# Report and Financial Statements

# First World Hybrid Real Estate Plc

# For the year ended 31 August 2021

## Fund Information

**Directors**
Craig Ewin
David Elliott
Elizabeth Greenhalgh
Mark Grace
Philip Scales
Russell Collister

**Registered Office**
55 Athol Street
Douglas
Isle of Man
IM1 1LA

**Property Manager**
Sequel Property Investments (Propriety) Limited
Unit 7, 8 Richefond Circle
Ridgeside Office Park
Umhlanga, 4319
South Africa

**Manager, Registrar and Registered Agent**
FIM Capital Limited
55 Athol Street
Douglas
Isle of Man
IM1 1LA

**Custodian**
EFG Fund Services
44 Esplanade
St Helier
Jersey
JE1 3FG

**Auditor**
KPMG Audit LLC
Heritage Court
41 Athol Street
Douglas
Isle of Man
IM1 1LA

The Directors present their annual report and the audited financial statements for the year ended 31 August 2021.

## Activity

First World Hybrid Real Estate Plc ("FWHRE" or the "Fund") was incorporated as a public company limited by shares in the Isle of Man on 1 August 2013 under the Isle of Man Companies Act 2006. The Fund invests primarily in UK commercial real estate. The Fund has a wholly owned subsidiary FWRE Holdings Limited, which in turn has a wholly owned operating subsidiary FWRE Limited that holds the investment properties of the Fund.

There have been two additions to the Fund's property portfolio during the year under review, see note 9.

FWRE Limited applied for an exemption election for capital gains tax during the financial year, see note 18.

On 24 August 2021 two new subsidiaries were incorporated – FWRE Holdings Two Limited and FWRE Two Limited, see note 19.

## Results

The consolidated results of FWHRE and its subsidiaries (together the "Group") for the year ended 31 August 2021 are set out in the Consolidated Statement of Comprehensive Income on page 20.

A review of the Group's activities is contained in the Management Report on pages 4 to 13.

The proposed transfers to and from reserves are as set out in the Consolidated Statement of Changes in Equity on page 22.

Particulars of the authorised and issued share capital of the Fund are set out in note 6 to the financial statements.

## Dividends

The following dividends were paid during the financial year:

| **Date paid** | **£000** |
|---|---|
| 19 October 2020 | 585 |
| 25 January 2021 | 573 |
| 19 April 2021 | 568 |
| 19 July 2021 | 610 |

## Directors

The Directors who held office during the financial year and to date are shown below:

Craig Ewin
David Elliott (appointed 7 December 2020)
Elizabeth Greenhalgh (appointed 7 December 2020)
Mark Grace
Philip Scales
Russell Collister

Details of Directors holdings of shares in the Group are disclosed in note 21 of the financial statements.

## Post balance sheet events

For a summary of significant transactions entered into by the Group subsequent to 31 August 2021, see note 23 of the financial statements.

## Auditors
KPMG Audit LLC, being eligible, have indicated their willingness to continue in office.

## Approval
This report was approved by the Board of Directors on 22 October 2021 and signed on its behalf of the Board:

| | |
|---|---|
| ……………………………….. | …………………………………….. |
| **P P Scales** | **R J Collister** |
| **Director** | **Director** |

## Management Report (continued)

**Highlights for the financial year – a successful year for the Fund**

- **Investment returns** - total return of 18.2% (2020: 5.1%), comprising a 5.2% income return and 13.0% price appreciation. The income return is in line with expectations while the capital return is due to both strong appreciations in REIT prices and an increase in the direct property portfolio value.
- **Dividends** - the dividend per share (A class shareholders) is 5% up on the prior year.
- **Meaningful net investment flows** - net inflows were £17.6m, comprising new subscriptions of £24.4m and redemptions of £6.8m. (2020: £7.2m net - inflows of £13.2m and redemptions of £6.0m), see note 6.
- **Fund Pricing NAV** - the net asset value of the Fund at 31 August 2021 was £143m, meaningfully up on prior year £107m (see note 8).
- **Property acquisitions** - two properties were acquired, DHL Doncaster (£22.65m) and Crown Newcastle (£7.0m) (see note 9). Furthermore, heads of terms were concluded for the acquisition of a further property, the Fund's 23rd acquisition, namely Marina Quays (£17.7m), prior to 31 August 2021, with contracts being exchanged on 1 October and deal completion on 7 October 2021 (see note 23). There were no acquisitions during the prior financial year.
- **Property valuations** – 43 routine property valuation updates were received with 17 upward adjustments, 21 were retained at previous levels, while 5 were lower. In addition, at FYR end, adjustments were made to 5 property valuations to satisfy IFRS requirements. In total, the portfolio increased in value by a net £6.2m (pre IFRS adjustments[1]), 4.9% on a like for like basis.
- **Debt arrangements** – a REFI has been agreed with Barclays on the existing debt for a 3-year term at a margin of 190 bps and HSBC has been introduced as a 2nd debt provider and will provide debt on the Marina Quays and Crown Newcastle properties, also for a 3-year term at a margin of 200 bps (see note 23). At 31 August 2021, 57% of the debt was hedged.
- **REITs investments** - the REITs held by the Fund performed strongly (up by 37%) and slightly ahead of the NAREIT sector (35%), justifying the warehousing REIT selection.
- **Liquidity** - liquidity on 31 August 2021 stood at 32%[2]. Adjusting for the Marina Quays and after the flow of debt, the liquidity level will reduce to 27% which is above target levels and accordingly further suitable property investment opportunities are being sought.

**Markets and business environment**

The economic backdrop

The past year has been dominated by the COVID 19 pandemic which has not only had obvious health consequences but has led to unprecedented turmoil around the world and far reaching economic and fiscal implications.

The extent to which governments have acted decisively in providing vast financial support has seen sovereign debt increase to levels not seen before and will likely have long term implications for economies and investment markets. However, the unprecedented financial assistance programmes undertaken by governments have enabled economies to recovery and investment markets have rebounded and reached new highs.

The rapid and effective roll out of vaccination programs, in advanced economies especially, has been nothing less than remarkable and while the disease will remain, the move to normality has gathered pace as lockdowns are lifted and economies reopen. This is clear in the UK where stadiums are full, retail sales and manufacturing production is surging ahead, the labour market is recovering, and it is expected that the size of the economy will exceed pre-pandemic levels by the end of 2021.

The extent of this recovery raises concerns around inflation and the potential impact on interest rates. It does seem however that a spike in inflation will be largely transitory, returning to Bank of England 2% target levels. Furthermore, given the increased level of debt and the widespread, punitive impact that meaningful increases in interest rates would have, it seems likely that increases will be modest and gradual with short term rates likely to remain at current levels until 2023.

[1] Net gain on investment properties per the financial statements of £4,073,000 comprises of £6,205,000 gain on investment properties and IFRS adjustments of (£186,000) write off of rent free debtors and (£1,946,000) write off of acquisition costs.

[2] Liquidity is calculated as liquid assets (cash and equities) as a percentage of net assets.

## Management Report (continued)

This outlook is generally positive for property, with business expansion supportive for the demand for space and low bonds yields making property yields comparatively attractive.

Investment capital and debt markets

Investment equity is not attracted to property in isolation but in the context of the offering of alternative asset classes and perhaps in the case of property, and the Fund specifically, income yielding alternatives are particularly relevant.

At the end of August 2021, a 10-year UK bond, which offers no income growth, was yielding around 75 bps with inflation linked bonds at negative yields. Similarly, there is no income return on cash deposits. In this low interest environment, the differential between property yields and bond yields remains wide, especially where the properties are underpinned by long term contractual leases with strong tenants.

Accordingly, there is a good argument that property yields, for assets such as the Fund is invested in, are not only attractive relatively but that there is the prospect of further capital value appreciation due to yield compression in the months ahead. The fact that REIT yields have firmed as they have over the last 12 months, adds support, as a lead indicator, to the potential of further yield compression.

Short term interest rates have remained at similar, and low, levels of around 5bps throughout the past year while longer term 5-year swap rates have drifted up by about 25 bps and now stand were around 50 bps, reflecting the improved economic environment. It is also positive that banking margins, having increased amidst the heightened uncertainty have now also come in, resulting in low overall cost of debt funding.

Apart from the investment merits of the Fund, investment flows into the Fund are influenced by the South African domestic environment and the desirability of South Africans to externalise their wealth. For many high net-worth South Africans, this is an ongoing objective and the recent rioting and the prospect of weak economic growth in South Africa will only serve to increase this focus.

Direct property market

The impact of COVID 19 on the UK property market has seen further polarisation between retail and warehousing sectors while the impact on offices is less certain. The type of property which the Fund has targeted (single tenanted distribution warehousing, regional decentralised single tenanted offices and out of town retail warehousing let to value and DIY retailers) seems to have been well placed and benefitted from these structural shifts.

The distribution warehousing and logistics market has seen excellent occupational demand and investment activity is setting record levels in terms of volume and pricing. Significant growth in online shopping has been a strong driver and while this trend was one of necessity during the lockdown period, it also seems that higher levels of online shopping are here to stay. Internet sales as % of total retail sales for the 12 months ending June 2021 exceeded 30% (Source: ONS). At the same time Brexit highlighted the need for greater supply chain resilience in the UK, adding to space requirements. With limited supply of suitable space and increased occupational demand, rental growth is set to continue and investment yields for quality property on long leases to strong tenants have firmed.

The increasing trend to online shopping has negatively impacted an already struggling retail sector and the lockdowns have resulted in the failure of many UK retailers. This has been evidenced in poor industry rent collections, increasing vacancies, weak demand for space, softening rental levels and investment yields. While this has been felt sharply in shopping centres and the high street, retail warehousing has not been immune although in recent months there is good evidence of firmer investment demand for well tenanted retail warehouses let to strong value or DIY retailers on long leases. It is these tenants who have benefited from trading robustly through the lockdown periods.

Food stores have also proved resilient and while the yields can be demanding, they offer good long-term income from strong tenant covenants with sound rental growth prospects.

As regards offices, the longer-term impact of WFH or at the very least a more flexible approach to the work environment remains uncertain. There seems little doubt that the initial narrative has transitioned back towards the need for offices and there is an increasing recognition that they are important for the cultural adhesion of corporates, and as a place of learning and social interaction. This is not only the storyline of many executives but there is evidence in Transport for London statistics of tube and bus commuters, where there have been huge increases in usage in recent weeks. That said, single tenanted, low-rise offices in suburban decentralised office parks seem well placed going forward.

There is no doubt that the Covid-19 pandemic and lockdowns created structural shifts, impacting on the occupational and investment demand for different property types – some positively and others negatively.

The MSCI IPD UK All Property Yield has firmed and is now 4.45% (31 August 2021). While this yield may appear demanding, it should be measured in the context of a generally low-income yielding environment and supported by a robust and firming occupational market (except for retail) together with generally accommodative debt levels. Furthermore, on the basis that inflation and interest rates can be expected to remain at low levels, the outlook remains favourable. It is also significant that UK REIT yields have moved to lower levels (see below).

Quoted Property market (REITs)

As expected of publicly quoted and traded investments, REITs prices fell sharply at the outset of COVID-19 but have since rebounded strongly and are now ahead of pre-pandemic levels. This is especially so of those with strong warehousing emphasis such as Segro and TriTax Big Box, which have produced total returns of 44% and 35% respectively for the 12 months ended 31 August, with quoted yields of 1.8% and 2.8% respectively. Once again, this highlights the demand for yield, or the lack of alternative yield, and supports property values, if not the justification for further yield compression. Arguably, listed REITs serve as a good lead indicator for direct property, and suggest a positive outlook.

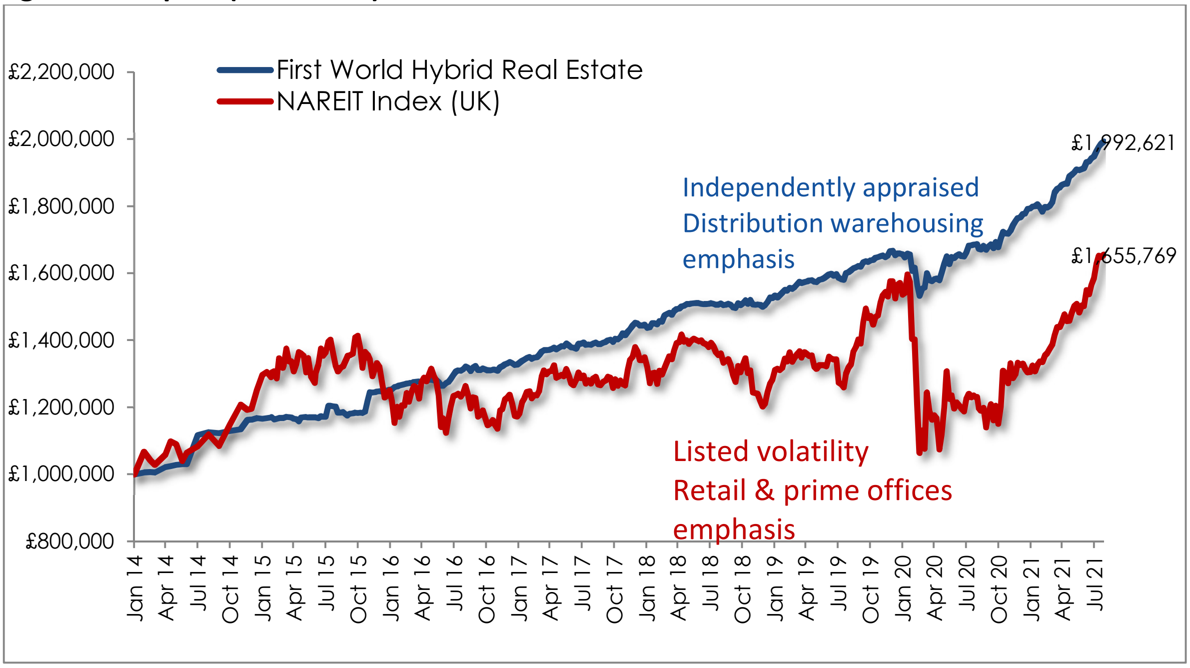
The Fund's REIT portfolio is dealt with more fully later in this report.

**Fund Investment strategy**

The **Investment Objective** of the Fund as stated in the Offering document, is to **generate a reliable, predictable, and growing income** by combining direct and listed real estate**.** A fundamental part of the FWHRE offering is to provide investors with better liquidity and pricing certainty than a direct property investment and with lower volatility than publicly quoted property. This with the benefit of a Regulated structure. This remains intact and the Fund is delivering on these objectives.

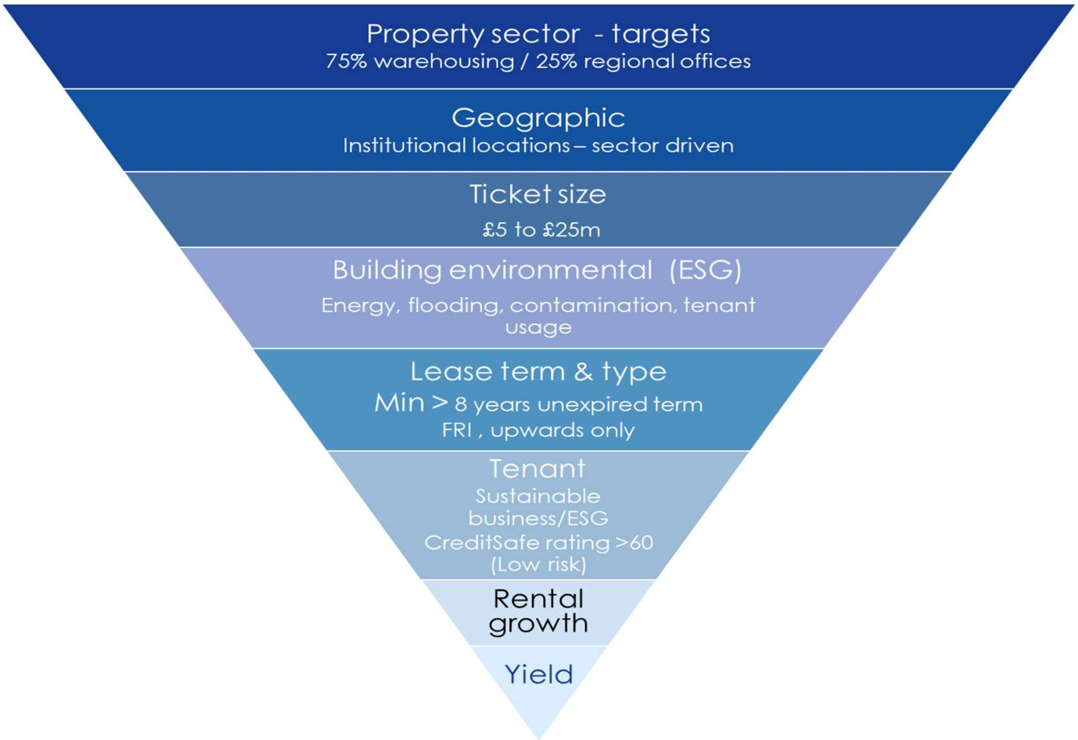
The Fund now has a credible track record, and the graph below is compelling and demonstrates the performance of the Fund since inception relative to UK REITs. The Fund has produced solid returns with low volatility, whereas the volatility and weaker return of the NAREIT index is clear, with the retail component in the index no doubt contributing to the lower return outcome.

The Fund has performed well and there is nothing to suggest that the offering to investors will not remain relevant in the foreseeable future, especially considering the low income yields from alternative investments.




Source: Bloomberg / Marriott

There have been no major changes to the positioning of the Fund or the investment targets. The acquisition filter, which is used when considering new property acquisitions, is set out below. There have been minor amendments to recognise the importance of environmental issues and the consideration given to sustainability of tenant business operations.

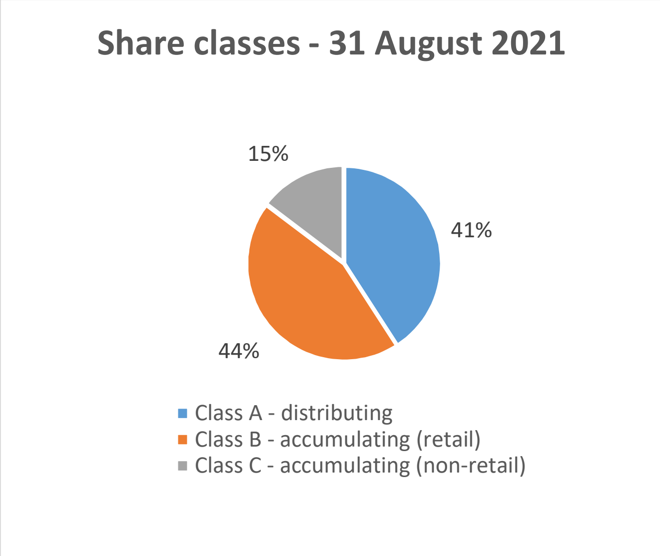


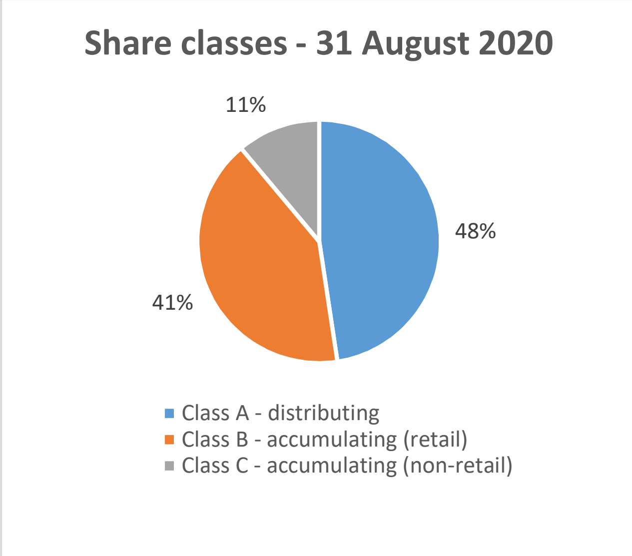

One of the considerations when considering a new acquisition is the 10-year fixed interest rate. The all in 10-year SONIA rate is around 3.0% (inclusive of bank margin). This together with fund costs sets a minimum yield break point of circa 3.75%. A further consideration is the WA yield achievable from the Fund's REITs, which is closer to 3%. The yield from the property portfolio, based on 31 August 2021 valuations and before any debt leverage, is in the order of 5.6%.

**Investor profile, capital inflows, redemptions, and liquidity**

The Fund offers both income and accumulating shares classes. The pie charts below reflect the different share class composition based on NAV, as at 31 August. There has been an increase in the weighting of both B class and C class shareholders and the distributing A class now comprises 41% of NAV.

The largest category of investors remains Advisor linked investors and the largest influence under a single independent financial advisor is around 12% of the Fund's equity. The largest single investor has approximately 2.5% of the Fund. The investor base is diverse with more than 1,425 investors in all.




An investor presentation is routinely updated and uploaded on the FWHRE website - the latest reflecting information as at 31 August can be found using the following link.
https://firstworldhybrid.com/investor-presentations/

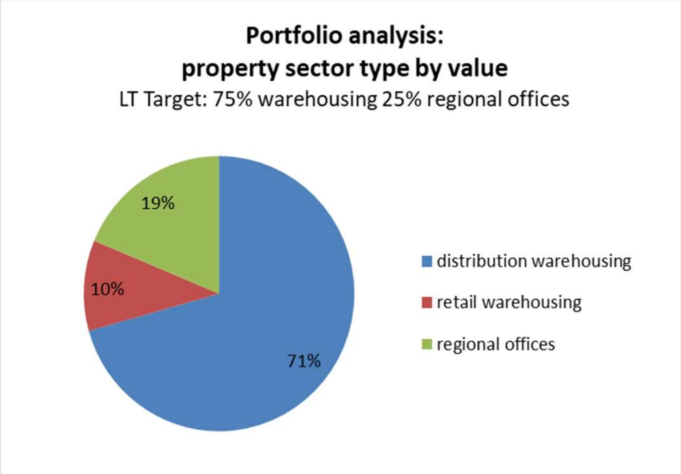
A key feature and offering of the Fund is its liquidity to meet reasonable redemptions and hence the REIT holdings in Fund. However, holding excessive liquidity gives rise to unwanted yield drag due to the lower yield on the REITs compared to direct property and hence careful consideration is given to liquidity requirements, taking into accounts general market and investment conditions as well as the Fund's specific inflow and redemption trends. Like all open-ended property funds, gating and suspension provisions exist to ensure the interests of all investors can be protected.

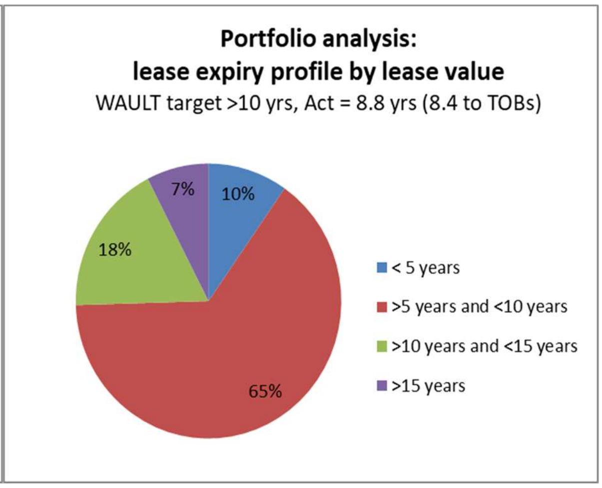
The current liquidity level approved by the Board is a Minimum Liquidity Level (MLL) of 20%. The liquidity at the beginning of the FYR was 36%. At this time the Fund had just lifted its trading suspension and there was a cautious position around liquidity given the prevailing uncertainty. Following a successful reopening of the Fund new property acquisitions were sought, and the DHL and Crown acquisitions were concluded in March and April 2021, with a total net investment after debt funding of £18m. Strong inflows have resulted in the liquidity level reaching 33% at 31 August 2021 although this will reduce to around 27% taking into account the investment and debt funding commitments. Accordingly, further suitable investment opportunity is being sought by the Fund.

New subscriptions during the financial year were £24.4m, meaningfully higher than the £13.2m for the prior year during which the Fund was closed for 5 months amidst much uncertainty. Nonetheless, the inflows over the last 12 months have been encouraging. Redemptions for 2021 were £6.8m (2020: £6.0m), approximately 5% of average shareholder funds (2020: 6%). A redemption ratio of between 5% and 10% of shareholder funds would be a reasonable expectation in the normal course given that the Fund has been in existence for 8 years and investors personal circumstances would naturally influence redemption requirements over time.

**Investments: Property portfolio and REITs**

The sector weighting of the property portfolio and the lease expiry profile as at 31 August 2021 are set out below. The position post the Marina Quay acquisition are included later in this report.




The sector weighting emphasis has served the Fund well and there seems no reason to make changes to these long-term broad targets of 75% warehousing and 25% regional offices. That said it seems prudent to delay further office investment until the impact of WFH or at least a more flexible approach to the working environment becomes clearer.

As regards warehousing, distribution and logistics type property have performed exceptionally well, for reasons already explained above, while the yields at which retail warehousing is available is not only attractive in absolute terms but comparatively with the aforementioned distribution and logistics types.

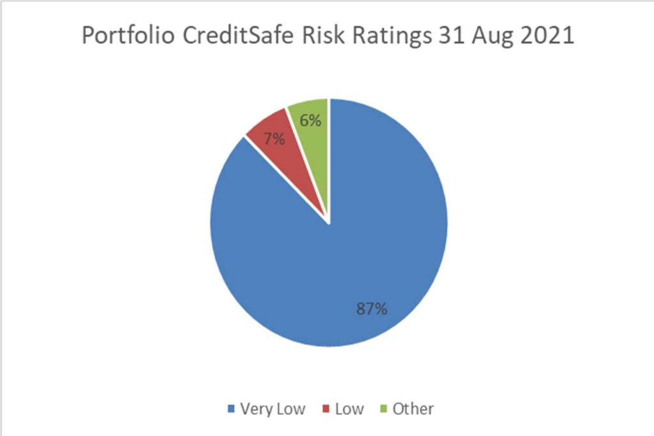
Furthermore, food stores have for some time been on the Fund's radar for as an investment. The Marina Quay acquisition has provided the opportunity to increase weighting to value retailers and food stores at attractive entry yields. This is dealt with more fully below. The Fund has no investment in high street retail or shopping centres where online shopping trends have negatively influenced occupational demand – resulting in tenant failure, increased vacancies and lower market rentals.

The lease expiry profile is well spread with a good long-dated tail. The Fund's lease structures and long lease profile, together with a strong tenant base has served the Fund very well, especially during this period of uncertainty. This has been reflected in the comparatively good trading by tenants within the portfolio and the excellent rental collections from the portfolio (all rent due has been received).

The table below shows the top 10 tenants, many of which are well known and substantial businesses.

| Top 10 tenants | lease value | business |
|---|---|---|
| Crown (2 properties) | 13% | UK's leading manufacturer of cans |
| DHL | 12% | Global leading parcel delivery |
| B&M (3 properties) | 9% | UK's leading variety goods value retailer |
| Aviva, Norwich | 9% | UK's largest general insurer |
| Spectrum Brands, Wombourne | 8% | distributor of household brands |
| SIG (2 properties) | 6% | Leading supplier of specialist building products |
| Iron Mountain, Leeds | 5% | Leading records management services company |
| Vanquis Bank, Chatham | 5% | Credit card services, part of Provident Group |
| Bidfood, Cannock | 4% | Large UK food distributor |
| Great Bear, Deeside | 4% | Leading UK 3rd party logistics business |
| | 75% | |

The pie chart below shows the portfolio rating of the tenants (based on annual lease value), using CreditSafe ratings as at 31 August 2021. Some 87% of tenants by rental income are rated Very Low-risk, while 6% fall beneath the Low-risk category. As far as new acquisitions go, a minimum score of 60 is required for a tenant when considering an acquisition, a 60 score being the midpoint in CreditSafe's Low-risk category.




As already mentioned, the rent collections from the portfolio have been excellent with no write-offs being necessary. There has been ongoing, proactive engagement with tenants regarding their trading, rental obligations, and the potential extension of their leases. There is good evidence of market rental growth in the warehousing properties that will arise when leases are due for review (Great Bear and Crown, the Fund's largest asset, being good examples of this). It is estimated that there is currently circa 3% inherent rent upside at the next rent resets (review or expiry) after providing for tenant incentives. This excludes any further rental growth between now and the time of these resets.

It is also significant that 37% (2020: 29%) of the portfolio by lease value, including all office leases with exception of Aviva Norwich, have RPI or fixed rental increases upon review, ensuring upside during these lease terms.

During the year there were 43 property valuation updates, of which 17 were adjusted upwards, 21 were retained at previous levels while 5 were lower. In addition, on 31 August 2021 the valuations of 5 properties were adjusted to comply with IFRS accounting. The total increase in portfolio valuation (on a like for like basis) is £6.2m (before the write-off of costs), or 4.9% on the opening portfolio valuation (2020: Nil%). The property portfolio value as at 31 August 2021 is £163 500 000.

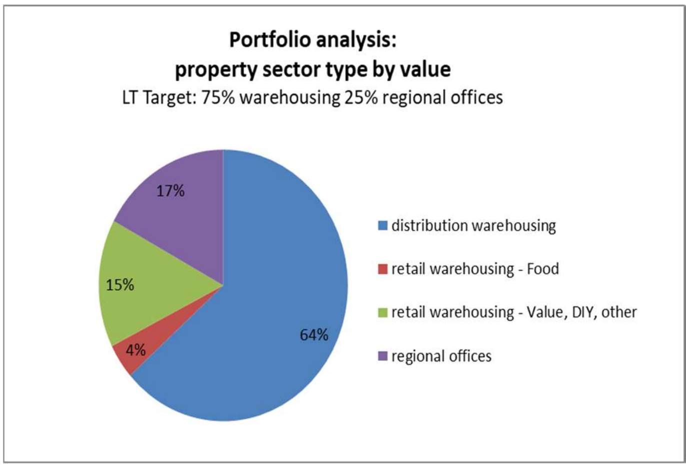
As already mentioned, there were two completed acquisitions during the year while Heads of Terms were agreed for the acquisition of Marina Quays prior to 31 August 2021 with completion of the deal after yearend.

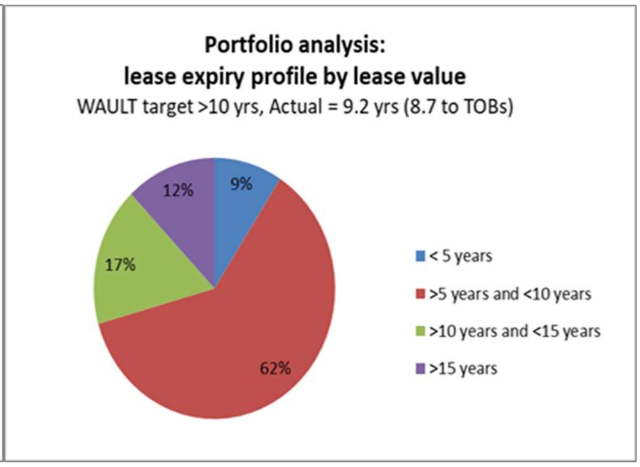
**DHL, Bawtry, Doncaster** – a modern and substantial 272,399 sft warehouse, acquired on 31 March 2021, at a purchase price of £22.65m (NIY of 5%). Let to DHL Supply Chain Limited for a remaining term of just under 10 years. Fully repairing and insuring (FRI) lease terms with fixed 2% pa compounded upliftment at review in December 2025. Passing rent is £4.45 psft, which is considered reversionary.

**Crown, Newcastle** – a recently refurbished 72,388 sft warehouse, acquired on 30 April 2021, at a purchase price of £7.0m (NIY of 4.9%). Let to Crown Promotional Packaging with a parent company guarantee from Crown Packaging Manufacturing UK Ltd. Remaining term of just over 11 years, FRI terms, upwards only OM review. Passing rent is effective £5.00 psft, which is considered reversionary.

**Marina Quay, Rhyl** – a recently constructed 102 316 sft retail park comprising a series of retail warehouses tenanted by value and food retailers, including Aldi, Farmfoods, Gregs, Costa, B&M and the Range. The property has a WAULT of 13.7 years to expiry and 12.2 years to breaks. 61% of rental is subject to indexed reviews. The passing rental is £1,148,690 pa (average of £11.23 psf), whereas ERV is estimated at £1 200 500 (£11.92 psft on average). The property was acquired in 7 October 2021 at a purchase price of £17.7m (NIY of 6.0%).

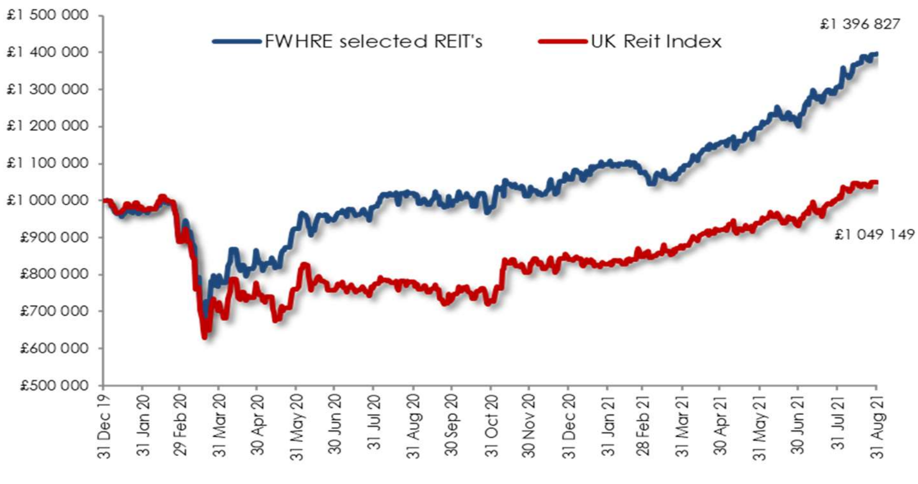
The pie charts below show the sector and lease profiles after this acquisition.




There is now a 4% weighting to Retail Warehousing – Food, while the weighting to higher yielding Value & DIY Retail Warehousing also increases. The Marina Quay acquisition will see the portfolio WAULT increase from 8.8 years to 9.2 years, a not insignificant adjustment, and the weighting of leases with indexation increases from 37% to 39%. These movements in portfolio metrics are considered favourable.

The REITs held by the Fund have performed exceptionally well (up 37%) and slightly ahead of the sector (35%). This is demonstrated in the graph below which shows the relative performance of the REITs held by the Fund compared to the sector average since 1 Jan 2020, (pandemic).




Source: Bloomberg and Marriott

It is significant that the Fund's REIT investments have a strong bias towards distribution warehousing and equally importantly are not invested in traditional retail. The performance of these REITs not only justifies their selection but also provides support for the composition of the direct property portfolio, which similarly has a strong emphasis to distribution warehousing.

**Debt funding arrangements**

At 31 August 2021, the Fund had drawn down debt with Barclays of £68.38m and a £5m RCF which was fully available. The average bank margin on the debt was 194 bps. 3-month LIBOR was around 7 bps and the interest rates on £40m of the debt was fixed through to April 2025 at an average rate of 89 bps. The cost of a 5 year interest swap at 31 August 2021 was around 55 bps and the mark to market fair value adjustment stood at £599 000 at 31 August 2021 (2020: £1 483 000). The all-in average cost of the Fund's debt (including reserving costs on the unutilised RCF) was circa 2.55% pa. The actual Interest cover was well above 5 times and the actual LTV ratio was 42%. Accordingly, there was considerable headroom from a bank covenant perspective. Some 57% of the debt was hedged, within the 50% to 75% target set by the Board.

The above term was due to expire in December 2022. Good progress regarding the Fund's debt arrangements generally has been made. A refinancing of the current debt arrangements with Barclays has been agreed and HSBC is being introduced as a 2nd lender and will advance debt on Marina Quay and the Crown Newcastle properties.

The arrangements are for 3-year terms at a margin of 190 bps (lower than the current 194 bps average) from Barclays over the existing debt and a margin of 200 bps from HSBC over the debt on the most recent 2 properties. The introduction of a 2nd lender reduces the Fund's reliance on a single debt provider and increases competitiveness going forward.

Both arrangements automatically see the debt move onto SONIA RFR rate regime in an effective and efficient way, something that otherwise would have had to be done by 31 December 2021.

**Governance and risk**

During the year an Investment Committee was established. This committee meets quarterly and more frequently as required to consider investment opportunities. It has a formal mandate and reports to the Board.

During the last quarter, the audit for 2022 was put out to tender and the decision was taken that KMPG be retained as the auditors for the group. This exercise has provided comfort that the fees are competitive, and that KPMG are well positioned to act as auditors of the Fund.

Careful consideration has also been given to the Risks that the Fund faces and a more formalised approach, documentation, and quarterly review of these has been introduced. Similarly, greater emphasis is being placed on ESG considerations, especially Environmental when considering property acquisitions.

**Fund investment performance and guidance**

The Fund's annualised returns (distributing A class) are as follows.

| Annualised returns – FRYs ending 31 August 2021 | 1 Year | 3 Years | 5 Years |
|---|---|---|---|
| Income | 5.2% | 4.9% | 5.1% |
| Capital growth | 13.0% | 4.8% | 3.6% |
| Total Return | 18.2% | 9.7% | 8.7% |

Source Bloomberg and Marriott. Before Investment Management fees.

The income returns of 5.2% results from 4 quarterly dividends totalling 5.25p (2020: 5.0p) distributed and paid during the financial year. This 5.25p is 5% up on the 5.0p prior year distribution. The A class share price as at 31 August 2021 was £1.2804, 13% up on the £1.1281 price twelve months ago. The increase is due to both REIT and property valuation growth.

| Annualised returns – FYRs ending 31 August 2021 | 1 Year | 3 Years | 5 Years |
|---|---|---|---|
| FWHRE | 18.2% | 9.7% | 8.7% |
| UK REITs | 34.5% | 6.7% | 5.7% |
| SA Listed property (GBP) | 51.0% | -8.4% | -5.6% |
| SA Listed property (ZAR) | 71.4% | -7.0% | -5.1% |

Source Bloomberg and Marriott. Before Investment Management fees.

There has been very strong appreciation in REITS during the past year. However, over the 3 and 5 year horizons, FWHRE has outperformed both UK and SA REITs.

The income yield offered by FWHRE is attractive in an investment environment where yield is hard to come. The long lease profile of the direct property portfolio together with the FRI nature of the leases and the strength of tenant base all contribute to the robustness of the net rental streams and the income return.

Accordingly, a dividend yield of 4.5% to 5% can be anticipated and on the assumption that yields remain at similar levels modest capital appreciation will arise as rental growth influences property valuations, resulting in total return expectations of 4.5% to 6.5%. This should be an acceptable outcome for investors in the current investment environment.

That said, there may well be further upside in property valuations which are behind listed REIT yields and well above bond yields, with potential upside on the return expectations set out above.

## Statement of Directors' Responsibilities in respect of the Directors' Report and the financial statements

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

The Directors have resolved to prepare Group financial statements for each financial year. The Directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards and applicable 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 of its profit or loss for that period. In preparing each of the Group 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;
- assess the Group'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 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 Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that its financial statements comply with the Isle of Man Companies Act. 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 Fund's website. Legislation in the Isle of Man governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

**P P Scales**

**Director**

**22 October 2021**

## Report of the Independent Auditors, KPMG Audit LLC, to the members of First World Hybrid Real Estate Plc

### Our opinion is unmodified

We have audited the consolidated financial statements of First World Hybrid Real Estate Plc (the "Fund") and its subsidiaries (together, the "Group"), which comprise the Consolidated Statement of Financial Position as at 31 August 2021, the Consolidated Statements of Comprehensive Income, the Consolidated Statement of Changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

*In our opinion, the accompanying consolidated financial statements:*

- give a true and fair view of the state of the Group's affairs as at 31 August 2021 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards; and
- have been properly prepared in accordance with the requirements of the Companies Act 2006.

### 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 have fulfilled our ethical responsibilities under, and are independent of the Fund and Group in accordance with, UK ethical requirements including FRC Ethical Standards, as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### Key audit matters: our assessment of the risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated 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. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matter was as follows (unchanged from 2020):

| | The risk | Our response |
|---|---|---|
| **Valuation of investment property**<br><br>£163,500,000; (2020: £127,645,000)<br><br>Refer to notes 2(o), 3, 4 and 9 (accounting policies, significant accounting judgements, estimates and assumptions, and notes relating to fair value and investment properties). | **Subjective valuation**<br><br>The Group's investment property portfolio consists of UK commercial properties, with a combined fair value of £163,500,000, comprising 79% of total assets.<br><br>The fair value of investment properties at 31 August 2021 was assessed by the Board of Directors based on the latest available independent valuations prepared by the Group's external valuers for each property (the "Valuers") together with an update from each firm of valuers with regard to any change in value from the date of the last valuation to 31 August 2021.<br><br>The valuation of the Group's investment property portfolio is a | **Our procedures included:**<br><br>**Control design -** Documenting and assessing the design and implementation of the investment property valuation processes and controls:<br><br>**Assessing the Valuers' credentials -** Assessing the independence and competence of the Valuers as required by auditing standards by inspecting the engagement letter with the Valuers and evaluating the Valuers' professional qualifications;<br><br>**Comparing valuations**<br><br>- Agreeing the value of all properties held at 31 August 2021 to the open market valuations included in the latest available valuation reports provided by Valuers together with the update from each firm of valuers with regard to any change in value from the date of the last valuation to 31 August 2021; |

| | The risk | Our response |
|---|---|---|
| | **Subjective valuation**<br><br>significant area of our audit given that it represents the majority of the Group's total assets and requires the use of significant judgements and subjective assumptions.<br><br>The effect of these matters is that, as part of our risk assessment, we determined that the valuation of investment properties has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 4) disclose the sensitivity estimated by the Group. | **Benchmarking assumptions**<br><br>- Comparing the key inputs and assumptions in the property valuations, namely yields and rental rates, to the yields evident from published market data regarding the UK commercial property market and the rental rates to those being obtained by the Group under the relevant lease agreements:<br><br>- For a risk-based selection of property valuations, using our own property valuation specialist to evaluate and challenge the key inputs and assumptions (comprising rental income, lease term and forward yields) and investigating any contrary evidence to the assumptions adopted:<br><br>**Methodology choice** - Assessing the appropriateness of the valuation methodologies used against generally accepted industry valuation models, including using our own property valuation specialist to assess the appropriateness of the valuation methodology used for a sample of properties; and<br><br>**Assessing transparency** - Consideration of the appropriateness, in accordance with relevant accounting standards, of the disclosures in respect of the valuation of investment property. |

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

Materiality for the consolidated financial statements as a whole was set at £2,000,000, determined with reference to a benchmark of group total assets of £207,615,000, of which it represents approximately 0.96% (2020: 1%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole. Performance materiality for the Group was set at 0.75% (2020: 0.75%) of materiality for the financial statements as a whole, which equates to £1,500,000. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £100,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

## Report of the Independent Auditors, KPMG Audit LLC, to the members of First World Hybrid Real Estate Plc (continued)

Our audit of the Group was undertaken to the materiality level specified above, which has informed our identification of significant risks of material misstatement and the associated audit procedures performed in those areas as detailed above.

The group team performed the audit of the Group as if it was a single aggregated set of financial information. The audit was performed using the materiality level set out above and covered 100% of total group revenue, total group profit before tax, and total group assets and liabilities.

### Going concern

The Directors have prepared the consolidated financial statements on the going concern basis as they do not intend to liquidate the Group or the Fund or to cease their operations, and as they have concluded that the Group and the Fund's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the consolidated financial statements (the “going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the Group and the Fund's business model and analysed how those risks might affect the Group and the Fund's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to affect the Group and the Fund's financial resources or ability to continue operations over this period were:

- Availability of capital to meet operating costs and other financial commitments;
- Availability of capital to meet investor redemption requests;
- The ability of the Fund to comply with debt covenants;

We considered whether these risks could plausibly affect the liquidity in the going concern period by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources indicated by the Fund’s financial forecasts.

We considered whether the going concern disclosure in note 2(c) to the financial statements gives a full and accurate description of the Directors' assessment of going concern.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the consolidated financial statements is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group and the Fund's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in the notes to the consolidated financial statements to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group and the Fund will continue in operation.

### Fraud and breaches of laws and regulations – ability to detect

*Identifying and responding to risks of material misstatement due to fraud*

To identify risks of material misstatement due to fraud (“fraud risks”) we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- enquiring of management as to the Group’s policies and procedures to prevent and detect fraud as well as enquiring whether management have knowledge of any actual, suspected or alleged fraud;
- reading minutes of meetings of those charged with governance; and
- using analytical procedures to identify any unusual or unexpected relationships.

## Report of the Independent Auditors, KPMG Audit LLC, to the members of First World Hybrid Real Estate Plc (continued)

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because the Group's revenue streams are simple in nature with respect to accounting policy choice, and are easily verifiable to external data sources or agreements with little or no requirement for estimation from management. We did not identify any additional fraud risks.

We performed procedures including

- Identifying journal entries and other adjustments to test based on risk criteria and comparing any identified entries to supporting documentation; and
- incorporating an element of unpredictability in our audit procedures.

*Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations*

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the consolidated financial statements from our sector experience and through discussion with management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence, if any, and discussed with management the policies and procedures regarding compliance with laws and regulations. As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

The Group is subject to laws and regulations that directly affect the consolidated financial statements including financial reporting legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

The Group is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the consolidated financial statements, for instance through the imposition of fines or litigation or impacts on the Group and the Fund's ability to operate. We identified financial services regulation as being the area most likely to have such an effect, recognising the regulated nature of the Group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

*Context of the ability of the audit to detect fraud or breaches of law or regulation*

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the consolidated financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the consolidated financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remains a higher risk of non-detection of fraud, as this may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

### Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

## Report of the Independent Auditors, KPMG Audit LLC, to the members of First World Hybrid Real Estate Plc (continued)

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

### Respective responsibilities

*Directors' responsibilities*

As explained more fully in their statement set out on page 14, the Directors are responsible for: the preparation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Fund'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 Fund 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 consolidated financial statements as a whole are free from material misstatement, whether due to fraud 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 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 consolidated financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

### The purpose of this report and restrictions on its use by persons other than the Fund's members, as a body

This report is made solely to the Fund's members, as a body, in accordance with section 80(C) of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Fund'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 Fund and the Fund's members, as a body, for our audit work, for this report, or for the opinions we have formed.

KPMG Audit LLC

KPMG Audit LLC
*Chartered Accountants*
Heritage Court
41 Athol Street
Douglas
Isle of Man IM1 1LA

22 October 2021

## Consolidated Statement of Comprehensive Income for the year ended 31 August 2021

| | Note | 2021 | 2020 |
|---|---|---|---|
| | | £000 | £000 |
| **Income** | | | |
| Rental income | 9 | 8,863 | 8,109 |
| Other income | 10 | 188 | - |
| Net gain on financial assets/liabilities at fair value through profit or loss | 5 | 10,435 | 1,651 |
| Net fair value gain/(loss) on investment properties | 9 | 4,073 | (363) |
| Dividend income | | 1,093 | 967 |
| | | 24,652 | 10,364 |
| **Expenses** | | | |
| Finance expense | 13 | (1,818) | (1,819) |
| Property expenses | 16 | (965) | (852) |
| Management expenses | 20 | (547) | (452) |
| Custodian fees | 22 | (137) | (118) |
| Other expenses | 17 | (176) | (139) |
| | | (3,643) | (3,380) |
| **Profit before tax** | | **21,009** | **6,984** |
| Taxation | 18 | (1,067) | (926) |
| **Profit for the year** | | **19,942** | **6,058** |
| **Total comprehensive income for the year** | | **19,942** | **6,058** |

The Directors consider that all results derive from continuing activities.

The accompanying notes on pages 24 to 45 form an integral part of the financial statements.

## Consolidated Statement of Financial Position as at 31 August 2021

| | Note | 2021 | 2020 |
|---|---|---|---|
| | | £000 | £000 |
| **Assets** | | | |
| **Non-current assets** | | | |
| Investment property | 9 | 163,500 | 127,645 |
| | | 163,500 | 127,645 |
| **Current assets** | | | |
| Financial assets at fair value through profit or loss - equities | 5 | 37,914 | 30,485 |
| Trade and other receivables | 11 | 423 | 710 |
| Cash and cash equivalents | 15 | 5,778 | 2,796 |
| | | 44,115 | 33,991 |
| **Total assets** | | **207,615** | **161,636** |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 13 | 68,217 | 56,735 |
| Financial liabilities at fair value through profit or loss - swap | 5 | 599 | 1,483 |
| | | 68,816 | 58,218 |
| **Current liabilities** | | | |
| Trade and other payables | 14 | 381 | 302 |
| Interest payable | 13 | 151 | 124 |
| Deferred income | 9 | 755 | 577 |
| Current tax liability | 18 | 414 | 507 |
| | | 1,701 | 1,510 |
| **Total liabilities** | | **70,517** | **59,728** |
| **Net assets** | | **137,098** | **101,908** |
| **Equity** | | | |
| Participating Share capital | 6 | 1,044 | 910 |
| Share premium | 6 | 113,827 | 96,377 |
| Retained earnings | | 22,227 | 4,621 |
| **Total equity** | | **137,098** | **101,908** |
| **NAV per Share** | 8 | **£1.31** | **£1.12** |

The accompanying notes on pages 24 to 45 form an integral part of the financial statements.

The consolidated financial statements on pages 20 to 45 were approved and authorised for issue by the Board of Directors on 22 October 2021 and signed on its behalf by:

……………………………………. ………………………………………….

**P P Scales**
**Director**

**R J Collister**
**Director**

## Consolidated Statement of Changes in Equity as at 31 August 2021

| | Participating Share capital £000 | Share premium £000 | Retained earnings £000 | Total equity £000 |
|---|---|---|---|---|
| **Balance at 1 September 2019** | **849** | **89,243** | **785** | **90,877** |
| Profit for the year | - | - | 6,058 | 6,058 |
| **Total comprehensive profit for the year** | **-** | **-** | **6,058** | **6,058** |
| **Transactions with Shareholders** | | | | |
| Distributions to Shareholders | **-** | **-** | (2,222) | (2,222) |
| Participating Share issuances | 113 | 13,067 | - | 13,180 |
| Participating Share redemptions | (52) | (5,933) | - | (5,985) |
| **Total transactions with Shareholders** | 61 | 7,134 | (2,222) | 4,973 |
| **Balance at 31 August 2020** | **910** | **96,377** | **4,621** | **101,908** |
| **Balance at 1 September 2020** | **910** | **96,377** | **4,621** | **101,908** |
| Profit for the year | - | - | 19,942 | 19,942 |
| **Total comprehensive profit for the year** | - | - | 19,942 | 19,942 |
| **Transactions with Shareholders** | | | | |
| Distributions to Shareholders | - | - | (2,336) | (2,336) |
| Participating Share issuances | 192 | 24,201 | - | 24,393 |
| Participating Share redemptions | (58) | (6,751) | - | (6,809) |
| **Total transactions with Shareholders** | **134** | **17,450** | **(2,336)** | **15,248** |
| **Balance at 31 August 2021** | **1,044** | **113,827** | **22,227** | **137,098** |

The accompanying notes on pages 24 to 45 form an integral part of the financial statements.

## Consolidated Cash Flow Statement for the year ended 31 August 2021

| | Note | 2021 £000 | 2020 £000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | | 21,009 | 6,984 |
| **Adjustments to reconcile profit before tax to net cash flows** | | | |
| Interest expense | 13 | 1,610 | 1,646 |
| Amortisation of borrowing arrangement fees | 13 | 208 | 173 |
| Net fair value (gain)/loss on investment properties | 9 | (4,073) | 363 |
| Net gains on financial assets/liabilities at fair value | 5 | (10,435) | (1,651) |
| *Working capital adjustments:* | | | |
| Movement in concession rent debtor | 9 | (186) | - |
| Decrease/(increase) in trade and other receivables | | 287 | (410) |
| Increase/(decrease) in trade and other payables | | 257 | (119) |
| | | 8,677 | 6,986 |
| Interest paid | | (1,583) | (1,683) |
| Tax paid | | (1,160) | (538) |
| **Net cash inflow from operating activities** | | **5,934** | **4,765** |
| **Cash flows from financing activities** | | | |
| Net proceeds from issue of redeemable participating preference Shares | | 17,584 | 7,195 |
| Utilisation/(repayments) of borrowings | 13 | 11,325 | (2,500) |
| Borrowing arrangement fees | | (51) | (217) |
| Distributions paid to Shareholders | 7 | (2,336) | (2,222) |
| **Net cash inflow from financing activities** | | **26,522** | **2,256** |
| **Cash flows from investing activities** | | | |
| Purchase of investment properties | 9 | (31,596) | - |
| Net sale/(purchase) of investments at fair value | 5 | 2,122 | (6,445) |
| **Net cash outflow from investing activities** | | **(29,474)** | **(6,445)** |
| **Net increase in cash and cash equivalents** | | **2,982** | **576** |
| Cash and cash equivalents at the beginning of the year | 15 | 2,796 | 2,220 |
| **Cash and cash equivalents at the end of the year** | **15** | **5,778** | **2,796** |

The accompanying notes on pages 24 to 45 form an integral part of the financial statements.

## Notes to the Financial Statements

### 1) General information

First World Hybrid Real Estate plc (the "Fund") was incorporated in the Isle of Man on 1 August 2013 under the Isle of Man Companies Act 2006. The Fund became a Regulated Fund in the Isle of Man on 26 February 2015 and it is subject to the Isle of Man Collective Investment Schemes Regulations.

The Fund invests primarily in UK commercial real estate. The Fund has a wholly owned subsidiary FWRE Holdings Limited, which in turn has a wholly owned operating subsidiary FWRE Limited (collectively the "Group").

FWRE Limited applied for an exemption election for capital gains tax during the financial year, see note 18.

On 24 August 2021 two new subsidiaries were incorporated – FWRE Holdings Two Limited and FWRE Two Limited, see note 19.

### 2) Basis of preparation

Details of the Group's accounting policies are given below.

#### a) Standards and amendments which are first effective for the period beginning 1 September 2020

The following new principal accounting policies applied in the preparation of these financial statements:

| Description | Effective date |
|---|---|
| Amendments to References to Conceptual Framework in IFRS Standards | 1 January 2020 |
| Definition of a Business (Amendments to IFRS 3) | 1 January 2020 |
| Definition of Material (Amendments to IAS 1 and IAS 8) | 1 January 2020 |
| Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 & IFRS 7) | 1 January 2020 |
| COVID-19-Related Rent Concessions (Amendment to IFRS 16) | 1 January 2020 |

The application of the standards above has not had a significant impact on the Group.

#### b) New standards, amendments and interpretations issued but not yet effective and not early adopted

A number of new standards, amendments and interpretations are effective for annual periods beginning after 1 September 2021 and earlier application is permitted; however, the Fund has not early adopted the amended standards in preparing these financial statements. None of these are expected to have a significant impact on the Fund's financial statements when they become effective.

#### c) Going concern

The Directors have made an assessment of the Fund's ability to continue as a going concern and are satisfied that the Fund has the resources to continue in business for the foreseeable future. Furthermore, the Directors are not aware of any material uncertainties that may cast significant doubt upon the Fund's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

#### d) Consolidation

The financial statements comprise the results of the Fund and its subsidiaries as set out in note 19. Subsidiaries in which the Fund has the ability to exercise control are fully consolidated. Control is defined as having exposure, or rights, to variable returns due to involvement in an investee and the ability to affect those returns.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated. The accounting policies of the subsidiaries are consistent with those of the Fund.

**e) Statement of compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), International Financial Reporting Interpretations Committee ("IFRIC") interpretations and in accordance with the Isle of Man Companies Act 2006.

**f) Functional and presentational currency**

The Fund's functional and presentational currency is Sterling ("£" or "GBP") being the primary economic environment in which the Fund operates. The functional and presentational currency reflects the fact that the Participating Shares of the Fund are issued in Sterling and the primary activity of the Fund is to invest in British properties and property funds. The performance of the Fund is measured and reported to the Directors and Shareholders in Sterling. The functional and presentational currency of the Fund's subsidiaries is also Sterling.

**g) Foreign currency translation**

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated Statement of Comprehensive Income.

**h) Interest**

Interest income and expense presented in the Consolidated Statement of Comprehensive Income comprise interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:
- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

**i) Dividend income**

Dividend income is recognised in profit or loss on the date on which the Fund's right to receive the payment is established. For quoted equity securities, this is usually the ex-dividend date. Dividend income is presented gross of any non-recoverable withholding taxes, which are disclosed separately in the Consolidated Statement of Comprehensive Income.

**j) Distributions to Shareholders**

Dividends are paid quarterly to holders of A Income Shares at the discretion and after the approval of the Board after they have considered the solvency and cash requirements of the Fund. A dividend to the Fund's Shareholders is accounted for as a deduction from equity.

**k) Net gain on financial assets/liabilities at fair value through profit or loss**

Net gain on financial assets/liabilities at fair value through profit or loss ("FVTPL") includes unrealised fair value changes and realised (losses)/gains on disposal of investments, net of fees and commission expenses.

**l) Taxation**

In line with current Isle of Man taxation legislation, the Fund is liable to income tax at 0%.

Net rental income received by the Fund which has a UK source is subject to UK corporation tax at a current rate of 19%.

Gains made on disposals of UK land and property are subject to UK corporation tax. The Group holds an exemption which exempts it from paying capital gains tax on the disposal of investment property.

The Fund is not required to withhold tax from the payments of dividends to Shareholders.

Withholding tax for property income distributions may be deducted on dividend income received.

**m) Financial assets and financial liabilities**

*i) Recognition and initial measurement*

The Fund initially recognises financial assets and financial liabilities FVTPL on the trade date, which is the date on which the Fund becomes a party to the contractual provisions of the instrument. Other financial assets and financial liabilities are recognised on the date on which they are originated.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

*ii) Classification and subsequent measurement*

***Classification of financial assets***

On initial recognition, the Fund classifies financial assets as measured at amortised cost or FVTPL.

A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as at FVTPL:
- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payment of principal and interest (“SPPI”).

All other financial assets of the Fund are measured at FVTPL.

*Business model assessment*

In making an assessment of the objective of the business model in which a financial asset is held, the Fund considers all of the relevant information about how the business is managed, including:
- the documented investment strategy and the execution of this strategy in practice. This includes whether the investment strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of assets;
- how the performance of the portfolio is evaluated and reported to the Fund’s management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how the investment manager is compensated: e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about the future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Fund’s continuing recognition of the assets.

The Fund has determined that it has two business models.

- *Held-to-collect business model*: this includes cash and cash equivalents and receivables. These financial assets are held to collect contractual cash flow.
- *Other business model*: this includes equity investments and derivative financial instruments. These financial assets are managed and their performance is evaluated, on a fair value basis, with frequent sales taking place.

*Assessment whether contractual cash flows are SPPI*

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are SPPI, the Fund considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Fund considers:

- contingent events that would change the amount or timing of cash flows;
- leverage features;
- prepayment and extension features;
- terms that limit the Fund's claim to cash flows from specified assets (e.g. non-recourse features); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

*Reclassifications*

Financial assets are not reclassified subsequent to their initial recognition unless the Fund were to change its business model for managing financial assets, in which case all affected financial assets would be reclassified on the first day of the first reporting period following the change in the business model.

***Subsequent measurement of financial assets***

*Financial assets at FVTPL*

These assets are subsequently measured at fair value. Net gains and losses, including foreign exchange gains and losses, are recognised in the Consolidated Statement of Comprehensive Income.

Equity investments are included in this category.

*Financial assets at amortised cost*

These assets are subsequently measured at amortised cost using the effective interest method. Interest income is recognised in 'interest income calculated using the effective interest method' and impairment is recognised in 'impairment losses on financial instruments' in the Consolidated Statement of Comprehensive Income. Any gain or loss on derecognition is also recognised in profit or loss.

Cash and cash equivalents, receivables and balances due from brokers are included in this category.

***Financial liabilities – Classification, subsequent measurement and gains and losses***

Financial liabilities are classified as measured at amortised cost or FVTPL.

A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense is recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Financial liabilities at FVTPL:
- Held for trading: derivative financial instruments.

Financial liabilities at amortised cost:
- This includes trade and other payables and balances due to brokers.

*iii)* Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Fund has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Fund measures fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The Fund measures instruments quoted in an active market at mid-price, because this price provides a reasonable approximation of the exit price.

If there is no quoted price in an active market, then the Fund uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in a pricing transaction.

The Fund recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred.

iv) *Amortised cost measurement*

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

v) *Impairment*

The Fund recognises loss allowances for Expected Credit Losses ("ECLs") on financial assets measured at amortised cost.

The Fund measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:
- financial assets that are determined to have low credit risk at the reporting date; and
- other financial assets for which credit risk (i.e. the risk of default occurring over the expected life of the asset) has not increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Fund considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Fund's historical experience and informed credit assessment and including forward-looking information.

The Fund assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Fund considers a financial asset to be in default when:
- the borrower is unlikely to pay its credit obligations to the Fund in full, without recourse by the Fund to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The Fund considers a financial asset to have low credit risks when the credit rating of the counterparty is equivalent to the globally understood definition of 'investment grade'. The Fund considers this to be BBB or higher per S&P.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Fund is exposed to credit risk.

*Measurement of ECLs*

ECLs are a probability-weighted estimate of credit losses. Credit losses are the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Fund expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

*Credit-impaired financial assets*

At each reporting date, the Fund assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events have a detrimental impact on the estimated future cash flows of the financial assets have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:
- significant financial difficulty of the borrower or issuer;
- a breach of contract such as default or being more than 90 days past due; or
- it is probable that the borrower will enter bankruptcy or financial reorganisation.

*Presentation of allowance for ECLs in the statement of financial position*

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amounts of the assets.

*Write-off*

The gross carrying amount of a financial asset is written off when the Fund has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

*vi) Derecognition*

The Fund derecognises regular-way sales of financial assets using trade date accounting. A financial asset is derecognised when the contractual rights to the cash flows from the asset expire, or the Fund transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Fund neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset that is derecognised) and the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss. Any interest in such transferred financial assets that is created or retained by the Fund is recognised as a separate asset or liability.

The Fund enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all of the risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all of the risks and rewards include sale and repurchase transactions.

The Fund derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

The Fund derecognises a derivative only when it meets the derecognition criteria for both financial assets and financial liabilities. Where the payment or receipt of variation margin represents settlement of a derivative, the derivative, or the settled portion, is derecognised.

*vii) Offsetting*

Financial assets and financial liabilities are offset and the net amount presented in the Consolidated Statement of Financial Position when, and only when, the Fund has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

**n) Cash and cash equivalents**

Cash and cash equivalents are defined as demand deposits and short-term, highly liquid investments which are readily convertible to known amounts of cash and subject to insignificant risk of changes in value. For the purposes of the Consolidated Cash Flow Statement, cash and cash equivalents consist of bank deposits.

**o) Investment property**

Investment property is held for long-term rental yields or for capital appreciation or both, and is not occupied by the Group.

The acquisition cost of investment property includes transaction costs. The Directors state investment property at the valuation undertaken at the date of acquisition (which excludes transaction costs, which are therefore expensed immediately). Transaction costs include professional fees for legal services.

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 Consolidated Statement of Comprehensive Income in the period 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. The difference between the net disposal proceeds and the carrying amount of the asset would result in either gains or losses at the retirement or disposal of investment property. Any gains or losses are recognised in the Consolidated Statement of Comprehensive Income in the year of retirement or 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 in the previous full period financial statements.

**p) Share capital**

The Fund has two types of shares, Management Shares and Participating Shares, both of which are classified as equity. There are three classes of Participating Shares, being the A (Income) Class, the B (Accumulation) Class and the C (Accumulation) Class. Shareholders acquire Participating Shares through subscription to the Fund, see note 6 for further details.

The issuance, acquisition and cancellation of Participating Shares are accounted for as equity transactions. No gain or loss is recognised in the Consolidated Statement of Comprehensive Income on the purchase, sale, issuance or cancellation of the Fund’s own equity instruments. Class A Participating Shares are entitled to dividends paid by the Fund.

Upon the issuance of shares, the consideration received is included in equity. Transaction costs incurred by the Fund in issuing or acquiring its own equity instruments are accounted for as a deduction from equity to the extent that they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

As a result of the ability to issue, repurchase and resell shares, the capital of the Fund can vary depending on subscriptions to the Fund and repurchases by the Fund. The Fund is subject to covenants on its borrowings and its own loan to value limits as set out in the Fund’s Investment Policy.

**q) Rental income**

Rental income from the investment properties is recognised on a straight-line basis, over the lease period.

**r) Borrowings**

Borrowings are recognised initially at fair value. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transactions costs) and the redemption value is recognised in the Consolidated Statement of Comprehensive Income over the term of the borrowing facility using the effective interest rate. Transaction costs directly associated with obtaining borrowings are initially capitalised and then recognised in the Consolidated Statement of Comprehensive Income over the term of the borrowing facility.

## 3) Use of judgements and estimates

In preparing these consolidated financial statements, management has made judgements and estimates that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. No significant judgements have been applied to these financial statements.

**a) Estimates**

Information used for assumptions and estimation uncertainties at 31 August 2021 may have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year. The most significant accounting estimate affecting the financial statements is the valuation of investment property (see note 9).

## 4) Financial risk management

**Financial risk factors**

The Fund's activities expose it to a variety of financial risks: market risk (including market price risk, interest rate risk and currency risk), credit risk and liquidity risk. The Fund's overall risk management programme seeks to maximise the returns derived for the level of risk to which the Fund is exposed and seeks to minimise potential adverse effects on the Fund's financial performance.

The management of these risks is carried out by the Asset Manager in conjunction with the Property Manager. The exposures are managed on an individual security level. The Fund has specific guidelines, outlined in the Offering Document, covering the investment instruments to manage the overall potential exposure. The Fund does not undertake short-selling.

The Fund uses different methods to measure and manage the various types of risk to which it is exposed; these methods are explained below.

**Credit risk**

The Fund takes on exposure to credit risk, which is the risk that the counterparty will be unable to pay amounts in full when due. Credit risk relates to the Fund's holdings in cash and cash equivalents and trade and other receivables, as disclosed in the Consolidated Statement of Financial Position.

All transactions to acquire financial asset equities are in listed well-established securities and are settled/paid for upon delivery using regulated brokers. The risk of default is considered minimal since the delivery of securities sold is only made once the broker has received payment. On a purchase, payment is made once the broker has received the securities. If either party fails to meet their obligation, the trade will fail.

The Fund's policy to manage this risk is to deal with banks and brokers that are regulated entities. Cash balances are held with financial institutions which are rated A3 and above based on Moody's Global Long Term Rating Scale.

The Fund seeks to ensure that rental contracts are entered into only with reputable, financially stable lessees with an appropriate credit history.

*Derivatives*

Derivative transactions are entered into under International Swaps and Derivatives Association (ISDA) master agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. In certain circumstances – e.g. when a credit event such as a default occurs – all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

The derivatives are entered into with bank and financial institution counterparties, which are rated A3 and above based on Moody's Global Long Term Rating Scale.

The Fund holds two interest rate swaps as part of its investment strategy:

| | Swap 1 | Swap 2 |
|---|---|---|
| Counterparty | Barclays Bank Plc | Barclays Bank Plc |
| Notional amount £'000 | 25,000 | 15,000 |
| Original effective date | 22 January 2019 | N/a |
| Effective date | 22 January 2020 | 22 April 2020 |
| Termination date | 22 April 2025 | 22 April 2025 |
| Interest paid on notional % per annum | 1.13 | 0.5 |
| Interest received on notional % per annum | 3-month GBP LIBOR | 3-month GBP LIBOR |

***Amounts arising from ECL***

*Cash*
Impairment on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Fund considers that these exposures have low credit risk based on the external credit ratings of counterparties.

The Fund monitors changes in credit risk on these exposures by tracking published external credit ratings of the counterparties.

The amount of impairment allowance on cash and cash equivalents at 31 August 2021 is nil (2020: nil) as the ECL provision is immaterial.

*Trade receivables*
Impairment on trade receivables has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Fund considers that these exposures have low credit risk based on the external credit ratings of counterparties.

The Fund monitors changes in credit risk on these exposures by tracking published external credit ratings, published financial performance figures and reviewing internal management accounts where applicable.

The amount of impairment allowance on trade receivables at 31 August 2021 is nil (2020: nil) as the ECL provision is immaterial.

**Market price risk**

The Fund is exposed to equity securities price risk. This arises from financial assets at fair value through profit or loss held by the Fund for which prices in the future are uncertain. All the Fund's equity investments are publicly traded on recognised exchanges. The Fund's overall market position is monitored on a regular basis by the Manager and the Investment Committee. The Investment Committee is appointed by the Board and contains a minimum of two Board members. All investment related recommendations made to the Board will pass through and be approved by the Investment Committee, who meet at least quarterly.

The Fund's primary risk management process is at the individual security level. Stock selection is primarily focused among well-established real estate investment trusts ("REITs") concentrating on those with proven reserves, cash-flow and fundamentally attractive relative asset valuation. Liquidity risk is only acceptable if it is reflected in the price of the security.

The fair value of financial assets is detailed below; all are listed in the UK:

| REITs | 2021 | Percentage | 2020 | Percentage |
|---|---|---|---|---|
| | £000 | | £000 | |
| Segro Plc | 8,874 | 23% | 7,405 | 24% |
| London Metric Property PLC | 9,950 | 26% | 9,218 | 30% |
| Tritax Big Box REIT PLC | 9,254 | 25% | 7,854 | 26% |
| LXI REIT PLC | 9,836 | 26% | 6,008 | 20% |
| | **37,914** | **100%** | **30,485** | **100%** |

The Fund is also exposed to price risk other than in respect of financial instruments such as property price risk on the investment properties. The Investment Manager has appointed the Property Manager to assist with the procurement and management of property for the Fund. When investing in real estate strong emphasis is placed on the quality of the lease covenant, the financial strength of the tenant, the length of lease, the type of lease and market relatedness of passing rent in terms of that lease. Reasonable care is taken to determine that the title to the property is a good marketable property.

The Investment Manager must have received a report from an appropriate valuer which contains a valuation of the property and which states that in the appropriate valuer's opinion the property would, if acquired by the Fund, be capable of being disposed of in an orderly transaction between market participants at that valuer's valuation.

The Fund intends to invest as follows:

- primarily UK commercial real estate, although the Fund may also invest in US or Continental European real estate;
- sector target weighting: distribution warehousing and stand-alone retail of 75% of its assets; offices of 25% of its assets;
- no single property must be valued at greater than 25% of the Gross Asset Value of the Fund;
- target a portfolio unexpired lease term of greater than 10 years;
- debt funding will be at a maximum of 50% loan to acquisition value for each property, with the Manager to determine the level of debt to be fixed for the term of the loan;
- transferable securities, with an emphasis on property-related securities. The Fund may hold up to 100% of its assets in transferable securities, REITs and property investment companies up to 100% of its assets; and
- not more than 10% of the assets will be invested in aggregate in units of other open-ended collective investment undertakings, including UCITS.

**Interest rate risk**

The Fund holds cash and cash equivalents and has bank borrowings and interest derivatives, as a result the Fund's interest income, interest expense and cash flows are subject to changes in market interest rates.

During the period interest income from cash was nil (2020: nil).

The interest rate charged on the Fund's bank borrowings is a variable rate of LIBOR plus a margin. The Fund uses derivative products to mitigate interest rate risk, see note 5.

During the financial year interest expense on borrowings was £1,610,000 (2020: £1,646,000), see note 13. If interest rates had been on average 0.25% higher/lower, with all other variables held constant, total comprehensive income/equity for the period would decrease/increase by £158,000 (2020: £144,000).

## Notes to the Financial Statements (continued)

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates ("IBORs") with alternative nearly risk-free rates (referred to as 'IBOR reform'). The Fund's current Barclay's facility is linked to LIBOR, which is being replaced under IBOR reform. A new Barclays lending facility under a new benchmark is currently being negotiated. This is expected to be implemented during the next financial year and will replace the existing facility. The interest rate swaps with Barclays will be renewed at the same time. IBOR reform is expected to have minimal effect on the Fund.

**Currency risk**
At 31 August 2021 the Fund's assets and liabilities were all denominated in GBP (2020: all denominated in GBP).

**Liquidity risk**
Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund is exposed to possible cash redemptions of Participating Shares. The Fund's policy is therefore to invest a significant minority of its assets in financial assets at fair value through profit or loss that are traded in an active market and can be readily disposed. The minimum Liquidity Level is 20%. As at 31 August 2021 the liquidity level was 32% (pending the acquisition of a further property subsequent to the year end, see note 23).

The Directors may declare a suspension of the determination of the Net Asset Value in certain circumstances as set out in the Offering Document. In order to manage the Fund's overall liquidity, the Fund has the ability to withhold redemption requests. The Manager monitors the Fund's liquidity position on a regular basis, and the Board of Directors reviews it on a quarterly basis.

The table below analyses the Fund's liabilities into relevant maturity groupings based on the remaining period at the Consolidated Statement of Financial Position date to the contractual maturity date.

| | Less than 1 year | 1 – 2 years | 2 – 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| **As at 31 August 2021** | **£000** | **£000** | **£000** | **£000** | **£000** |
| Trade and other payables | 381 | - | - | - | 381 |
| Interest payable | 151 | - | - | - | 151 |
| Current tax liability | 414 | - | - | - | 414 |
| Borrowings | - | 68,217 | - | - | 68,217 |
| Financial liabilities at fair value | - | 599 | - | - | 599 |
| **Total liabilities** | **946** | **68,816** | **-** | **-** | **69,762** |

| | Less than 1 year | 1 – 2 years | 2 – 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| **As at 31 August 2020** | **£000** | **£000** | **£000** | **£000** | **£000** |
| Trade and other payables | 302 | - | - | - | 302 |
| Interest payable | 124 | - | - | - | 124 |
| Current tax liability | 507 | - | - | - | 507 |
| Borrowings | - | - | 56,735 | - | 56,735 |
| Financial liabilities at fair value | - | - | 1,483 | - | 1,483 |
| **Total liabilities** | **933** | **-** | **58,218** | **-** | **59,151** |

**Capital risk management**

The capital of the Fund is represented by the total equity. The amount of total equity could change significantly on a regular basis as the Fund is subject to subscriptions and redemptions of Participating Shares at the discretion of Shareholders. The Fund's objectives when managing capital is to safeguard the Fund's ability to continue as a going concern to provide returns for Shareholders and benefits for other stakeholders and to maintain a strong capital base to support the development of the investment activities of the Fund.

In order to maintain or adjust the capital structure, the Fund monitors the level of monthly subscriptions and redemptions relative to the liquid assets and redeems and issues shares in accordance with the constitutional documents of the Fund, which include the ability to restrict redemptions and require certain minimum holdings and subscriptions. The Fund is subject to covenants on its borrowings and its own loan to value limits. The Fund's policy regarding debt funding is set out in the Fund's Investment Policy.

The Manager monitors capital on the basis of the total equity.

**Fair value estimation**

The Fund is required to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The fair value hierarchy has the following levels:

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

The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the Directors. The Directors consider observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The following table analyses within the fair value hierarchy the Fund's financial assets recognised at fair value through profit or loss.

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **As at 31 August 2021** | **£000** | **£000** | **£000** | **£000** |
| Financial assets at fair value through profit or loss: equities | 37,914 | - | - | 37,914 |
| **Total** | **37,914** | **-** | **-** | **37,914** |

| **Financial assets at fair value through profit or loss** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **As at 31 August 2020** | **£000** | **£000** | **£000** | **£000** |
| Financial assets at fair value through profit or loss: equities | 30,485 | - | - | 30,485 |
| **Total** | **30,485** | **-** | **-** | **30,485** |

The following table analyses within the fair value hierarchy the Fund's financial liabilities recognised at fair value through profit or loss.

| **Financial liabilities at fair value through profit or loss** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **For the year ended 31 August 2021** | **£000** | **£000** | **£000** | **£000** |
| Financial liabilities at fair value through profit or loss: Swap | - | 599 | - | 599 |
| **Total** | **-** | **599** | **-** | **599** |

| **Financial liabilities at fair value through profit or loss** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **For the year ended 31 August 2020** | **£000** | **£000** | **£000** | **£000** |
| Financial liabilities at fair value through profit or loss: Swap | - | 1,483 | - | 1,483 |
| **Total** | **-** | 1,483 | **-** | 1,483 |

Financial assets at fair value through profit or loss whose values are based on quoted market prices in active markets and therefore classified within level 1 are the REIT holdings of the Fund. The Fund does not adjust the quoted price for these instruments.

Financial liabilities at fair value through profit or loss whose values are based on other than quoted prices included within level 1 that are observable for the asset or liability, either or indirectly is the Swap. The fair value of the Swap is included within level 2.

**Investment property valuations**

Investment property valuations are classified at Level 3 in the fair value hierarchy as they are not based on observable market data. See note 9 for the valuation basis of investment property and movements in investment property.

The fair value of investment property is determined by using recognised valuation techniques. The main technique used is market comparison to similar properties.

Property and property related assets are inherently difficult to value due to the individual nature of each property. As a result, valuations may be subject to substantial uncertainty. There is no assurance that the estimates resulting from the valuation process will reflect the actual sales price even where such sales occur shortly after the valuation date. The performance of the Fund would be adversely affected by a downturn in the property market in terms of higher valuation forward yields or a weakening of rent levels. Rental income assumptions are not such a significant risk factor as the average unexpired lease period is approximately 9 years and the rental can be reviewed upwards but not lower than the current passing rental during the contractual leases. The most significant assumption relates to the forward yields at which the properties are independently valued. These yields range from 5.1% to 8.5% (2020: 5.3% to 7.7%). If the yields were to increase by 0.25% then the valuation would decrease by approximately £6,473,000 or 4% (2020: increase by 0.25% would decrease the valuation by £4,863,000 or 4%).

## 5) Financial assets and liabilities at fair value through profit or loss

| | 2021<br>£000 | 2020<br>£000 |
|---|---|---|
| Financial assets at fair value through profit or loss as at 1 September | 30,485 | 21,762 |
| Acquisition at cost during the year | - | 6,446 |
| Disposal at cost during the year | (916) | - |
| Unrealised gain on REITs | 8,345 | 2,277 |
| **Financial assets at fair value through profit or loss as at 31 August** | **37,914** | **30,485** |

The Swaps are marked to market by Barclays Bank PLC on a weekly basis. Any movement in the fair value of the Swap is taken to net gain on financial assets and liabilities at fair value through profit or loss in the Consolidated Statement of Comprehensive Income.

| | 2021<br>£000 | 2020<br>£000 |
|---|---|---|
| Financial liabilities at fair value through profit or loss as at 1 September | (1,483) | (857) |
| Unrealised gain/(loss) on Swap | 884 | (626) |
| **Financial liabilities at fair value through profit or loss as at 31 August** | **(599)** | **(1,483)** |

Proceeds from disposal of financial assets at fair value through profit or loss in the year were £2,122,000 (2020: £nil).

| **Net gain on financial assets at fair value through profit or loss** | 2021<br>£000 | 2020<br>£000 |
|---|---|---|
| Unrealised gain on REITs | 8,345 | 2,277 |
| Realised gain on REITs | 1,206 | - |
| Unrealised gain/(loss) on Swaps | 884 | (626) |
| | **10,435** | **1,651** |

## Notes to the Financial Statements (continued)

### 6) Share capital and Share premium

**Management Shares**

The Fund is authorised to allot and issue up to 200 Management Shares of £1.00 each to the Investment Manager or its nominee. As at 31 August 2021, 200 Management Shares were fully issued and unpaid (31 August 2020: 200 Management Shares were fully issued and unpaid).

The Management Share are not offered to investors. They exist to comply with Isle of Man law, which requires that the Shares have a preference over another class of capital in order to be redeemable. Management Shares carry no right to a dividend and can only be issued at par.

**Participating Shares**

Participating Shares only carry the right to vote on a class resolution of the holders of each respective Class of Shares relating to the variation, or deemed variation, of the class rights attaching to Participating Shares of that Class or on a resolution to wind up the Fund. On a winding up, Participating Shares carry the right to repayment of the nominal amounts paid up on them, and, after the nominal amounts have been repaid on the Management Shares, to distribution of the Fund's surplus assets.

The Directors may at their discretion permit a Shareholder to convert Shares of one Class into Shares of another Class (subject any terms of issue of the Shares in question and the provisions of the Articles). Any conversion of Shares would take place at a rate based upon the relative values of the prevailing Redemption Price of the existing Shares and the prevailing Subscription Price of the new Shares in accordance with the Articles. A conversion request, if permitted by the Directors, is subject to broadly the same procedural requirements, and may be deferred or suspended in the same circumstances, as redemption requests.

***A (Income) Class ("A Shares")***

A (Income) Class Shares are income shares and they are available for subscription on the terms of the Offering Document by Institutional Investors and by Non-Institutional Investors. A Shares entitle the holder to payment of any distribution declared by Directors.

***B (Accumulation) Class ("B Shares")***

Shares of the B (Accumulation) Class are accumulation shares and they are available for subscription on the terms of the Offering Document by Institutional Investors and by Non-Institutional Investors.

***C (Accumulation) Class ("C Shares")***

Shares of the C (Accumulation) Class are accumulation shares and they are available for subscription on the terms of the Offering Document by Institutional Investors only.

Participating Shares in the A (Income) retain the right of the Existing Participating Shares to distributions of any dividends declared by the Directors. The Fund will only accept applications to invest in the C (Accumulation) Class from institutional investors, whereas the A (Income) Class and the B (Accumulation) Class will be available to all investors who meet the entry criteria set out in the Offering Document.

For the C (Accumulation) Class only, the Fund will pay an asset management fee of 0.5% of the Net Asset Value attributable to the C (Accumulation) Class, which will be deducted quarterly in arrears. This is the equivalent of the portfolio level fees (IIP Fees) paid by investors in the other Classes.

## Notes to the Financial Statements (continued)

The analysis of movements in the number of Participating Shares and the net assets attributable to holders of Participating Shares during the periods is given below.

| | Number of Participating Shares | | | |
|---|---|---|---|---|
| **Year ended 31 August 2021** | **A Shares** | **B Shares** | **C Shares** | **Total** |
| Opening balance as at 1 September 2020 | 45,092,388 | 36,139,269 | 9,817,204 | **91,048,861** |
| Subscriptions for the period | 5,598,919 | 8,266,925 | 5,253,752 | **19,119,596** |
| Redemptions for the period | (3,211,260) | (1,975,746) | (372,917) | **(5,559,923)** |
| Share Class transfers for the period | (1,701,416) | 1,517,162 | 31,470 | **(152,784)** |
| **As at 31 August 2021** | **45,778,631** | **43,947,610** | **14,729,509** | **104,455,750** |

| | Number of Participating Shares | | | |
|---|---|---|---|---|
| **Year ended 31 August 2020** | **A Shares** | **B Shares** | **C Shares** | **Total** |
| Opening balance as at 1 September 2019 | 44,058,054 | 32,013,699 | 8,874,506 | **84,946,259** |
| Subscriptions for the period | 4,564,487 | 5,448,073 | 1,304,204 | **11,316,764** |
| Redemptions for the period | (3,162,223) | (1,676,316) | (361,506) | **(5,200,045)** |
| Share Class transfers for the period | (367,930) | 353,813 | - | **(14,117)** |
| **As at 31 August 2020** | **45,092,388** | **36,139,269** | **9,817,204** | **91,048,861** |

| **Year ended 31 August 2021** | Participating Share capital £000 | | | |
|---|---|---|---|---|
| | **A Shares** | **B Shares** | **C Shares** | **Total** |
| Opening balance as at 1 September 2020 | 451 | 361 | 98 | 910 |
| Subscriptions for the period | 56 | 83 | 53 | 192 |
| Redemptions for the period | (32) | (20) | (4) | (56) |
| Share Class transfers for the period | (17) | 15 | - | (2) |
| **As at 31 August 2021** | **458** | **439** | **147** | **1,044** |

| **Year ended 31 August 2020** | Participating Share capital £000 | | | |
|---|---|---|---|---|
| | **A Shares** | **B Shares** | **C Shares** | **Total** |
| Opening balance as at 1 September 2019 | 440 | 320 | 89 | **849** |
| Subscriptions for the period | 46 | 54 | 13 | **113** |
| Redemptions for the period | (31) | (17) | (4) | **(52)** |
| Share Class transfers for the period | (4) | 4 | - | **-** |
| **As at 31 August 2020** | **451** | **361** | **98** | **910** |

| **Year ended 31 August 2021** | Share premium £000 | | | |
|---|---|---|---|---|
| | **A Shares** | **B Shares** | **C Shares** | **Total** |
| Opening balance as at 1 September 2020 | 45,902 | 39,624 | 10,851 | 96,377 |
| Subscriptions for the period | 6,569 | 10,790 | 6,840 | 24,199 |
| Redemptions for the period | (3,700) | (2,567) | (484) | (6,751) |
| Share Class transfers for the period | (1,947) | 1,909 | 40 | 2 |
| **As at 31 August 2021** | **46,824** | **49,756** | **17,247** | **113,827** |

| **Year ended 31 August 2020** | Share premium £000 | | | |
|---|---|---|---|---|
| | **A Shares** | **B Shares** | **C Shares** | **Total** |
| Opening balance as at 1 September 2019 | 44,721 | 34,771 | 9,751 | **89,243** |
| Subscriptions for the period | 5,116 | 6,423 | 1,528 | **13,067** |
| Redemptions for the period | (3,529) | (1,976) | (428) | **(5,933)** |
| Share Class transfers for the period | (406) | 406 | - | **-** |
| **As at 31 August 2020** | **45,902** | **39,624** | **10,851** | **96,377** |

## 7) Dividends paid

The following Class A dividends were approved by the Directors and paid during the financial year:

| **Year ended 31 August 2021**<br>**Dividend payment date** | **£000** | **Dividend per Shares in issue (pence per share)** |
|---|---|---|
| 19 October 2020 | 585 | 1.30 |
| 25 January 2021 | 573 | 1.30 |
| 19 April 2021 | 568 | 1.30 |
| 19 July 2021 | 610 | 1.35 |
| | **2,336** | **5.25** |

| **Year ended 31 August 2020**<br>**Dividend payment date** | **£000** | **Dividend per Shares in issue (pence per share)** |
|---|---|---|
| 21 October 2019 | 550 | 1.25 |
| 20 January 2020 | 548 | 1.25 |
| 20 April 2020 | 562 | 1.25 |
| 20 July 2020 | 562 | 1.25 |
| | **2,222** | **5.00** |

## 8) NAV per Share

In accordance with IFRS, the transaction costs related to investment property acquisitions are effectively written off in full upon the acquisition as fair value adjustments, whereas for the determination of the Fund's pricing such costs are amortised so as not to unfairly prejudice existing investors.

In accordance with IFRS, all rent free periods included within rental agreements are recognised in net fair value gains/(losses) on investment properties. For the determination of the Fund's pricing it is considered more appropriate to apply a rental income adjustment spread evenly over the period of the leases so as not to unfairly prejudice existing investors.

The NAV per share, on an IFRS basis, is calculated by dividing the net assets of the Fund by the number of Participating Shares in issue, and is reconciled to the pricing NAV below:

| | **Year ended 31 August 2021** | | | |
|---|---|---|---|---|
| | **A Shares** | **B Shares** | **C Shares** | **Total** |
| NAV per financial statements £000 | 56,033 | 60,948 | 20,117 | **137,098** |
| Plus: Amortised property acquisition cost pricing adjustment £000 | 2,506 | 2,726 | 899 | **6,131** |
| Concession rent adjustment | 27 | 83 | 76 | **186** |
| Pricing NAV £000 | 58,615 | 63,757 | 21,043 | **143,415** |
| Participating Shares in issue (number) | 45,778,631 | 43,947,609 | 14,729,510 | **104,455,750** |
| **Pricing net asset value per Participating Share (£)** | **1.2804** | **1.4507** | **1.4286** | **1.3729** |
| **IFRS NAV per share (£)** | **1.2240** | **1.3868** | **1.3657** | **1.3125** |

| | **Year ended 31 August 2020** | | | |
|---|---|---|---|---|
| | **A Shares** | **B Shares** | **C Shares** | **Total** |
| NAV per financial statements £000 | 48,492 | 42,098 | 11,318 | **101,908** |
| Plus: Amortised property acquisition cost pricing adjustment £000 | 2,375 | 2,062 | 554 | **4,991** |
| Pricing NAV £000 | 50,867 | 44,160 | 11,872 | **106,899** |
| Participating Shares in issue (number) | 45,092,388 | 36,139,269 | 9,817,204 | **91,048,861** |
| **Pricing net asset value per Participating Share (£)** | **1.1281** | **1.2219** | **1.2093** | **1.1741** |
| **IFRS NAV per share (£)** | **1.0754** | **1.1649** | **1.1529** | **1.1193** |

## 9) Investment properties

The valuations of investment properties are performed by external accredited independent valuers with recognised and relevant professional qualifications and with recent experience in the location and category of the investment property being valued. The valuations are prepared in accordance with the RICS Valuation - Global Standards, which incorporate the International Valuation Standards ("IVS") and the RICS UK Valuation standards (the "RICS Red Book"), as set out by the International Valuation Standards Council ("IVSC"), taking into consideration the relevant IFRS 13 requirements. In arriving at their estimates of market values, the valuers have used their market knowledge and professional judgement and not only relied on historical transactional comparables.

An initial valuation is carried out on the purchase of each property and thereafter each property it is independently valued every 6 months based on the acquisition date of that property into the portfolio.

| | 2021 | 2020 |
|---|---|---|
| | £000 | £000 |
| **As at 1 September** | 127,645 | 128,008 |
| Additions at cost | 31,596 | - |
| Net gain/(loss) from fair value adjustment | 4,073 | (363) |
| Movement in concession rent debtor | 186 | - |
| **Closing balance at 31 August** | **163,500** | **127,645** |

| | 2021 | 2020 |
|---|---|---|
| **Investment property** | £000 | £000 |
| Investment property | 163,314 | 127,645 |
| Concession rent debtor | 186 | - |
| | **163,500** | **127,645** |

| | 2021 | 2020 |
|---|---|---|
| **Investment property fair value movement** | £000 | £000 |
| Unrealised gain/(loss) on investment property | 4,073 | (363) |
| | **4,073** | **(363)** |

The cost of the investment properties comprises their purchase price and directly attributable expenditure. Directly attributable expenditure includes professional fees for legal services and stamp duty land tax.

In the current financial year 2 investment properties were purchased as follows:

| Property | Acquisition date | Acquisition price £000 |
|---|---|---|
| DHL, Bawtry | 31 March 2021 | 22,650 |
| Crown, Newcastle | 30 April 2021 | 7,000 |

No properties were purchased during the prior financial year.

All properties operate full repairing and insuring rental agreements whereby all the costs of maintenance, enhancement, repair and insurance are borne by the tenant. All properties (excluding Crown, Newcastle) are held as security for the borrowings (note 13).

Rental income earned and received from the investment properties during the financial year was £8,863,000 (31 August 2020: £8,109,000). At 31 August 2021 there was £755,000 deferred rental income (31 August 2020: £577,000) that had been received by the Fund which relates to the next financial year.

### 10) Other income

On 31 March 2021 the Fund exchanged contracts for the acquisition of a distribution warehouse property known as DHL, Bawtry, Doncaster for an agreed purchase price of £22,650,000.

The seller is a REIT, listed on the Johannesburg Stock Exchange (JSE). Due to the relative size of the transaction for the seller, in line with JSE regulations the transaction was conditional upon their shareholder approval and accordingly completion of the sale occurred on 31 March 2021 (see notes 9 and 12). Given the time to completion, under the terms of the sale contract the Fund was entitled to receive Monthly Income Payments of £95,000 with effect from 1 February 2021 until the date of completion (31 March 2021), totalling £188,000.

### 11. Trade and other receivables

| | 2021 | 2020 |
|---|---|---|
| | £000 | £000 |
| Prepayments | 2 | 2 |
| Trade and other receivables | 421 | 708 |
| **Total** | **423** | **710** |

### 12. Operating leases

The Fund has entered into leases on its investment properties as a lessor. Future minimum rentals receivable under non-cancellable operating leases are as follows:

| | 2021 | 2020 |
|---|---|---|
| | £000 | £000 |
| Within 1 year | 9,866 | 8,169 |
| After 1 year but less than 5 years | 37,655 | 30,502 |
| 5 or more years | 42,459 | 35,651 |
| **Total** | **89,980** | **74,322** |

The leases involve tenancy agreements with terms running to end dates between 2024 and 2041.

### 13. Borrowings

| | 2021 | 2020 |
|---|---|---|
| **Non-current borrowings** | £000 | £000 |
| Total loans before amortisation | 68,380 | 57,055 |
| Less: amortised borrowing arrangement fees | (163) | (320) |
| **Total** | **68,217** | **56,735** |

On 19 December 2019, the facility agreement was extended to a final maturity date of 7 December 2022. The facility agreement consists of Facility A (term loan facility) and Facility B (revolving loan facility up to £5,000,000). As at 31 August 2021 Facility A has a drawn down balance of £68,380,000 (31 August 2020: £57,055,000). As at 31 August 2021 Facility B has no balance drawn down (31 August 2020: no balance drawn down).

The drawn down balances on Facility A (excluding DHL, Bawtry – see below) and Facility B are charged interest at LIBOR + 1.9% per annum. The unutilised part of Facility B is charged interest at 0.76% per annum. See note 5 regarding an interest rate swap relating to this loan facility.

On 31 March 2021, the Fund completed the acquisition of a distribution warehouse property known as DHL, Bawtry, Doncaster (see notes 9 and 10). The agreed purchase price was £22,650,000 with annual rental income of £1,211,000. The property was partly funded by a drawn down of £11,325,000 on the existing Barclays Facility A (term loan facility) and £5,000,000 (being the full utilisation) of the Facility B (revolving loan facility). The drawn down balances on Facility A are charged interest at LIBOR + 2.15% per annum and Facility B at LIBOR +1.90% per annum. The unutilised part of facility B is charged interest at 0.76% per annum. As at 31 August 2021, the Facility B loan had been fully repaid.

On 30 April 2021, the Fund completed the acquisition of a distribution warehouse property known as Crown, Newcastle. The agreed purchase price is £7,000,000 with annual rental income of £365,000. The property acquisition was funded through equity.

Subsequent to the year end a new lending agreement was entered into with HSBC Bank Plc, see note 23.

Interest is paid quarterly and the loan capital becomes payable on expiry. Interest payable as at 31 August 2021 was £151,000 (31 August 2020: £124,000).

Expenses directly attributable to arranging bank borrowings were initially included in the amortised cost of the loans and are being released to the Consolidated Statement of Comprehensive Income over the term of the loans.

| | 2021 | 2020 |
|---|---|---|
| **Finance expense** | **£000** | **£000** |
| Interest expense | 1,610 | 1,646 |
| Borrowing arrangement fees amortisation | 208 | 173 |
| **Total** | **1,818** | **1,819** |

## 14. Trade and other payables – current

| | 2021 | 2020 |
|---|---|---|
| | **£000** | **£000** |
| Trade payables | 77 | 77 |
| Accruals | 304 | 225 |
| **Total** | **381** | **302** |

## 15. Cash and cash equivalents

At 31 August 2021 the Fund had cash of £5,778,000 (31 August 2020: £2,796,000). Of this £5,777,000 was held with EFG International (31 August 2020: £2,795,000), which has a credit rating of A1 from Moody's and £1,000 was held with Barclays Bank Plc (31 August 2020: £1,000), which has a credit rating of A1 from Moody's.

Subsequent to the year end cash was deposited with HSBC Bank Plc, see note 23.

## 16. Property expenses

| | 2021 | 2020 |
|---|---|---|
| | **£000** | **£000** |
| Insurance | 4 | 3 |
| Property manager's fees (note 20) | 919 | 782 |
| Property manager's expenses (note 20) | 1 | 2 |
| Valuation fees | 41 | 65 |
| **Total** | **965** | **852** |

As all tenants are on full repairing and insuring ("FRI") leases, the Fund reclaims the costs of insuring the properties back from the tenants. The insurance reclaim income is not included as part of rental income.

The Property Manager receives a monthly fee for managing the Fund's property, which is calculated as 1/12th of 0.5% of the gross asset value of the Fund. As at 31 August 2021 fees outstanding to be paid to the Property Manager were £91,000 (2020: £69,000). The agreement is open-ended and can be terminated with 30 days' written notice under circumstances of a material breach, (note 20).

## 17. Other expenses

| | 2021 £000 | 2020 £000 |
|---|---|---|
| Audit fees | 57 | 46 |
| Bank charges and safekeeping fees | 8 | 5 |
| Advisory fees | 2 | 3 |
| Regulatory fees | 8 | 8 |
| Directors' fees | 54 | 43 |
| Legal and professional fees | 31 | 15 |
| Sundry expenses | 16 | 19 |
| **Total** | **176** | **139** |

## 18. Taxation

Net rental income received by the Fund which has a UK source is subject to UK corporation tax at a current rate of 19%.

Gains made on disposals of UK land and property are subject to UK corporation tax. The Group applied for an exemption election on 7 May 2021, with the election becoming active on this date. The exemption election exempts the Group from paying capital gains tax on the disposal of investment property.

The tax charge comprises:

| | 2021 £000 | 2020 £000 |
|---|---|---|
| Withholding tax paid on financial assets | 187 | 157 |
| Current UK income tax expense related to rental income | 918 | 935 |
| Over provision in prior period | (38) | (166) |
| **Total** | **1,067** | **926** |

A reconciliation of the effective tax rate is given below:

| | 2021 % | 2021 £000 | 2020 % | 2020 £000 |
|---|---|---|---|---|
| Profit before tax from continuing operations | | 21,009 | | 6,984 |
| Tax using the Company's domestic tax rate | 0.00 | | 0.00 | - |
| *Tax effect of:* | | | | |
| Tax on overseas dividends | 0.89 | 187 | 2.25 | 157 |
| Effect of corporation tax on UK property portfolio | 4.37 | 918 | 13.39 | 935 |
| Changes in estimates related to prior years | (0.18) | (38) | (2.38) | (166) |
| **Effective tax rate/tax charge** | **5.08** | **1,067** | **13.26** | **926** |

Corporate tax payable as at 31 August 2021 was £414,000 (as at 31 August 2020: £507,000).

## 19. Group companies

On 24 August 2021 two new subsidiaries were incorporated – FWRE Holdings Two Limited and FWRE Two Limited.

A summary of the Fund's subsidiaries included in the consolidated financial statements of the Fund is shown below:

| Name | Company description | Country of incorporation | % of issued share capital held |
|---|---|---|---|
| FWRE Holdings Limited | Dormant holding company | Isle of Man | 100 |
| FWRE Limited | Investment holding company | Isle of Man | 100 |
| FWRE Holdings Two Limited | Dormant holding company | Isle of Man | 100 |
| FWRE Two Limited | Investment holding company | Isle of Man | 100 |

### 20. Related party transactions

Both Philip Scales and Russell Collister are Directors of the Fund; Graham Smith is a Director of FWRE Limited. All are Directors of FIM Capital Limited (“FIM”) and have an ownership interest in FIM. FIM is the Fund’s Asset Manager. The Management fee is an annual fee of 0.25% of the Gross Asset Value of the Fund subject to an annual minimum of £20,000. The current Maximum Permitted Level of the Management Charge is 1.5% of the Net Asset Value on an annualised basis. During the financial year, FIM charged a management fee of £547,000 (31 August 2020: £452,000), of which £114,000 remained outstanding at the year-end (at 31 August 2020: £80,000).

FIM receive a listing sponsor fee of £5,000. During the year £5,000 was expensed (31 August 2020: £5,000) and £1,000 remained payable at the financial year end (31 August 2020: £1,000).

Philip Scales, Russell Collister and Graham Smith are also Directors of FIM Nominees Limited which holds 104,455,750 Participating Shares in a nominee capacity at the year-end representing 100% of the total Participating Shares in issue (as at 31 August 2020: 91,048,861 Shares representing 100%).

FIM Nominees Limited also owns 100% (200 shares) of the Management Shares in issue at the 31 August 2021 and 31 August 2020.

Craig Ewin is both a Director of the Fund and of Sequel Property Investments (Propriety) Limited, the Fund’s Property Manager. See note 16 for further details.

David Elliott is both a Director of the Fund and Marriott Asset Management (Pty) Limited ("MAM"). MAM receive 50% of the gross Class C Management fee paid to FIM for distribution services for the Fund on behalf of FIM. For the year ended 31 August 2021, MAM received a Promoter fee from FIM of £42,000 (31 August 2020: £28,000).

David Elliott and Graham Smith are also Directors of Marriot Isle of Man Limited, which holds 955,437 A Shares and 9,218 C Shares in the Fund as at 31 August 2021 and 31 August 2020.

### 21. Directors’ interests

Elizabeth Greenhalgh and Dave Elliott were appointed to the Board on 7 December 2020. Elizabeth Greenhalgh receives an annual fee of £15,000.

The Directors had the following interest in the shares of the Fund either directly or indirectly at 31 August 2021 and 31 August 2020:

| **Number of shares** | **2021** | **2020** |
|---|---|---|
| Craig Ewin | A Shares: 140,817 | A Shares: 131,504 |
| | B Shares: 504,189 | B Shares: 504,189 |

Directors fees for the year ended 31 August 2021 are shown below:

| | **2021** | **2020** |
|---|---|---|
| | **£’000** | **£’000** |
| Craig Ewin | 25 | 25 |
| David Elliott (appointed 7 December 2020) | - | - |
| Elizabeth Greenhalgh (appointed 7 December 2020) | 11 | - |
| Mark Grace (including VAT) | 18 | 18 |
| Philip Scales | - | - |
| Russell Collister | - | - |
| | 54 | 43 |

### 22. Custodian fees

Under the Fiduciary Custodian Agreement EFG Fund Services (“EFG”), receive a fee of 0.075% of the gross asset value of the Fund per annum, subject to a minimum annual fee of £20,000.

During the year EFG charged custodian fees of £137,000 (31 August 2020: £118,000), of which £29,000 remained outstanding at the year-end (at 31 August 2020: £19,000).

**23. Subsequent events**

On 23 September 2021 an interim dividend of £0.0135 was announced to shareholders with a record date of 24 September 2021 and a payment date of 18 October 2021.

The NAV prices per share class as at 22 October 2021 were as follows:
- A (Income) Class GBP0.01 - £1.2664 per Share
- B (Accumulation) Class GBP0.01 Shares - £1.4503 per Share
- C (Accumulation) Class GBP0.01 Shares - £1.4273 per Share

Since 31 August 2021 up to the date these financial statements were signed, the Fund has received subscriptions of £6,744,000 and redemptions of £1,835,000 (these figures are gross for all share classes).

Subsequent to the year end, no properties were independently revalued in terms of the Fund's valuation policy.

On 7 October 2021, the Fund completed the acquisition of a retail park property known as Marina Quays, Rhyl. The agreed purchase price is £17,700,000 with annual rental income of £1,149,000. The property acquisition was funded utilising the full £5,000,000 Barclays Facility B loan.

On 22 October 2021, the Fund and Barclays entered into a renegotiated Facility Agreement. Facility A (term loan facility) and Facility B (revolving loan facility up to £5,000,000) remain in place; both facilities are charged interest at daily GBP SONIA plus a margin of 1.9% per annum. The unutilised part of Facility B is charged a fee of 0.76% per annum. The Facility Agreement has a term of 3 years.

On 22 October 2021, the Fund and Barclays entered into two SONIA-linked swap agreements to replace the LIBOR-linked swaps detailed in note 4. All details of the SONIA-linked swaps remain the same as those contained in note 4, except for the interest received on notional % per annum which has changed from 3-month GBP LIBOR to daily GBP SONIA.