Clipstone

Real estate investment management

Clipstone Industrial REIT plc

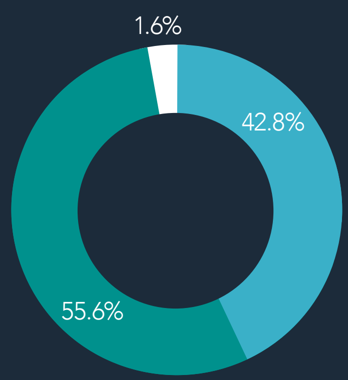
Investor Update – 30 June 2022

CURRENT STATUS OF THE FUND

Number of Properties:	36
Aggregate Value:	£344.8m
Net Asset Value per Share:	£2.1091
Portfolio Net Initial Yield:	4.1%
Portfolio Equivalent Yield:	4.5%
Portfolio Reversionary Yield:	4.5%
Total Passing Rent:	£14.9m pa
Total Headline Rent:	£15.6m pa
Passing Rent:	£9.77 psf
ERV:	£10.98 psf
Number of Units:	237
Number of Tenants:	192
Exposure to Largest Tenant: (shown as a percentage of total rent)	6.7%
Vacancy Rate:	1.9%
Loan to Value:	21.9%
Projected Dividends:	6.5p per share
Dividends at current NAV (£2.1091):	3.1%

PROPERTIES BY REGION

- London/M25*
- South East
- South West



*London / M25 includes properties within the M25 and within a circa 10-mile drive of the M25.

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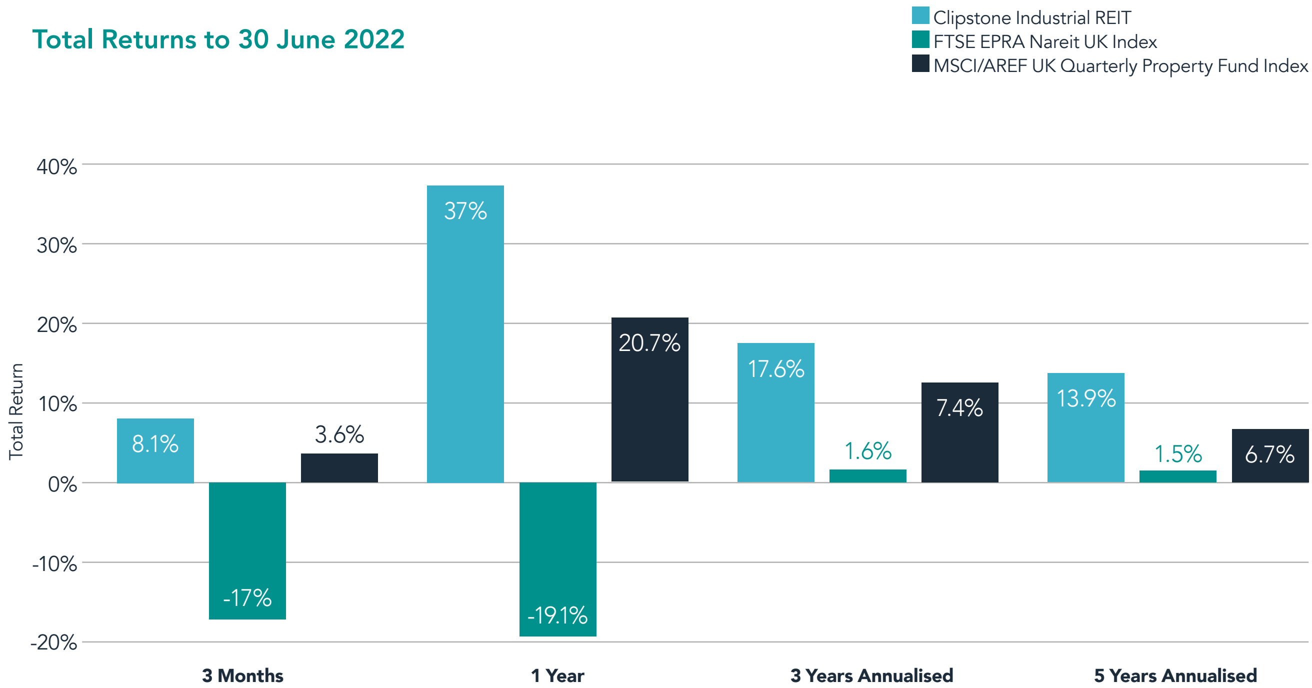
We are pleased to announce an increase in net asset value ("NAV") to £2.1091 per share at the end of June, an increase of 7.3% over the NAV at the end of March. Shareholders' total return (NAV increase added to dividends paid) was 8.1% over the quarter and 37.0% over the last 12 months. Since our launch in December 2014, shareholders have benefited from a cumulative total return of 153.4%. The Company has outperformed the broader property market over all relevant time periods – the below chart shows the REIT's performance vs both London listed property stocks and the MSCI/AREF UK Quarterly Property Fund Index. The REIT has also been the sixth best performing fund in the MSCI UK Quarterly Property Index since joining in Q1 2019.

Total Returns to 30 June 2022



1 **Activity During the Quarter**

As shareholders know, we exchanged contracts to sell 10 of our smaller, non-core properties on 24 June 2022 for £62m. Nine of those sales completed on 26 July 2022. The Company owned a long leasehold interest in the 10th property, not the freehold. Therefore, the sale was subject to the consent of the freeholder, being the Local Authority. I am pleased to report that consent was obtained and Fareham completed on 17 August 2022.

In accordance with UK GAAP, the 30 June valuation (and therefore this investor update) treated the nine properties as sold by the end of June, even though completion took place in July. As the sale of Fareham was conditional on freeholder consent, it was treated as retained for the purpose of the 30 June valuation - the sale of Fareham will be reflected in the September NAV and therefore the September investor update.

The 10 properties were sold at a 38% premium to the March valuation. This is an excellent result for the REIT, particularly as market conditions have deteriorated in the last few months, as outlined further below. The sale of the properties allowed us to undertake the recent share buy-back and also to pay off debt, so reducing our LTV from 27.1% at 31 March to 21.9% at 30 June.

On 1 August 2022 we completed the share buy-back, under the terms of which the Company purchased £18.86m worth of shares at £2.0432 per share - the same price per share as indicated in the recent Circular to shareholders. The buy-back was unanimously approved at the EGM held on 15 July 2022.

Finally, on 13 May 2022 we completed the off-market acquisition of a multi-let industrial estate in Banbury for £5.55m plus purchaser's costs, representing a net initial yield of 4.4% and a reversionary yield of 4.83%. There is a shortage of industrial space in Banbury, as well as good levels of tenant demand, so we expect this investment to generate both rental and capital growth.

2 The Investment Market

Investors will not be surprised to hear that the investment market for all commercial property, including South East industrials, has deteriorated in recent months, principally due to risks around inflation, increases in interest rates and the possibility of recession. Changes to the interest rate environment have led to the cost of debt almost doubling for many investors – for example, the five-year swap rate increased from 1.6% in February 2022 to 3.0% at the end of June 2022. As a further example, we completed our new debt facility with LGIM in May 2021 at a rate of 2.2% fixed for seven years - similar fixed rate debt would cost us more than 4% in today's market. For an investor using debt it no longer makes sense to buy property at 4% (or lower) yields, as such an investment would not generate profits.

This has had a direct impact on South East industrial pricing. However, evidence of that movement in pricing was not generally in existence by 30 June – hence our 30 June valuation showed another material uplift. Transactional evidence from July indicated at least 25 basis points outward movement in pricing – possibly 50 basis points on some transactions.

We are not yet in an environment where sellers are being forced to sell at the new, lower market pricing. Generally, since 2008 both banks and investors have moved away from higher levels of gearing – 30% to 40% has become the industry standard gearing level. With lower levels of gearing, it is not clear whether investors will come under pressure from their banks to sell assets, as happened in 2008. However, we are anticipating asset values will continue to decline, particularly as the prospect of a recession looms and the impact that will likely have on rents and asset values. Set against that, on the occupational side the positive supply and demand dynamics for South East industrials still exist and there remain significant pools of capital waiting for prices to drop before entering the market. In our opinion, whether the market simply adjusts downward to reflect the higher cost of debt, or whether there is a more significant re-pricing of our sector will depend on how the occupational market holds up. More on that below.

Over the last three years we have been working to ensure our portfolio proves robust in a more difficult economic environment. This has involved implementing our sales program, culminating in the recent portfolio sale. It has also involved intensive asset management of our properties and improving the ESG credentials. We hope the work we have undertaken will now come to fruition. Whilst we will not be immune to any downward shift in market sentiment, we hope the quality of our portfolio will help generate a resilient income stream and that our asset management operations can at least off-set part of any wider market declines as we aim to protect the NAV during these volatile times.

One thing we remain confident of: irrespective of interest rates, inflation, recession and the ongoing war in Ukraine, in the medium to long term we believe there remains a shortage of industrial space around London and the South East. Whilst a recession may soften occupational demand, it will also reduce development and so supply should remain low – this should help stabilise our rental income and it should also lead to further positive returns once the economic environment improves.

Finally, whist the existing portfolio is not immune from a decline in investor sentiment, any movement in market pricing could prove beneficial to the REIT. Having just sold ten properties, we have access to capital which we will be looking to redeploy at a time when the market is offering interesting investment opportunities. We plan to exercise caution and patience when re-investing, to ensure the REIT acquires the best quality assets at attractive pricing.

3 Occupational Market

At present the occupational market for our properties appears relatively robust. During the quarter we completed nine lease events at a combined increase of 23.1% over previous passing rents[1] – these lease events are shown below.

Property	Date of Event	Event	Previous rent pa	New Headline Rent pa	Uplift
Sevenoaks	Apr-22	New Letting	N/A	£72,360	N/A
Sittingbourne	May-22	New Letting	£160,000	£236,500	48%
Worthing	Jun-22	Rent Review	£32,000	£47,500	48%
Sydenham	May-22	New Letting	£25,000	£30,000	20%
Bracknell	May-22	Rent Review	£69,750	£82,000	18%
Newbury	May-22	Rent Review	£227,000	£261,454	15%
Bracknell	Jun-22	Lease Renewal	£17,500	£19,250	10%
Welwyn	Jun-22	New Letting	£24,750	£26,850	8%
Crayford	Jun-22	New Letting	£108,663	£114,852	6%

[1]The letting at Sevenoaks was a brand new unit that has not been let before, so is not included in this calculation.

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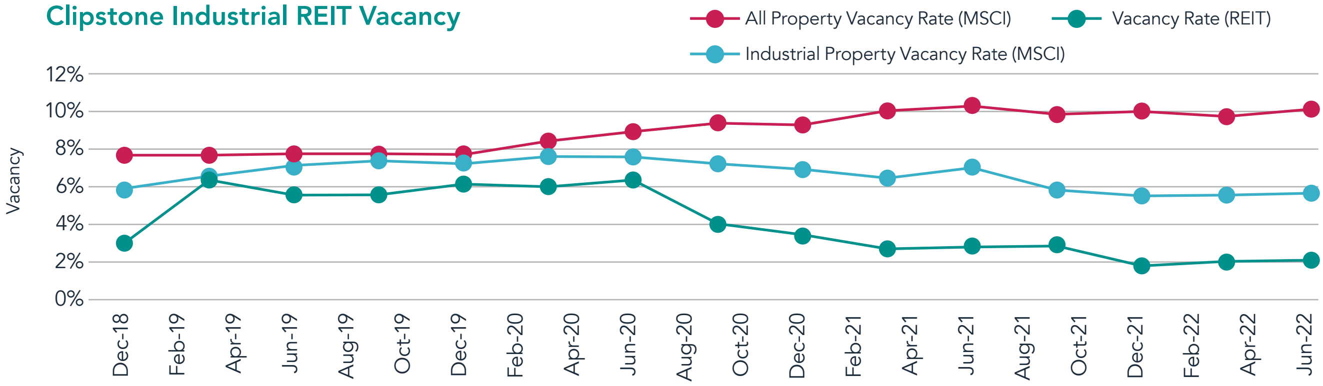
The robust nature of the occupational market is also reflected in our continued low void rate, which was 1.9% (by floor space) at 30 June (2.0% at 31 March). This vacancy constitutes five vacant units – one of which was at Fareham (and so has now been sold) and one of which is under offer. Assuming the unit under offer completes, the void rate would drop to 1.0%. This low void rate not only improves income returns, but also places us in a stronger position should the occupational market weaken.

Our consistently low vacancy rate compares favorably to the MSCI Property Index, as shown below – we believe this is partly due to the quality of our portfolio and partly due to our asset management operations.

Clipstone Industrial REIT Vacancy



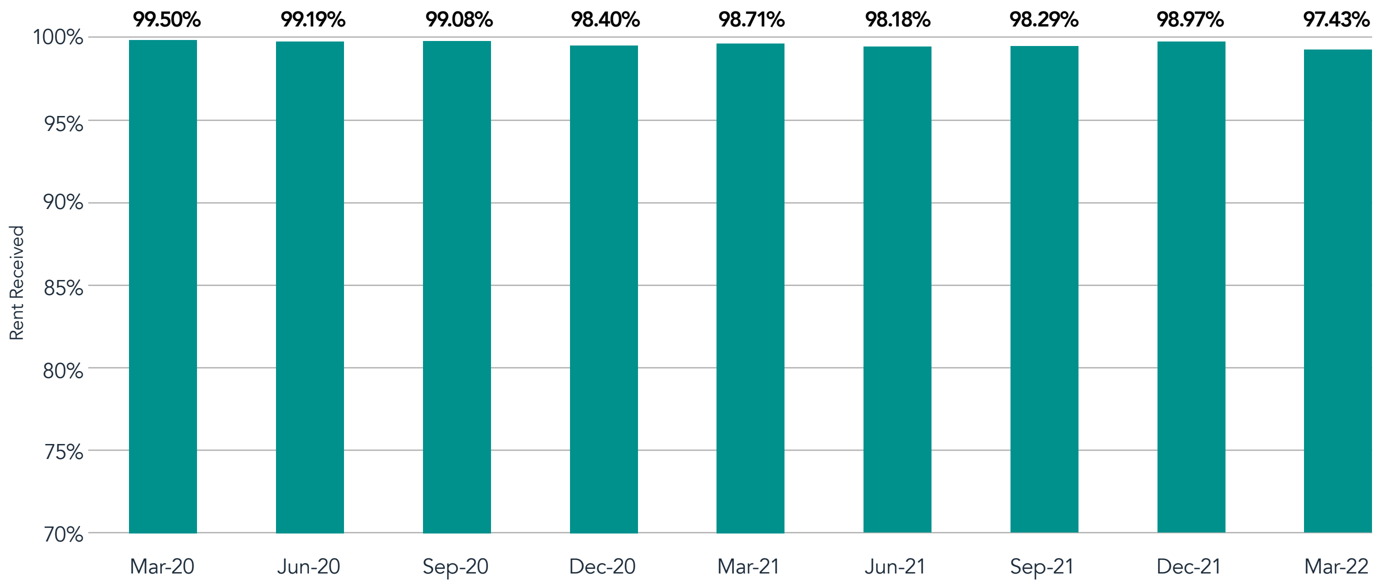
Towards the end of the quarter and during July we witnessed a slow-down in new tenant enquiries. This could be the usual summer slow-down or it could be the first signs of a wider decline in the occupational market. Rents have increased substantially over the last three years and we fully expect this growth to slow, but whether we will actually see a decline in market rents remains unclear.

During the quarter the REIT's passing rents increased by 4.4% (on a like-for like basis). The passing rent across the portfolio was £9.77 per square foot at 30 June, whereas the Valuer's estimate of market rent was £10.98 per square foot. This evidences the potential for us to increase rents further to current market levels, even if the occupational market weakens.

4 Rent Collection, Dividend and Gearing

As well as increases in rent, our tenants are also suffering rising operational costs due to inflation, not least due to the increase in fuel costs. In addition, in April 2023 the new revaluation of business rates as at 1 April 2021 will come into effect, and we expect this to generate material increases in business rates for occupiers in the South East industrial sector, as business rates are linked to rents, which have increased significantly since the last revaluation in April 2015. These factors will place further economic pressure on our tenant base. If the economy goes into recession, the combination of lower turnover due to a more subdued economy, higher taxes and higher operational costs due to inflation could lead to an increase in tenant insolvencies.

To date we have not seen any evidence of this in our rent collection - as shown below, we have now collected over 97% of rents during the nine quarters up to March 2022, and the current June quarter is in line with previous quarters.



Whilst we wish to increase rent across our portfolio, we will do so in a sensitive manner and not seek to enforce rent increases on tenants who cannot afford them – we have no interest in putting any of our tenants out of business.

On 11 August 2022 the Board declared the next dividend at the annual dividend rate of 6.5p per share. The dividend of 1.625p per share will be paid on 25 August 2022.

The loan to value stood at 21.9% at 30 June, below our target range of 25% to 35%. We stress test our debt arrangements quarterly and it would require falls in property values of over 50% to breach our LTV covenants. Our LGIM debt is at a fixed rate, whereas our Barclays debt is floating. The interest cover covenants on our Barclays debt could withstand SONIA increasing to 7.64% and if SONIA increased to 4%, it would require a 30% loss of income for covenants to be breached.

5 Environmental, Social and Governance (ESG)

We will report on our baseline and our net zero strategy in the upcoming annual report.

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 there are none in our portfolio. By 2027 the law on Minimum Energy Efficiency Standards will likely mandate that a commercial property cannot be let with an EPC score below a "C", and by 2030 this will rise to a "B". Whilst we have been making progress towards these minimums, including disposing of assets with lower EPC ratings and acquiring buildings with

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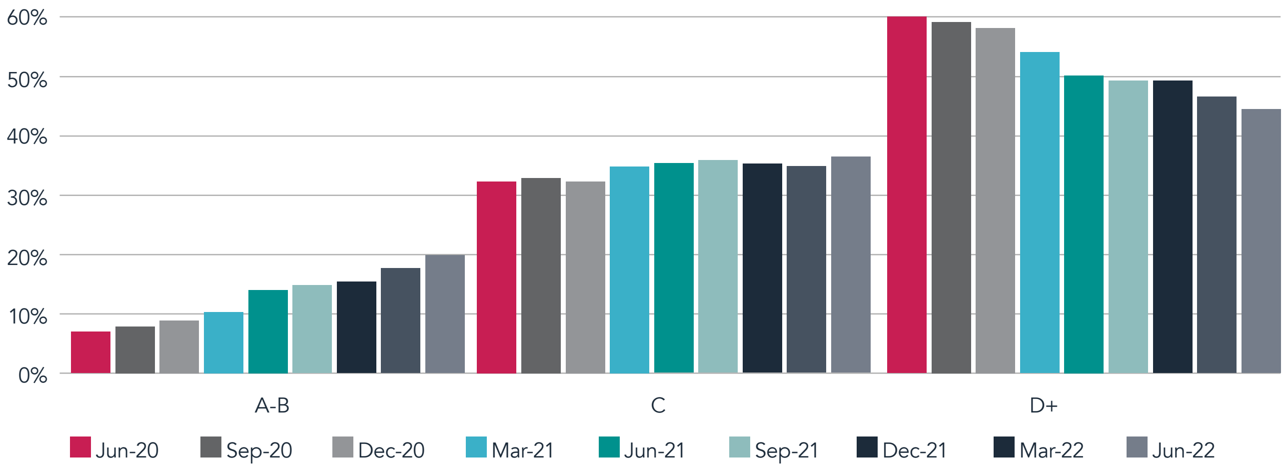
higher ratings, there is still work to be done. We have increased the proportion of "A" and "B" rated units from 7.7% in June 2020 to 19.7% in June 2022. During the same period, we reduced the proportion of "D" rated units from 59.9% to 44.3%. Similar levels of reduction in "D" ratings will be required over the next five years to meet the requirement to have no "D" rated units.

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. We are already taking this into account in refurbishments, fitting LED lighting accompanied by sensors, and improving insulation, amongst other enhancements which help to make our buildings more energy efficient. With all refurbishments we are aiming to achieve at least a "C" EPC rating, and ideally a "B" where it is economically viable.

Our ESG targets, policies, and reports can be found on our website:
http://www.clipstone.co.uk/environmental-social-and-governance-policies/

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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 20% decrease in London between 2001 and 2016 to quote a report by Colliers). 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 £14.65m on 30 June 2022

Bracknell

Before → After

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

Value: £7.55m in Nov 2013 to £18.6m on 30 June 2022

Chessington

Before → After

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

Value: £4m in June 2017 to £11.25m on 30 June 2022

Fareham

Before → After

Refurbishment cost: £270,000

Value: £1.9m in May 2015 to £3.5m on 30 June 2022

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 1.61% 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)
      - **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