Clipstone

Real estate investment management

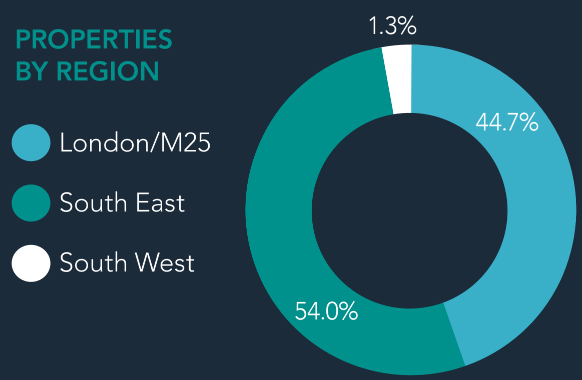
Clipstone Industrial REIT plc

Investor Update – 30 September 2021

CURRENT STATUS OF THE FUND

Number of Properties:	43
Aggregate Value:	£314.7m
Net Asset Value per Share:	£1.6795
Portfolio Net Initial Yield:	4.7%
Portfolio Equivalent Yield:	5.2%
Portfolio Reversionary Yield:	5.2%
Total Passing Rent:	£15.9m pa
Total Headline Rent:	£16.8m pa
Passing Rent:	£9.11 psf
ERV:	£10.02 psf
Number of Units:	278
Number of Tenants:	226
Exposure to Largest Tenant: (shown as a percentage of total rent)	6.3%
Vacancy Rate:	2.8%
Loan to Value:	28.3%
Projected Dividends:	6.5p per share
Dividends at current NAV (£1.6795):	3.87%

PROPERTIES BY REGION



Clipstone Industrial REIT plc

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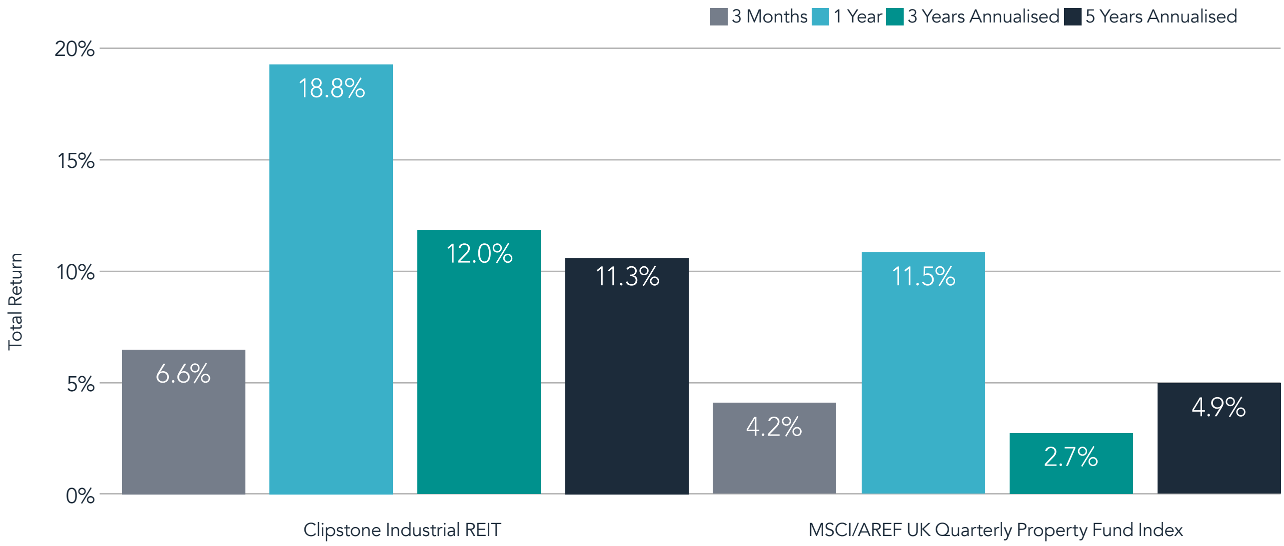
We are pleased to announce an increase in net asset value ("NAV") to £1.6795 per share at the end of September, an increase of 5.6% over the NAV at the end of the previous quarter. Shareholders' total return (NAV increase added to dividends paid) was 6.6% over the quarter and 18.8% over the last 12 months. Since our launch in December 2014, shareholders have benefited from a cumulative total return of 105.1%. The Company has outperformed the broader property market over all relevant time periods (as illustrated below) and has been the seventh best performing fund in the MSCI UK Quarterly Property Index since joining in Q1 2019.

Total Returns to 30 September 2021



1 **Activity During the Quarter**

During the quarter we completed the acquisition of an industrial estate in Crawley for £5.25m, representing a net initial yield of 4.5%. The property is let to three tenants with an average passing rent of £9.13 per square foot. A recent rent review at one of the units was settled at £11.40 per square foot, evidencing the potential for us to increase rents. If all three units were let at £11.40 per square foot the yield would increase to 5.6%. In addition, Crawley is a location we know well and where there is a shortage of industrial space available to let, with limited supply of land for new development. Potential rental growth will be further supported by the asset management opportunities and refurbishment potential that the property delivers.

On 25 August 2021 we completed an equity fundraising, yielding £5.6m at the prevailing NAV at the time (adjusted for income accrued and dividends paid). The proceeds of this fundraising were used to acquire

Crawley, which completed on 27 August 2021, so minimising "cash drag". This mechanism for raising equity for new acquisitions is an efficient model and helps us maximise returns. We are grateful for shareholders' speedy support through this process.

2 Occupational Market

This has been a strong quarter for the REIT, driven by continued occupational demand for our properties combined with a shortage of industrial space across the South East. Occupier demand is being strengthened by changes in the way we live, often assisted by technology. For example, the growth in online retailing, expansion of the Life Sciences sector, data centers, dark kitchens, and 10-minute delivery firms are all phenomena that increase the demand for industrial space. This is particularly relevant around Greater London and urban areas in the South East – our targeted geographies.

During the quarter the REIT's passing rents increased by 4.6% on a like-for-like basis, as we completed 16 lease events the majority at materially higher rents (as set out below).

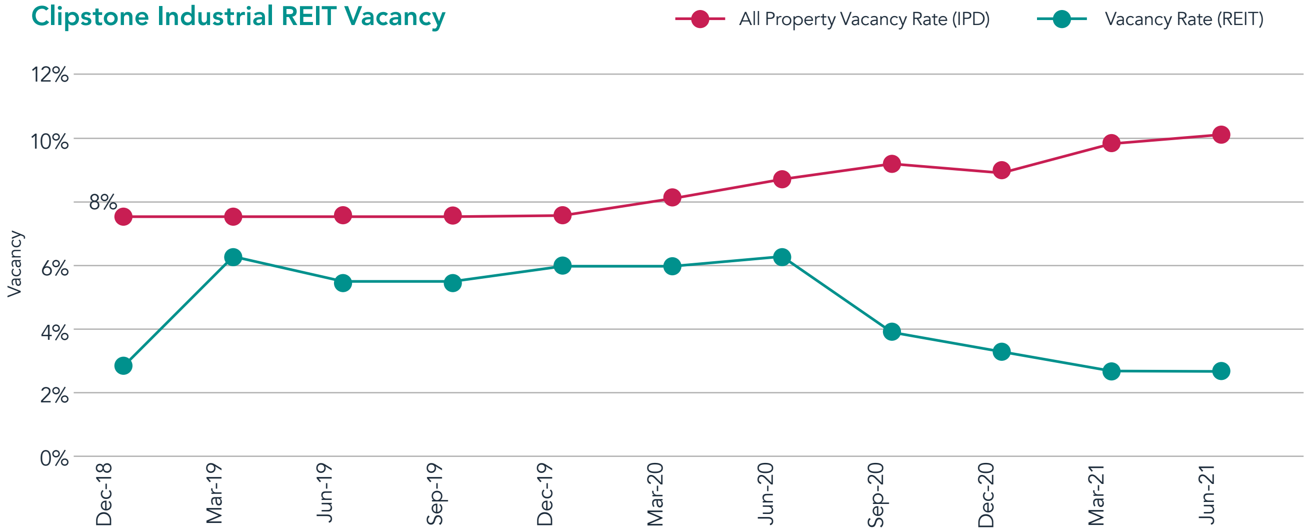
Property	Date of Event	Event	Previous rent pa	New Headline Rent pa	Uplift
Chesham	July-21	New Letting	£15,000	£21,750	45%
Hayes	Sept-21	Lease Renewal	£13,900	£19,500	40%
Welwyn Garden City	July-21	Lease Renewal	£36,670	£50,900	39%
Crayford	Sept-21	Rent Review	£63,000	£85,000	35%
Andover	July-21	Lease Renewal	£50,000	£65,000	30%
Reading	July-21	New Letting	£26,250	£33,431	27%
Feltham	July-21	New Letting	£52,300	£60,288	15%
Andover	Aug-21	Rent Review	£187,619	£215,000	15%
Reading	Sept-21	Rent Review	£943,450	£1,063,943	13%
Bracknell	July-21	Lease Renewal	£21,000	£23,000	10%
Bracknell	Sept-21	Rent Review	£38,250	£41,365	8%
Colchester	July-21	New Letting	£85,000	£90,000	6%
Andover	July-21	Lease Renewal	£32,000	£32,000	0%
Andover	Sept-21	Reversionary Lease	£17,265	£17,265	0%
Stansted	Sept-21	New Lease	£30,000	£30,000	0%
Slough	Sept-21	Lease Renewal	£24,000	£24,000	0%

This strong tenant demand is also reflected in our continued low void rate, which remained static from June 2021 at 2.8%. At the date of this update we have eleven vacant units, of which nine were under offer. This means that our portfolio of 278 units currently has only two which are vacant and not under offer, meaning our void rate could drop as low as 0.5%. This consistently low vacancy rate compares favourably to the MSCI All Property Index, as shown overleaf.

Clipstone Industrial REIT plc

Investor Update – 30 September 2021 *continued*

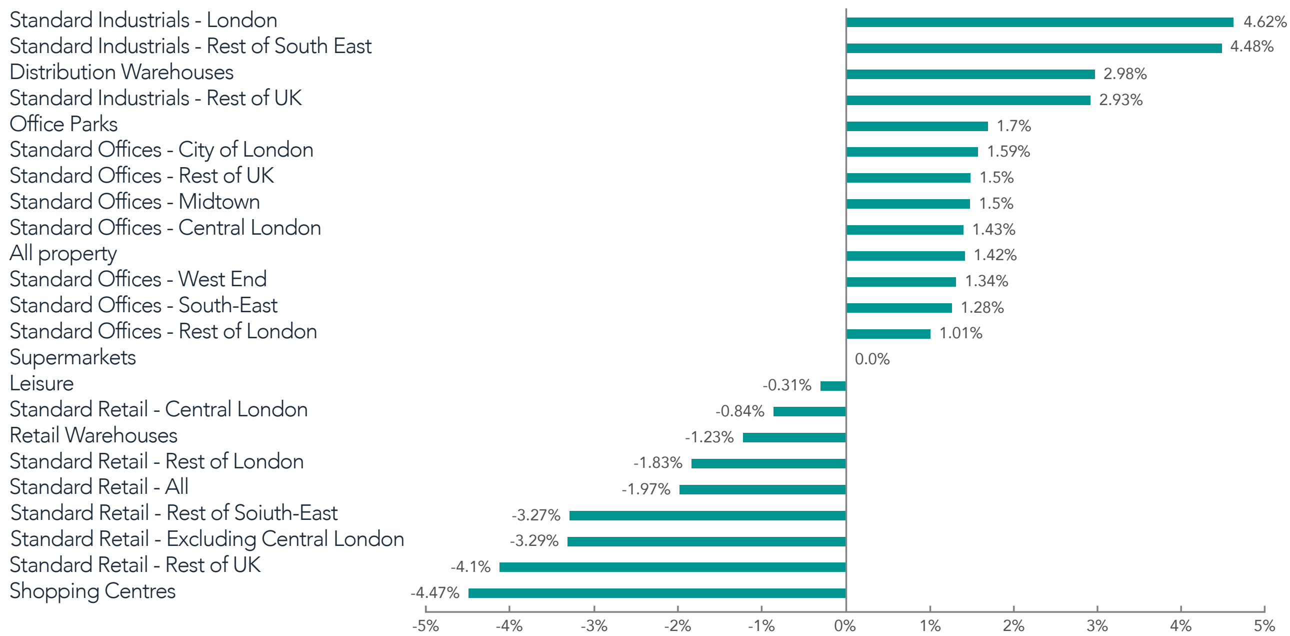
Clipstone Industrial REIT Vacancy



The passing rent across the portfolio was £9.11 per square foot at 30 September, whereas the Valuer's estimate of market rent was £10.02. This evidences the potential for us to increase rents further to current market levels. Longer-term we believe market rents in our sector will increase due to the supply and demand dynamics. We are not alone in this view – Colliers' forecasts are shown below.

Forecast Rental Growth — Annualised to 2025

(Source: Colliers International February 2021)



Clipstone Industrial REIT plc

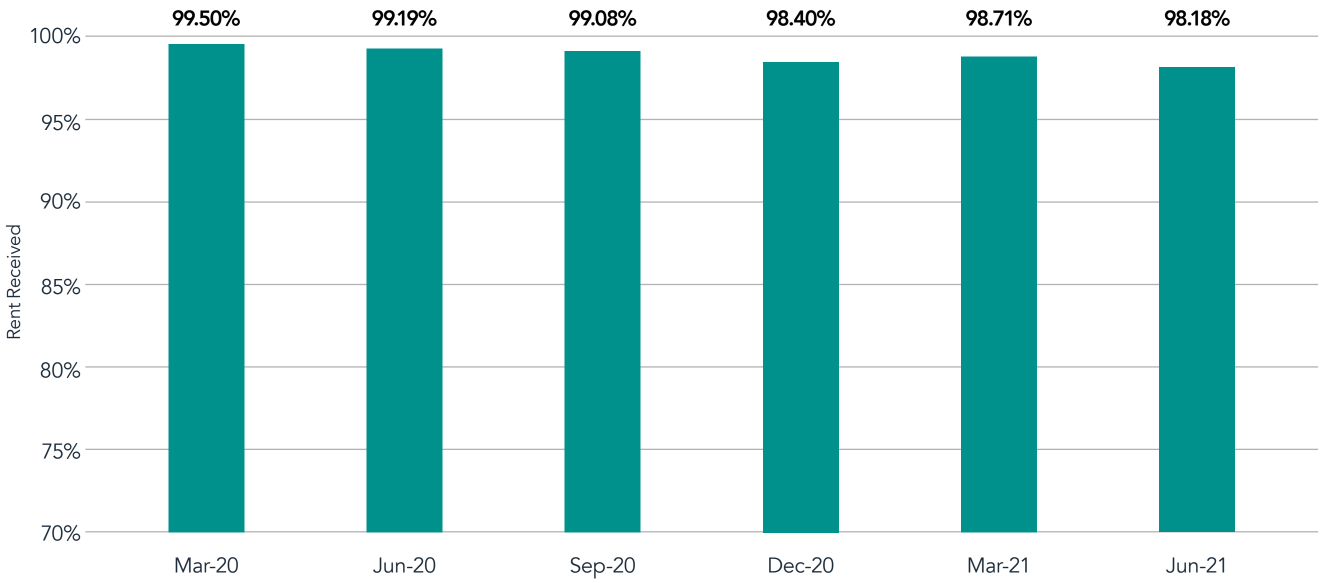
Investor Update – 30 September 2021 *continued*

3 Investment Market

The investment market for South East industrials remains highly competitive and sourcing new acquisitions at attractive pricing is becoming increasingly difficult. Market pricing for South East industrials continues to strengthen, with properties often trading at sub-4% yields. We hope to grow the portfolio via selective new acquisitions, however shareholders should be assured that we plan to retain our pricing discipline and will only acquire properties where we see value – for example, properties with the potential to enhance rents through asset management, such as the recent acquisition in Crawley.

4 Rent Collection, LTV and Dividend

We have now collected over 98% of rents during the six quarters up to June 2021, and as at 5 November 2021 we had had collected 91.4% for the September quarter. The September quarter rent collection process is slightly ahead of the previous six quarters, so in time we expect to collect similar levels of rent.



This improved rent collection, combined with recent acquisitions and recent increases in rent described above, has improved profitability, and so on 18 November 2021 the Board announced an increase in the dividend rate from 6.25p per share per annum to 6.5p (the next dividend at the new rate of 1.625p per share will be paid on 24 November 2021).

The loan to value reduced to 28.3% at 30 September, within our target range of 25% to 35%. We consider this to be a modest level of gearing, providing a manageable level of risk, while improving returns to shareholders. We stress test our debt arrangements quarterly and it would require falls in property values or rent of more than half to breach our covenants at current interest rates. Even if interest rates increased by 200 basis points, it would require a loss of income in excess of 35% for covenants to be breached.

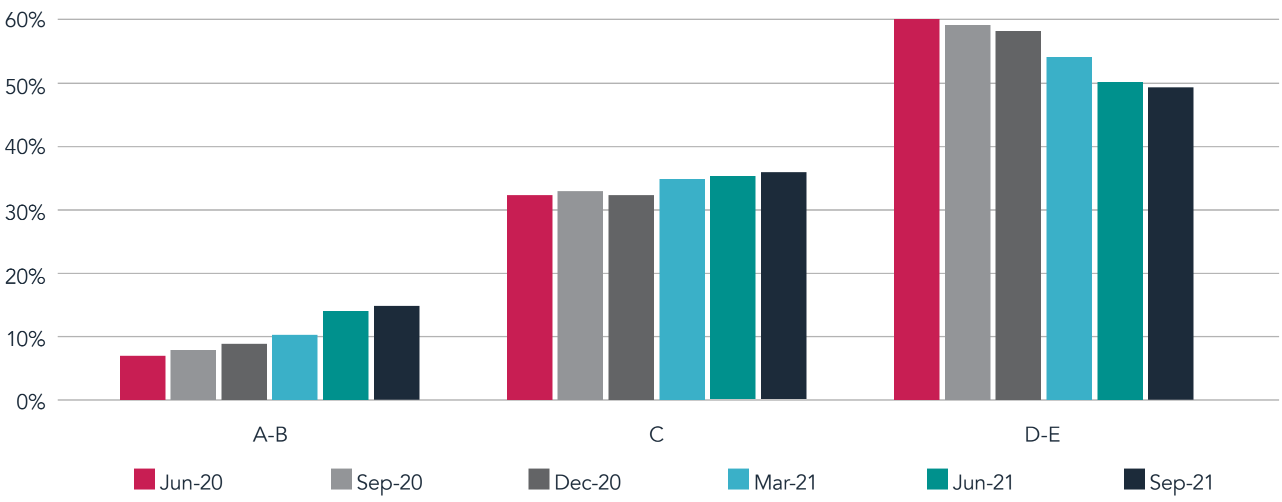
5 Environmental, Social and Governance (ESG)

With COP26 recently having taken place in Glasgow, it can hardly be a surprise that ESG is at the forefront of our minds and of ever-increasing importance to us at Clipstone.

We recognise that we must make our buildings Net Zero by at least 2050, if not before, and that we must get at least halfway there by the end of this decade. To that end we have committed to developing a Net Zero strategy for our portfolio which we hope to be able to share with you by the end of the current financial year. We have appointed Professor John French, an expert in sustainable development, to help develop and implement our strategy. We have also appointed Evora Global to collect tenant energy usage data and develop a baseline carbon footprint for the fund which will inform our strategy using science-based targets. Tenant energy usage makes up the vast majority of the REIT's carbon footprint, and therefore collecting data from our tenants and proactively engaging with them will be key in achieving our goals.

As you may be aware, it is a legal requirement to obtain an Energy Performance Certificate (or EPC) for a property before it is let. In April 2023 commercial landlords cannot continue to let a property with an "F" or "G" rating, of which we no longer have any. By 2027 the law on Minimum Energy Efficiency Standards will mandate that a commercial property cannot be let with an EPC score below a "C", and by 2030 this will rise to a "B". While we have been making progress towards these minimums there is still work to be done.

REIT EPC rating



As part of our Net Zero strategy, we will address this requirement and ensure that all of our buildings meet the legal minima and that refurbishments are completed at the optimum time, and to the most economically sensible standard. That may mean some investment in improving buildings is targeted for future years when we anticipate that technology will have improved and/or become economically viable.

Hopefully you will have all seen our first ESG report which was included in our annual report and accounts this year. This report encompasses the work of both the REIT and Clipstone Investment Management towards achieving our ESG targets. Our targets and policies can be found on our website.

6 Potential for post-COVID growth, but risks remain

If the current economic recovery continues, we expect any acceleration in economic activity to translate into an increase in occupier demand for London and South East industrials. Any such economic improvement could be beneficial for the REIT – with such a low void rate, we are already in a strong position to increase rents when vacancies arise, and our position will be strengthened further by any increase in occupational demand.

The REIT is currently enjoying ideal market conditions of rising rents and falling investment yields. This combined with our asset management programme is leading to strong investor returns – we hope shareholders do not come to expect a 6.6% total return every three months. The economic environment includes risks for commercial property, from which we are not immune. Our main concern is around inflation and the possible monetary response, which would prove challenging to all asset markets. For this reason, we have commenced a programme to sell those properties that we consider to offer the poorest growth prospects. The first such sale was Peterborough, which completed in July; but we hope to be able to announce further sales in due course. In addition, should market conditions change, we believe the Company is well positioned to take advantage of opportunities that would arise in such circumstances.

7 Conclusion

For now, we expect the favourable market conditions to continue, and we will continue to improve the overall quality of the portfolio by selective acquisitions, implementing our sales programme and continuing our asset management operations, all of which we hope will ensure we own an attractive portfolio that should weather the commercial property market should conditions change. For these reasons we believe returns to shareholders should continue to outperform the market, as the REIT has since inception.

Clipstone Industrial REIT plc

Investor Update – 30 September 2021 *continued*

Background to Clipstone Industrial REIT plc

The REIT's strategy is to acquire good quality industrial property across the South of the UK, predominantly in London and the South East.

There are several reasons why the REIT targets this sector, as set out below.

1 If the UK economy improves demand from existing and prospective tenants will increase. We believe demand will be most prevalent around London and the South East, where the economic environment is strongest and where there is the tightest supply of land. This demand should translate into fewer vacancies and higher rents.

2 Industrial space in the South East, and particularly in Greater London, has reduced over the last 30 years (a 46% decrease in London to quote a 2014 Deloitte survey). The land has gone to higher value uses, such as residential. We expect this trend to continue. Reduction in supply should lead to improved returns.

3 Development of multi-let industrials remains sporadic. There is a shortage of development land in London and the South East, and where land is available for development it often goes to higher value uses. Where developers build industrial, they tend to opt for larger, single let units, which are more cost-efficient to build* and where you only need to find one tenant, as opposed to a number of tenants for a multi-let scheme. In addition, pre-let development is rare in the multi-let sector. These factors continue to constrain multi-let development in the South East, and so enhance the lack of supply referred to at paragraph 2 above.

4 The growth in online retailing is one of the factors driving increased demand for industrial space, a trend we expect to continue. We expect this to have the most impact in and around London, where there is a large and affluent population with a higher propensity to shop online (a recent Knight Frank report found that the top 30 locations in the UK with the most online shoppers were all in London). In addition, the expansion of the Life Sciences sector, data centres, dark kitchens and 10-minute delivery firms are all phenomena that increase the demand for warehouse space.

5 Smaller, multi-let industrials are less exposed to the widely publicised problems facing UK retailers, as the occupational market for multi-let industrials is highly diversified and not overly dependent on the retail market.

6 Clipstone targets industrial estates capable of improvement by intensive management. That improvement is achieved by refurbishment, by the upgrading of an estate through better parking and signage, by aggressive marketing to let vacant units, by seeking to improve the calibre of tenants on an estate, by the lengthening of leases and by increasing rents. Refurbishment of industrial property can be achieved at a low cost yet have a material impact on rents and capital value. We have specialist asset managers who are experts in this field.

*A large single-let industrial unit can be built for approximately £50 psf, whereas a multi-let scheme can cost in the region of £100 psf.

Example Asset Management Projects

Valleylink Industrial Estate, Enfield

Before → After

Refurbishment cost: £400,000 (£9.90 psf)

Value: £3.8m in August 2012 to £12.45m on 30 September 2021

Bracknell

Before → After

Refurbishment cost: £450,000 (£8.64 psf)

Value: £7.55m in Nov 2013 to £15.65m on 30 September 2021

Chessington

Before → After

Redevelopment cost (includes demolition)**:** £2.73m (£103 psf)

Value: £4m in June 2017 to £10m on 30 September 2021

Fareham

Before → After

Refurbishment cost: £270,000

Value: £1.9m in May 2015 to £2,950,000 on 30 September 2021

Fund Details

Structure	Real Estate Investment Trust (REIT) listed on The International Stock Exchange
AIFM	Clipstone Capital Limited, which is authorised and regulated by the Financial Conduct Authority
Property Manager	Clipstone Investment Management Limited
PE Depositary	Langham Hall UK Depositary LLP
Target Investors	High net worth individuals, family offices, pension funds (including SIPPs and SSASs), endowment funds and institutional investors
Fees	Clipstone Investment Management Limited fee of 1.25% of NAV per annum up to NAV of £225m, 1% for amounts over £225m and a profit share (on ultimate sale of the Properties) of 20% (over a 9% per annum hurdle)
Minimum Investment	£25,000
Debt Terms	£75.64m at 1.6% margin over Sonia and £30m at a fixed rate of 2.2% for seven years
Non-executive Directors	Karl Sternberg (Chairman) and Anna Rule (CVs overleaf)
ISIN:	GB00BMSJTT43

The Listing Document containing full details relating to the REIT is available on request.

Non-executive directors of the REIT

Karl Sternberg

Independent Non-Executive Chairman

Non-executive director of Jupiter Fund Management plc, JPMorgan Elect Plc, Alliance Trust PLC, Herald Investment Trust plc, Lowland Investment Company PLC and The Howard de Walden Estate. He is also Chairman of Monks Investment Trust.

Student (Fellow) of Christ Church and Chairman of the Investment Committee.

Formerly Non-executive Director of RailPen Investments (the asset manager of the Railways Pension Scheme) and Chairman of the Board Investment Committee of Friends Life Group plc.

Previously Chief Investment Officer of Deutsche Asset Management, including the UK property business, and Chief Executive of Oxford Investment Partners.

Anna Rule MRICS

Independent Non-Executive Director

Anna has over 20 years' property industry experience. She is currently Head of Real Assets at RPMI Railpen, where her responsibilities include the management of Railpen's £2.2 billion of property assets. Railpen (The Railways Pension Scheme) is one of the UK's largest and longest established pension funds with £30 billion of assets under management.

Previously at Cushman Wakefield and then a fund manager for a number of institutional funds at Aviva Investors.

Anna is a Member of the Royal Institution of Chartered Surveyors and a non-executive director of The King's Fund.

Clipstone Investment Management – employee structure chart

Toby Dean - CEO

- **Investment and Asset Management**
  - **Marc Cowley** (CIO)
    - **Andrew Windle** (Fund Manager)
    - **Paul Priestley** (Head of Asset Management)
- **Accounts/ESG/Compliance***
  - **Richard Demarchi** (COO)
    - **Bill Arnold** (Senior Finance Manager)
    - **Victoria Wombwell** (Financial Controller)
      - **Stevie Arnold** (Bookkeeping/Administration)

Advisory Board

- **Andrew Hynard - Chairman**
- **Toby Dean**
- **Marc Cowley**

*Clipstone Capital Limited is authorised and regulated by The Financial Conduct Authority
NOTE: The CVs of the above employees of Clipstone Investment Management are available at http://www.clipstone.co.uk/our-people