
Less: Cash	(18,114)	(6,445)
Less: Cash collateral (included within 'Other debtors' in Note 12)	(24,450)	(21,498)
	<b>182,988</b>	<b>149,011</b>
Equity shareholders' funds	<b>1,255,559</b>	<b>1,118,424</b>
Net gearing	<b>14.6%</b>	<b>13.3%</b>

## 14 Called up share capital

### Ordinary share capital

The balance classified as Ordinary share capital includes the nominal value proceeds on the issue of the Ordinary equity share capital comprising Ordinary shares of 25p.

	Number	Issued, allotted and fully paid £'000
Ordinary shares of 25p		
At 1 April 2017	317,350,980	79,338
Shares repurchased	—	—
At 31 March 2018	317,350,980	79,338

The voting rights are disclosed in the Report of the Directors on page 38.

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

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

## 15 Share premium account and capital redemption reserve

### Share premium account

The balance classified as share premium includes the premium above nominal value from the proceeds on issue of the equity share capital comprising Ordinary shares of 25p.

### Capital redemption reserve

The capital redemption reserve is used to record the amount equivalent to the nominal value of purchases of the Company's own shares in order to maintain the Company's capital.

# Notes to the Financial Statements

continued

## 16 Retained earnings

	Group 2018 £'000	Company 2018 £'000	Group 2017 £'000	Company 2017 £'000
Investment holding gains	<b>404,279</b>	<b>436,779</b>	335,083	367,644
Realised capital reserves	<b>621,391</b>	<b>594,708</b>	560,340	533,656
	<b>1,025,670</b>	<b>1,031,487</b>	895,423	901,300
Revenue reserve	<b>63,418</b>	<b>57,601</b>	56,530	50,653
	<b>1,089,088</b>	<b>1,089,088</b>	951,953	951,953

Group investment holding gains at 31 March 2018 include a £1,179,000 loss (2017: £1,348,000 loss) relating to unlisted investments and gains of £41,246,000 (2017: £33,518,000) relating to investment properties.

Company investment holding gains at 31 March 2018 include gains of £72,568,000 (2017: £64,730,000) relating to unlisted and subsidiary investments with a £40,106,000 revaluation gain (2017: £32,378,000 gain) relating to investment properties. Dividends are only distributable from the revenue reserve.

## 17 Dividends

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 March 2017 of 6.40p (2016: 5.20p) per Ordinary share	<b>20,310</b>	16,510
Interim dividend for the year ended 31 March 2018 of 4.65p (2017: 4.10p) per Ordinary share	<b>14,757</b>	13,011
	<b>35,067</b>	29,521

Amounts not recognised as distributions to equity holders in the year.

Proposed final dividend for the year ended 31 March 2018 of 7.55p (2017: 6.40p) per Ordinary share	<b>23,960</b>	20,310
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The final dividend has not been included as a liability in these financial statements in accordance with IAS 10 "Events after the Balance Sheet Date".

Set out below is the total dividend to be paid in respect of the year. This is the basis on which the requirements of s.1158 of the Corporation Tax Act 2010 are considered.

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Interim dividend for the year ended 31 March 2018 of 4.65p (2017: 4.10p) per Ordinary share	<b>14,757</b>	13,011
Proposed final dividend for the year ended 31 March 2018 of 7.55p (2017: 6.40p) per Ordinary share	<b>23,960</b>	20,310
	<b>38,717</b>	33,321

# Notes to the Financial Statements

continued

## 18 Company Statement of Comprehensive Income

As permitted by Section 408 of the Companies Act 2006, the Company has not presented its own Statement of Comprehensive Income. The net profit after taxation of the Company dealt with in the accounts of the Group was £172,202,000 (2017: £82,985,000).

## 19 Net asset value per Ordinary share

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

## 20 Commitments and contingent liabilities

At 31 March 2018 and 31 March 2017 the Group had no capital commitments or contingent liabilities.

## 21 Subsidiaries

The Group has the following subsidiaries, all of which are registered and operating in Scotland, England and Wales:

Name	Reg. Number	Principal activity
New England Properties Limited	788895	Non-trading company
The Colonnades Limited	2826672	Non-trading company
Showart Limited	2500726	Non-trading company
Trust Union Properties Residential Developments Limited	2365875	Non-trading company
The Property Investment Trust Limited	2415846	Non-trading company
The Real Estate Investment Trust Limited	2416015	Non-trading company
The Terra Property Investment Trust Limited	2415843	Non-trading company
Trust Union Property Investment Trust Limited	2416017	Non-trading company
Trust Union Properties (Number Five) Limited	2415839	Non-trading company
Trust Union Properties (Number Six) Limited	2416018	Non-trading company
Trust Union Properties (Number Seven) Limited	2415836	Non-trading company
Trust Union Properties (Number Eight) Limited	2416019	Non-trading company
Trust Union Properties (Number Nine) Limited	2415833	Non-trading company
Trust Union Properties (Number Ten) Limited	2416021	Non-trading company
Trust Union Properties (Number Eleven) Limited	2415830	Non-trading company
Trust Union Properties (Number Twelve) Limited	2416022	Non-trading company
Trust Union Properties (Number Thirteen) Limited	2415818	Non-trading company
Trust Union Properties (Number Fourteen) Limited	2416024	Non-trading company
Trust Union Properties (Number Fifteen) Limited	2416026	Non-trading company
Trust Union Properties (Number Sixteen) Limited	2415806	Non-trading company
Trust Union Properties (Number Seventeen) Limited	2416027	Non-trading company
Trust Union Properties (Number Eighteen) Limited	2415768	Non-trading company
Trust Union Properties (Bayswater) Limited	2416030	Property investment
Trust Union Properties (Cardiff) Limited	2415772	Non-trading company
Trust Union Properties (Theale) Limited	2416031	Non-trading company
Trust Union Properties (Number Twenty-Two) Limited	2415765	Non-trading company
Trust Union Properties (Number Twenty-Three) Limited	2416036	Non-trading company
Skillion Finance Limited	2420758	Non-trading company
Trust Union Finance (1991) Plc	2663561	Investment financing
FGH Developments Limited	1481476	Non-trading company
FGH Developments (Aberdeen) Limited (E18030)	SC68799	Non-trading company



# Notes to the Financial Statements

continued

## 21 Subsidiaries *continued*

Name	Reg. Number	Principal activity
FGH (Newcastle) Limited	1466619	Non-trading company
NEP (1994) Limited	977481	Non-trading company
New England Developments Limited	1385909	Non-trading company
New England Investments Limited	2613905	Non-trading company
New England Retail Properties Limited	1447221	Non-trading company
New England (Southern) Limited	1787371	Non-trading company
Sapco One Limited	803940	Non-trading company
Trust Union Properties Limited	2134624	Non-trading company
Trust Union Finance Limited	1233998	Investment holding and finance company
TR Property Finance Limited	2415941	Investment holding and finance company
Trust Union Properties (South Bank) Limited	2420097	Non-trading company

The Company has provided a guarantee for each of these subsidiaries in order for them to take the exemption from the requirement of an audit, in line with the requirements of S.479A of the Companies Act 2006.

All the subsidiaries are wholly owned and all the holdings are ordinary shares.

All companies have the registered office of 11-12 Hanover Street, London, W1S 1YQ with the exception of FGH Developments (Aberdeen) Limited which is registered to 50 Lothian Road, Festival Square, Edinburgh EH3 9BY

## 22 Related party transactions disclosures

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation.

Amounts due by the Company to subsidiaries per note 13

	2018 £'000	2017 £'000
The Colonnades Limited	22,619	22,619
TR Property Finance Limited	27,762	27,791
New England Properties Limited	(20)	(20)
	<b>50,361</b>	<b>50,390</b>

### Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the Company for each of the relevant categories specified in IAS 24 Related Party Disclosures is provided in the audited part of the Directors' Remuneration Report on pages 48 and 49.

### Directors' transactions

Transactions in shares by directors are considered to be a related party transaction due to the nature of their role as directors. Movements in directors' shareholdings are disclosed within the Directors' Remuneration Report on page 49. Dividends totalling £10,000 (2017: £8,000) were paid in the year in respect of shares held by the Company's directors.

# Notes to the Financial Statements

continued

## 23 Alternative Investment Fund Managers Directive ("AIFMD")

In accordance with the AIFMD, information in relation to the Company's leverage and remuneration of the Company's AIFM, F&C Investment Business Limited, is required to be made available to investors. Detailed regulatory disclosures including those on the AIFM's remuneration policy are available on the F&C website or from F&C on request. The numerical remuneration disclosures in relation to the AIFM's first relevant accounting period will be made available in due course.

### Leverage

Under the AIFM Directive, it is necessary for AIFs to disclose their leverage in accordance with prescribed calculations.

Although leverage is often used as another term for gearing, under the AIFMD leverage is specifically defined. Two types of leverage calculations are defined; the gross and commitment methods. These methods summarily express leverage as a ratio of the exposure of the AIF against its net asset value. 'Exposure' typically includes debt, the value of any physical properties subject to mortgage, non-sterling currency, equity or currency hedging at absolute notional values (even those held purely for risk reduction purposes, such as forward foreign exchange contracts held for currency hedging) and derivative exposure (converted into the equivalent underlying positions). The commitment method nets off derivative instruments, while the gross method aggregates them.

The table below sets out the current maximum permitted limit and the actual level of leverage for the Company as at 31 March 2018:

Leverage exposure	Gross method	Commitment method
Maximum permitted limit	200%	200%
Actual	127%	125%

The leverage limits are set by the AIFM and approved by the Board and are in line with the limits set out in the Company's Articles of Association.

This should not be confused with the gearing set out in the Financial Highlights which is calculated under the traditional method set out by the Association of Investment Companies. The AIFM is also required to comply with the gearing parameters set by the Board in relation to borrowings.

# Notice of Annual General Meeting

## THIS NOTICE IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to the action you should take you should seek your own advice from a stockbroker, solicitor, accountant or other independent professional adviser.

If you have sold or otherwise transferred all of your shares, please pass this document, together with the accompanying documents to the purchaser, or transferee, or to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares.

Notice is hereby given that the Annual General Meeting of TR Property Investment Trust plc (the "Company") will be held at 2.00 pm on 24 July 2018 at Royal Automobile Club, 89/91 Pall Mall, London SW1Y 5HS for the purpose of transacting the following business:

To consider and, if thought fit, pass the following Resolutions, of which Resolutions 1 to 11 will be proposed as Ordinary Resolutions and Resolutions 12 and 13 shall be proposed as Special Resolutions.

- 1 To receive the Report of the Directors and the Audited Accounts for the year ended 31 March 2018.
- 2 To approve the Directors' Remuneration Report for the year ended 31 March 2018.
- 3 To declare a final dividend of 7.55p per Ordinary share.
- 4 To re-elect Simon Marrison as a director.
- 5 To re-elect Suzie Procter as a director.
- 6 To re-elect Hugh Seaborn as a director.
- 7 To re-elect David Watson as a director.
- 8 To elect Tim Gillbanks as a director.
- 9 To re-appoint KPMG LLP as auditors of the Company to hold office until the conclusion of the next Annual General Meeting of the Company.
- 10 To authorise the directors to determine the remuneration of the auditors.
- 11 THAT the directors be generally and unconditionally authorised pursuant to and in accordance with Section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for, or to convert any security into, shares in the Company up to a nominal value of £26,181,455 (being approximately 33% of the total issued share capital of the Company as at the latest practicable date prior to publication of this Notice) provided that this authority shall expire at the date of the next Annual General Meeting of the Company (or, if earlier, at the close of business on 24 October 2019), save that the Company shall be entitled to make offers or agreements before the expiry of this authority which would or might require shares to be allotted or rights to be granted after such expiry and the directors shall be entitled to allot shares and grant rights pursuant

to any such offers or agreements as if this authority had not expired.

## 12 THAT

(a) (subject to the passing of Resolution 11 set out above) the directors be empowered pursuant to Section 570 and Section 573 of the Act to allot equity securities (as defined in Section 560 of the Act) for cash pursuant to the authority conferred by Resolution 11 above and/or to sell shares held by the Company as treasury shares for cash as if Section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to

(i) the allotment of equity securities and sale of treasury shares for cash in connection with an offer of, or invitation to apply for, equity securities:

(aa) to shareholders in proportion (as nearly as may be practicable) to their existing holdings; and

(bb) to holders of other equity securities, as required by the rights of those securities, or as the Board otherwise considers necessary,

and so that the Board may impose any limits or restrictions and make any arrangements which it considers necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter; and

(ii) in the case of the authority granted under Resolution 11 and/or in the case of any sale of treasury shares for cash, to the allotment (otherwise than under paragraph (i) above) of equity securities or sale of treasury shares up to a nominal amount of £3,966,887 (being approximately 5% of the total issued share capital of the Company as at the latest practicable date prior to publication of the notice of meeting),

(b) the power given by this resolution shall expire upon the expiry of the authority conferred by Resolution 11 above, save that the Company shall be entitled to make offers or agreements before the expiry of such power which would or might require equity securities to be allotted after such expiry and the directors shall be entitled to allot equity securities pursuant to any such offer or agreement as if the power conferred hereby had not expired

# Notice of Annual General Meeting

*continued*

**13** THAT the Company be and is hereby generally and unconditionally authorised in accordance with Section 701 of the Act to make market purchases (within the meaning of Section 693(4) of the Act) of Ordinary shares of 25p each in the capital of the Company on such terms and in such manner as the directors may from time to time determine provided that:

- (a) the maximum number of Ordinary shares hereby authorised to be purchased shall be 14.99% of the Company's Ordinary shares in issue at the date of the Annual General Meeting (equivalent to 47,570,911 Ordinary shares of 25p each at 5 June 2018, the latest practicable date prior to publication of this Notice);
- (b) the maximum price (exclusive of expenses) which may be paid for any such share shall not be more than the higher of:
  - (i) 105% of the average of the middle market quotations for an Ordinary share as taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the date on which the Company agrees to buy the shares concerned; and
  - (ii) the higher of the price of the last independent trade and the highest current independent bid for an Ordinary share in the Company on the trading venue where the purchase is carried out at the relevant time;

- (c) the minimum price (exclusive of expenses) which may be paid for an Ordinary share shall be 25p, being the nominal value per Ordinary share; and
- (d) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2019, save that the Company shall be entitled to enter into a contract to purchase Ordinary shares which will, or may, be completed or executed wholly or partly after the power expires and the Company may purchase Ordinary shares pursuant to such contract as if the power conferred hereby had not expired.

Registered Office.  
Registered in England No: 84492  
11-12 Hanover Street  
London  
W1S 1YQ

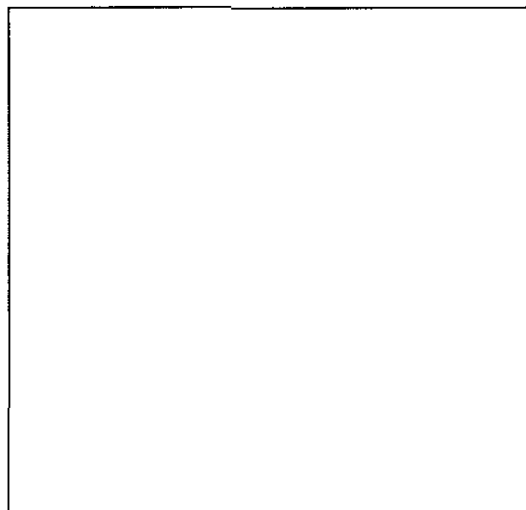
By Order of the Board

For and on behalf of  
**Link Company Matters**  
Secretary  
6 June 2018

# Notice of Annual General Meeting

continued

## Directions Pall Mall Clubhouse



**The Royal Automobile Club has a dress code: Jacket and tie**

### Notes to the Notice of Annual General Meeting

- 1 Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the Annual General Meeting ("AGM") provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. To appoint more than one proxy, the proxy form should be photocopied and the name of the proxy to be appointed indicated on each proxy form together with the number of shares that such proxy is appointed in respect of

To be valid any proxy form or other instrument appointing a proxy must be returned by post, by courier or by hand to the Company's Registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY, or alternatively, by going to [www.eproxyappointment.com](http://www.eproxyappointment.com) and following the instructions provided. All proxies must be appointed by no later than 48 hours before the time of the AGM. The return of a completed proxy form or other such instrument will not prevent a shareholder attending the AGM and voting in person if he/she wishes to do so.

- 2 In order to be able to attend and vote at the AGM or any adjourned meeting (and also for the purpose of calculating how many votes a person may cast), a person must have his/her name entered on the Register of Members of the Company by 6.00 pm on 22 July 2018 (or 6.00 pm on the

date two days before any adjourned meeting). Changes to entries on the Register of Members after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

- 3 Shareholders should note that it is possible that, pursuant to requests made by shareholders of the Company under Section 527 of the Companies Act 2006, the Company may be required to publish on a website a statement setting out any matter relating to (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the AGM; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with Section 437 of the Companies Act 2006.

The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with Sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under Section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required under Section 527 of the Companies Act 2006 to publish on a website.

- 4 Any corporation which is a member of the Company can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
- 5 The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communication from the Company in accordance with Section 146 of the Companies Act 2006 ("nominated persons"). Nominated persons may have a right under an agreement with the registered shareholder who holds shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights.
- 6 CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the AGM to be held on 24 July 2018 and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider should refer to their

NOTICE OF AGM

# Notice of Annual General Meeting

continued

CREST sponsors or voting service provider(s), who will be able to take the appropriate action on their behalf

In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the Company's agent, Computershare Investor Services PLC (CREST Participant ID: 3RA50), no later than 48 hours before the time appointed for the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

CREST members and, where applicable, their CREST sponsor or voting service provider should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages.

Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider takes) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsor or voting service provider are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

- 7** Any member attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if: (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information; (b) the answer has already been given on a website in the form of an answer to a question; or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
- 8** A copy of this notice, and other information required by section 311A of the Companies Act 2006, can be found at [www.trproperty.com](http://www.trproperty.com).
- 9** Members satisfying the thresholds in section 338 of the Companies Act 2006 may require the Company to give, to members of the Company entitled to receive notice of the AGM, notice of a resolution which those members intend to move (and which may properly be moved) at the AGM. A resolution may properly be moved at the AGM unless:  
(i) it would, if passed, be ineffective (whether by reason of any inconsistency with any enactment or the Company's constitution or otherwise); (ii) it is defamatory of any person; or (iii) it is frivolous or vexatious. A request made pursuant to this right may be in hard copy or electronic form, must identify the resolution of which notice is to be given, must be authenticated by the person(s) making it and must be received by the Company not later than six weeks before the date of the AGM.
- 10** Members satisfying the thresholds in section 338A of the Companies Act 2006 may request the Company to include in the business to be dealt with at the AGM any matter (other than a proposed resolution) which may properly be included in the business at the AGM. A matter may properly be included in the business at the AGM unless: (i) it is defamatory of any person; or (ii) it is frivolous or vexatious. A request made pursuant to this right may be in hard copy or electronic form, must identify the matter to be included in the business, must be accompanied by a statement setting out the grounds for the request, must be authenticated by the person(s) making it and must be received by the Company not later than six weeks before the date of the AGM.
- 11** Biographical details of the directors are shown on page 33 of the Annual Report & Accounts.
- 12** As at 5 June 2018 (being the latest practicable day prior to publication of this Notice), the issued share capital of the Company is 317,350,980 Ordinary shares of 25p each. Therefore, the total number of voting rights in the Company at 5 June 2018 is 317,350,980.
- 13** The terms of reference of the Audit Committee, the Management Engagement Committee, the Nomination Committee and the Letters of Appointment for directors will be available for inspection for at least 15 minutes prior to and during the Company's AGM.
- 14** You may not use any electronic address provided either in this Notice or any related documents to communicate for any purposes other than those expressly stated.

# Explanation of Notice of Annual General Meeting

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## Resolutions 1, 2 and 3: Accounts, Directors' Remuneration Report and Dividend

These are the resolutions which deal with the presentation of the audited accounts, the approval of the Directors' Remuneration Report and the declaration of the final dividend. The vote to approve the remuneration report is advisory only and will not require the Company to alter any arrangements detailed in the report should the resolution not be passed.

## Resolutions 4, 5, 6, 7 and 8: Election and Re-election of directors

These resolutions deal with the re-election of Simon Marrison, Suzie Procter, Hugh Seaborn and David Watson. This being the Company's first AGM since Tim Gillbanks' appointment, he will seek election by Shareholders. In accordance with the UK Corporate Governance Code, all directors will retire on an annual basis and have confirmed that they will offer themselves for re-election.

A performance evaluation has been completed and your Board has determined that each of the directors continues to be effective and demonstrates their commitment to their role.

## Resolutions 9 and 10: Auditors

These deal with the reappointment of the auditors, KPMG LLP, and the authorisation for the directors to determine their remuneration.

## Resolution 11: Allotment of share capital

Our Board considers it appropriate that an authority be granted to allot shares in the capital of the Company up to a maximum nominal amount of £26,181,455 (representing approximately 33% of the Company's issued share capital as at 5 June 2018, being the latest practical date prior to publication of this Notice of the meeting). As at the date of this notice the Company does not hold any shares in treasury.

The directors have no present intention of exercising this authority and would only expect to use the authority if shares could be issued at, or at a premium to, the Net Asset Value per share.

This authority will expire at the earlier of close of business on 24 October 2019 and the conclusion of the annual General Meeting of the Company to be held in 2019.

## Resolution 12: Disapplication of statutory pre-emption rights

This resolution would give the directors the authority to allot shares (or sell any shares which the Company elects to hold in treasury) for cash without first offering them to existing shareholders in proportion to their existing shareholdings.

This authority would be limited to allotments or sales in connection with pre-emptive offers and offers to holders of other equity securities if required by the rights of those shares or as the board otherwise considers necessary, or otherwise up to an aggregate nominal amount of £3,966,887. This aggregate nominal amount represents 5% of the total issued share capital of the Company as at 5 June 2018, the latest practicable date prior to publication of this Notice. In respect of this aggregate nominal amount, the directors confirm their intention to follow the provisions of the Pre-Emption Group's Statement of Principles regarding cumulative usage of authorities within a rolling 3-year period where the Principles provide that usage in excess of 7.5% should not take place without prior consultation with shareholders.

The authority will expire at the earlier of close of business on 24 October 2019 and the conclusion of the Annual General Meeting of the Company to be held in 2019.

## Resolution 13: Authority to make Market Purchases of the Company's Ordinary shares

At the AGM held on 25 July 2017, a special resolution was proposed and passed, giving the directors authority, until the conclusion of the AGM in 2018, to make market purchases of the Company's own issued shares up to a maximum of 14.99% of the issued share capital.

Your Board is proposing that they should be given renewed authority to purchase Ordinary shares in the market. Your Board believes that to make such purchases in the market at appropriate times and prices is a suitable method of enhancing shareholder value. The Company would, within guidelines set from time to time by the

# Explanation of Notice of Annual General Meeting

*continued*

Board, make either a single purchase or a series of purchases, when market conditions are suitable, with the aim of maximising the benefits to shareholders.

Where purchases are made at prices below the prevailing Net Asset Value per share, this will enhance the Net Asset Value for the remaining shareholders. It is therefore intended that purchases would only be made at prices below Net Asset Value. Your Board considers that it will be most advantageous to shareholders for the Company to be able to make such purchases as and when it considers the timing to be favourable and therefore does not propose to set a timetable for making any such purchases.

The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 enable companies in the United Kingdom to hold in treasury any of their own shares they have purchased with a view to possible resale at a future date, rather than cancelling them. If the Company does re-purchase any of its shares, the directors do not currently intend to hold any of the shares re-purchased in treasury. The shares so re-purchased will continue to be cancelled.

The Listing Rules of the UK Listing Authority limit the maximum price (exclusive of expenses) which may be paid for any such share. It shall not be more than the higher of:

- (i) 105% of the average of the middle market quotations for an Ordinary share as taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the date on which the Company agrees to buy shares concerned; and
- (ii) the higher of the price of the last independent trade and the highest current independent bid for an Ordinary share in the Company on the trading venue where the purchase is carried out.

The minimum price to be paid will be 25p per Ordinary share (being the nominal value). The Listing Rules also limit a listed company to purchases of shares representing up to 15% of its issued share capital in the market pursuant to a general authority such as this. For this reason, the Company is limiting its authority to make such purchases to 14.99% of the Company's Ordinary shares in issue at the date of the AGM; this is equivalent to 47,570,911 Ordinary shares of 25p each (nominal value £11,892,727) at 5 June 2018, the latest practicable date prior to publication this Notice. The authority will last until the Annual General Meeting of the Company to be held in 2019.

## Recommendation

Your Board believes that the resolutions contained in this Notice of Annual General Meeting are in the best interests of the Company and shareholders as a whole and recommends that you vote in favour of them as your Directors intend to do in respect of their beneficial shareholdings.



# Directors and Other Information

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## Directors

H Seaborn (Chairman)  
T Gillbanks  
S Marrison  
S Procter  
D Watson

## Registered Office

3rd Floor  
11–12 Hanover Street  
London W1S 1YQ

## Registered Number

Registered as an investment company in England  
and Wales No. 84492

## AIFM

F&C Investment Business Limited  
Exchange House  
Primrose Street  
London EC2A 2NY

## Portfolio Manager

Thames River Capital LLP, authorised and regulated by the  
Financial Conduct Authority  
3rd Floor  
11–12 Hanover Street  
London W1S 1YQ  
Telephone: 020 7011 4100

## Fund Manager

M A Phayre-Mudge MRICS

## Finance Manager and Investor Relations

J L Elliott ACA

## Deputy Fund Manager

A Lhonneur

## Direct Property Manager

G P Gay MRICS

**aic**

The Association of  
Investment Companies

## Secretary

Link Company Matters Ltd  
65 Gresham Street  
London EC2V 7NQ

## Registrar

Computershare Investor Services PLC  
The Pavilions, Bridgwater Road  
Bristol BS99 6ZY  
Telephone: 0370 707 1355

## Auditor

KPMG LLP  
15 Canada Square  
London E14 5GL

## Stockbrokers

Cenkos Securities plc  
6, 7, 8 Tokenhouse Yard  
London EC2R 7AS

Stifel Nicolaus Europe Limited  
150 Cheapside  
London EC2V 6ET

## Solicitors

Slaughter and May  
One Bunhill Row  
London EC1Y 8YY

## Depository, Custodian and Fund Administrator

BNP Paribas Securities Services  
7 Harewood Avenue  
London NW1 6AA

## Website

[www.trproperty.com](http://www.trproperty.com)

## Tax Advisers

PricewaterhouseCoopers LLP  
Central Square South  
Orchard Street  
Newcastle upon Tyne NE1 3AZ

# General Shareholder Information

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## Release of Results

The half year results are announced in late November. The full year results are announced in early June.

## Annual General Meeting

The AGM is held in London in July.

## Dividend Payment Dates

Dividends are usually paid on the Ordinary shares as follows:

Interim: January

Final: August

## Dividend Payments

Dividends can be paid to shareholders by means of BACS (Bankers' Automated Clearing Services); mandate forms for this purpose are available from the Registrar.

Alternatively, shareholders can write to the Registrar (the address is given on page 95 of this report) to give their instructions; these must include the bank account number, the bank account title and the sort code of the bank to which payments are to be made.

## Dividend Re-investment Plan ("DRIP")

TR Property Investment Trust plc now offers shareholders the opportunity to purchase further shares in the company through the DRIP. DRIP forms may be obtained from Computershare Investor Services PLC through their secure website [www.investorcentre.co.uk](http://www.investorcentre.co.uk), or by phoning 0370 707 1694. Charges do apply; dealing commission of 0.5% (subject to a minimum of £1.00). Government stamp duty of 0.5% also applies.

## Share Price Listings

The market prices of the Company's shares are published daily in The Financial Times. Some of the information is published in other leading newspapers. The Financial Times also shows figures for the estimated Net Asset Values and the discounts applicable.

## Share Price Information

ISIN GB0009064097

SEDOL 0906409

Bloomberg TRY.LN

Reuters TRY.L

Datastream TRY

## Benchmark

Details of the benchmark is given in the Strategic Report on page 24 of this Report and Accounts. The benchmark index is published daily and can be found on Bloomberg;

FTSE EPRA/NAREIT Developed Europe Capped Net Total Return Index in Sterling  
Bloomberg: TRORAG Index

## Internet

Details of the market price and Net Asset Value of the Ordinary shares can be found on the Company's website at [www.trproperty.com](http://www.trproperty.com).

Shareholders who hold their shares in certificated form can check their holdings with the Registrar, Computershare Investor Services PLC, via [www.computershare.com](http://www.computershare.com). Please note that to gain access to your details on the Computershare site you will need the holder reference number stated on the top left hand corner of your share certificate.

## Disability Act

Copies of this Report and Accounts and other documents issued by the Company are available from the Company Secretary. If needed, copies can be made available in a variety of formats, including Braille, audio tape or larger type as appropriate.

You can contact the Registrar, Computershare Investor Services PLC, which has installed textphones to allow speech and hearing impaired people who have their own telephone to contact them directly, without the need for an intermediate operator, by dialling 0870 702 0005. Specially trained operators are available during normal business hours to answer queries via this service.

Alternatively, if you prefer to go through a 'typetalk' operator (provided by the Royal National Institute for Deaf People) you should dial 18001 followed by the number you wish to dial.

# General Shareholder Information

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## Nominee Share Code

Where notification has been provided in advance, the Company will arrange for copies of shareholder communications to be provided to the operators of nominee accounts. Nominee investors may attend general meetings and speak at meetings when invited to do so by the Chairman.

## CGT Base Cost

### ***Taxation of capital gains for shareholders who formerly held Sigma shares***

Upon a disposal of all or part of a shareholder's holding of Ordinary shares, the impact on the shareholder's capital gains tax base cost of the conversion to Sigma shares in 2007 and the redesignation to Ordinary shares in 2012 should be considered.

In respect of the conversion to Sigma in 2007, agreement was reached with HM Revenue & Customs ("HMRC") to base the apportionment of the capital gains tax base cost on the proportion of Ordinary shares that were converted by a shareholder into Sigma shares on 25 July 2007.

Therefore, if an Ordinary shareholder converted 20% of their existing Ordinary shares into Sigma shares on 25 July 2007, the capital gains tax base cost of the new Sigma shares acquired would be equal to 20% of the original capital gains tax base cost of the Ordinary shares that they held pre-conversion. The base cost of their remaining holding of Ordinary shares would then be 80% of the original capital gains tax base cost of their Ordinary shares held pre-conversion.

As part of the re-designation of the Sigma shares into Ordinary shares in December 2012, a further agreement was reached with HMRC that a shareholders capital gains tax base cost in their new Ordinary shares should be equivalent to their capital gains base cost in the pre-existing Sigma shares (i.e. their capital gains base cost under the existing agreement if applicable).

If in doubt as to the consequences of this agreement with HMRC, shareholders should consult with their own professional advisors.

# Investing in TR Property Investment Trust plc

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## Market Purchases

The shares of TR Property Investment Trust plc are listed and traded on the London Stock Exchange. Investors may purchase shares through their stockbroker, bank or other financial intermediary.

## Holding shares in Certificated Form

Investors may hold their investment in certificated form. Our registrars, Computershare operate a dealing service which enables investors to buy and sell shares quickly and easily online without a broker or the need to open a trading account. Alternatively the Investor Centre allows investors to manage portfolios quickly and securely, update details and view balances without annual charges. Further details are available by contacting Computershare on 0370 707 1355 or visit [www.computershare.com](http://www.computershare.com).

TR Property Investment Trust plc now offers shareholders the opportunity to purchase further shares in the company through the Dividend Re-investment Plan ("DRIP") through the registrar, Computershare. Shareholders can obtain further information on the DRIP through their secure website [www.investorcentre.co.uk](http://www.investorcentre.co.uk), or by phoning 0370 707 1694. Charges do apply. Please note that to gain access to your details or register for the DRIP on the Computershare site you will need the holder reference number stated on the top left hand corner of your share certificate.

## Saving Schemes, ISAs and other plans

A number of banks and wealth management organisations provide Savings Schemes and ISAs through which UK clients can invest in TR Property Investment Trust plc.

ISA and savings scheme providers do charge dealing and other fees for operating the accounts, and investors should read the Terms and Conditions provided by these companies and ensure that the charges best suit their planned investment profile. Most schemes carry annual charges but these vary between provider and product. Where dealing charges apply, in some cases these are applied as a percentage of funds invested and others as a flat charge. The optimum way to hold the shares will be different for each investor depending upon the frequency and size of investments to be made.

Details are given below of two providers offering shares in TR Property Investment Trust, but there are many other options.

## Alliance Trust Savings

Alliance Trust provide and administer a range of self-select investment plans, including tax-advantaged ISAs and SIPPs (Self-Invested Pension Plans) and also Investment Plans and First Steps, an Investment Plan for Children. For more information Alliance Trust can be contacted on 01382 573 737, or visit [www.alliancetrustsavings.co.uk](http://www.alliancetrustsavings.co.uk).

Investors in TR Property through the ATS Investment Plan and ISA receive all shareholder communications. A voting instruction form is provided to facilitate voting at general meetings of the Company.

## F&C Asset Management Limited ("F&C")

F&C offer a number of Private Investor Plans, Investment Trust and Junior ISAs and Children's Investment Plans. Investments can be made as lump sums or through regular savings. For more information see inside the back cover. F&C can be contacted on 0800 136 420, or visit [www.fandc.co.uk](http://www.fandc.co.uk).

Please remember that the value of your investments and any income from them may go down as well as up. Past performance is not a guide to future performance. You may not get back the amount that you invest. If you are in any doubt as to the suitability of a plan or any investment available within a plan, please take professional advice.

## Saving Schemes and ISAs transferred from BNP Paribas

In 2012 BNP Paribas closed down the part of their business that operated Savings Schemes and ISAs. Investors were given the choice of transferring their schemes to Alliance Trust Savings ("ATS") or to a provider of their own choice, or to close their accounts and sell the holdings.

If investors did not respond to the letters from BNP Paribas, their accounts were transferred to ATS.

Any questions regarding accounts transferred to ATS should be directed to ATS on 01382 573 737.

# Investing in TR Property Investment Trust plc

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## Share Fraud and boiler room scams

Shareholders in a number of Investment Trusts have been approached as part of a share fraud where they are informed of an opportunity to sell their shares as the company is subject to a takeover bid. This is not true and is an attempt to defraud shareholders. The share fraud also seeks payment of a "commission" by shareholders to the parties carrying out the fraud.

Shareholders should remain alert to this type of scam and treat with suspicion any contact by telephone offering an attractive investment opportunity, such as a premium price for your shares, or an attempt to convince you that payment is required in order to release a settlement for your shares. These frauds may also offer to sell your shares in companies which have little or no value or may offer you bonus shares. These so called "boiler room" scams can also involve an attempt to obtain your personal and/or banking information with which to commit identity fraud.

The caller may be friendly and reassuring or they may take a more urgent tone, encouraging you to act quickly otherwise you could lose money or miss out on a deal.

If you have been contacted by an unauthorised firm regarding your shares the FCA would like to hear from you. You can report an unauthorised firm using the FCA helpline on 0800 111 6768 or by visiting their website, which also has other useful information, at [www.fca.org.uk](http://www.fca.org.uk).

If you receive any unsolicited investment advice make sure you get the correct name of the person and organisation. If the calls persist, hang up. If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme.

**Please be advised that the Board or the Manager would never make unsolicited telephone calls of such a nature to shareholders.**

# How to Invest

One of the most convenient ways to invest in TR Property Investment Trust plc is through one of the savings plans run by F&C Investments.

## F&C Investment Trust ISA

You can use your ISA allowance to make an annual tax-efficient investment of up to £20,000 for the 2018/19 tax year with a lump sum from £500 or regular savings from £50 a month per Trust. You can also transfer any existing ISAs to us whilst maintaining the tax benefits

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

You can invest up to £4,128 for the tax year 2018/19 from £500 lump sum or £30 a month per Trust, or a combination of both. Please note, if your child already has a Child Trust Fund (CTF), then you cannot open a separate JISA, however you can transfer the existing CTF (held either with F&C or another provider) to an F&C JISA

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

If your child has a CTF you can invest up to £4,128 for the 2018/19 tax year, from £100 lump sum or £25 a month per Trust, or a combination of both. You can also transfer a CTF from another provider to an F&C CTF. Please note, the CTF has been replaced by the JISA and is only available to investors who already hold a CTF.

## F&C Private Investor Plan (PIP)

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

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

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

\*The CTF and JISA accounts are opened in the child's name and they have access to the money at age 18 \*\*Calls may be recorded or monitored for training and quality purposes

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

## F&C Management Limited

F&C Investments and the F&C Investments logo are trademarks of F&C Management Limited © F&C Management Limited 2017 Issued and approved by F&C Management Limited which is authorised and regulated by the Financial Conduct Authority FRN: 119230 and is a member of the F&C Group of which the ultimate parent company is the Bank of Montreal Registered Office: Exchange House, Primrose Street, London EC2A 2NY Registered in England & Wales No 517895 L56\_02/17\_CM11982

## Charges

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

### Annual account charge

**ISA:** £60+VAT

**PIP:** £40+VAT

**JISA/CIP/CTF:** £25+VAT

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

### Dealing charges

**ISA:** 0.2%

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

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

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

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

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

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

## How to Invest

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

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

## New Customers

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

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

## Existing Plan Holders

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

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

By post: F&C Plan Administration Centre  
PO Box 11114  
Chelmsford  
CM99 2DG

You can also invest in the trust through online dealing platforms for private investors that offer share dealing and ISAs. Companies include:

**Alliance Trust Savings, Barclays Stockbrokers, Halifax, Hargreaves Lansdown, HSBC, Interactive Investor, Lloyds Bank, Selftrade, TD Direct Investing, The Share Centre**

**TR Property Investment  
Trust plc is managed by**

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