

Ground Rents Income Fund plc
("the Company")

CIRCULAR AND NOTICE OF EXTRAORDINARY GENERAL MEETING

Following the announcement of 22 December 2022, the Ground Rents Income Fund plc ("GRIo" or the "Company") has today written to Shareholders with a Circular and Notice of Extraordinary General Meeting ("EGM") regarding the future of the Company. The letter from the independent non-executive Chair included within the Circular is set out below, and follows the Shareholder Consultation relating to the forthcoming continuation vote and changes to the Company's investment policy. Unless otherwise indicated, all defined terms in this announcement shall have the same meaning as described in the Circular.

Barry Gilbertson, the Company's Chair said:

"The Shareholder Consultation relating to the continuation vote was set against the backdrop of a challenging regulatory environment, where we are working hard to protect both shareholders investments and leaseholders interests. As part of the consultation, the Board and Manager set out how we are proactively addressing these challenges in order to improve the liquidity of the underlying portfolio and deliver best-in-class residential asset management. We are encouraged by the positive support from shareholders during the consultation to our strategy for optimising value in line with the proposed new investment policy."

The circular can be viewed on the Company's website at www.groundrentsincomefund.com.

Letter from the Independent Non-Executive Chair

Dear Shareholder,

PROPOSALS REGARDING THE FUTURE OF THE COMPANY

I am writing to inform you that an EGM of the Company will be held at 1 London Wall Place, London, England, EC2Y 5AU on Monday 24th April 2023 at 12:00pm (BST). The formal notice of the EGM (the "**Notice**") and the Resolutions to be proposed are set out in Part 3 of this document. The EGM is separate from the Annual General Meeting which will be held on 28th March 2023.

The purpose of my letter is to explain the business to be considered at the EGM relating to the proposed amendment to the Articles and the proposed adoption of the New Investment Policy.

1. Introduction

In the Company's trading update dated 22 December 2022 (the "**December Announcement**", to be found at <http://groundrentsincomefund.com> under "Trading Update and Shareholder Consultation"), the Board set out the continuing impact of the Building Safety Act 2022 ("**BSA**") and leasehold regulatory reform on the Company's Net Asset Value ("**NAV**"), and proposals for a Shareholder consultation relating to the forthcoming Continuation Vote (as defined below). In light of the challenges facing the Company, and in order to determine the best strategy for optimising Shareholder value, the Board instigated this consultation (the "**Shareholder Consultation**") in January 2023 to seek views on (1) alternative proposals to the Wind-up Resolution (as defined below) and (2) changes to the Company's extant Investment Policy.

2. Background to the key challenge facing the Company and its impact on NAV

The key points highlighted to Shareholders in the December Announcement, together with a summary of subsequent, relevant information principally relating to building safety, are set out below:

- As at 30 September 2022, 30 assets, representing 21% of the Company's portfolio by value, were subject to a Material Valuation Uncertainty Clause ("**MUC**"), with a negative valuation adjustment for building safety regulatory reform of £11.4 million. The application of the MUC was adopted by the Company's independent valuer, Savills, in conjunction with industry peers and as recommended by the Royal Institution of Chartered Surveyors (the "**RICS**"). The valuation adjustment applied by Savills was based on high level assumptions reflecting their views on the impact of the BSA. The portfolio valuation also included a negative valuation adjustment for residential leasehold regulatory reform of £3.8 million.
- The introduction of the BSA, and ongoing work relating to verifying Savills assumptions supporting the valuation adjustment, has resulted in a continued delay in producing the Company's audited results for the financial year ended 30 September 2022 (the "**Accounts**"), and may still result in a qualified audit opinion. The Company has obtained approval from Companies House and The International Stock Exchange ("**TISE**") to extend the filing and publication date for the Accounts from 31 March 2023 to 30 June 2023.
- Work is ongoing with the Company's auditor, PricewaterhouseCoopers LLP ("**PwC**"), and the Company's independent valuer, Savills, to more accurately verify the valuation adjustments used by Savills in the Accounts. It is possible that the verification exercise may lead Savills to change its valuation adjustment, which could increase or decrease the valuation of the Company's portfolio as at 30 September 2022 to be used in the Accounts. Progress is being made and, as at today's date, the Board estimates that 26 assets are impacted by the MUC, representing approximately 16.9% of portfolio value, reduced from 21% as at 30 September 2022. In order to provide Shareholders with as much relevant information as possible, the Company plans to disclose its unaudited independent valuation as at 31 March 2023 in the forthcoming Accounts.

- In parallel with the verification exercise being conducted with PwC, work is ongoing to fully understand the impact of the BSA (which received Royal Assent on 28 April 2022) on the Company, as well as secondary leaseholder protection legislation which became law in July 2022. The Board and its Manager, Schroder Real Estate Investment Management Limited (the “**Manager**”), endorse the BSA’s aims of improving building standards, and helping to protect leaseholders living in their homes from the costs of remediating building safety risk issues.
- In January 2022, the British Standards Institute, in conjunction with the UK Government, introduced more proportionate building safety assessment guidelines, known as PAS9980. It became apparent over time that relevant assessors were not able to procure appropriate professional indemnity insurance in the market, and so the UK Government subsequently introduced a state-backed professional indemnity insurance scheme for relevant assessors. The guidelines, together with the professional indemnity insurance scheme for relevant assessors, are now gradually leading to more comprehensive fire risk assessments and more proportionate remedial measures, potentially reducing unnecessary costs. The consequence might be expected to reduce the potential quantum of MUC adjustments in future independent valuations.
- In conjunction with the BSA and the new assessment guidelines, the UK Government has implemented measures to ensure that, where possible and consistent with the “polluter pays” principle, the original developer responsible for the construction or refurbishment of the defective building is also responsible for remediation. The Company did not develop any of the assets in its portfolio, meaning it is not the “polluter” for these purposes. In late Autumn 2022, the UK Government invited relevant developers to sign a “pledge” to pay for the remedial building and fire safety works. Since an announcement by the UK Government on 14 March 2023, 43 developers, including the top ten biggest house builders in the UK, have now signed a legally binding contract, known as the Self Remediation Terms (“**SRT**”), that obliges them to fix all life-critical fire-safety defects in all English buildings over 11 metres in height they had a role in constructing or refurbishing. The SRT also requires the developers to reimburse the taxpayer where UK Government funds have already paid for remediation. The UK Government will shortly publish information on how eligible developers, who have not signed an SRT, will be prohibited from carrying out major development or from receiving building control approval unless they sign and adhere to the SRT. Accordingly, the sector anticipates that all major developers will eventually sign the SRT. As at the date of this letter, the Board estimates that 12 of the Company’s 26 assets which remain subject to a MUC were developed by developers who have signed the SRT. The SRT should therefore significantly reduce the residual financial liability for assets developed by SRT-signed developers. For the remaining 14 assets, our due diligence has led us to contact, where relevant, the original developer or the Residents Management Company (“**RMC**”) responsible for managing the asset, to try to determine any likely residual liability for the Company.
- Alongside the SRT, grant funding remains available via funding from the UK Government through the Building Safety Fund (“**BSF**”) for buildings over 18 metres in height, or the Medium Rise Scheme (“**MRS**”) for buildings over 11 metres in height. The Company currently has 14 applications in progress for government funding, with one already completed.
- The UK Government action outlined should reduce the risk of the Company incurring the remediation costs assumed in the MUC adopted in the independent valuation, and a more detailed assessment will be included within the Accounts. Whilst this is positive, landlords (such as the Company) may still be liable for any costs that are outside the scope of leaseholder contributions defined in the BSA. Consequently, understanding the extent of this residual risk is the underlying purpose of the verification exercise. In order to protect Shareholders’ interests, the Company, alongside other institutional owners, will continue making representations to the UK Government to encourage fairness towards landlords who have not developed the assets which they own, and to gain a better understanding of the potential consequences of this aspect of the BSA.
- Whilst, as noted previously, building and fire safety, together with leasehold reform, has increased the complexity of the challenges facing the Company, the Board is acting to balance and protect both leaseholders’ interests and the investments of our Shareholders, with a focus on improving the liquidity of the Company’s underlying portfolio. It was against this backdrop, and the forthcoming Continuation Vote, that, in the December Announcement, the Company confirmed its intention to consult with Shareholders. The Board therefore instigated the Shareholder Consultation in January 2023 to seek views on (1) alternative proposals to the Wind-up Resolution (as defined below) and (2) changes to the Company’s extant Investment Policy.

3. Background to the Continuation Vote

As noted in recent Shareholder communications, the Articles, adopted prior to admission of the Ordinary Shares to the Official List of the Channel Islands Stock Exchange (now TISE), and to trading on the SETSqx platform of the London Stock Exchange in August 2012, (“**Admission**”), contain provisions that provide Shareholders with an opportunity to vote on the future of the Company (a “**Continuation Vote**”). Such Continuation Votes are relatively common in investment trusts as a means of enabling shareholders to realise their investment at, or close to, NAV where, as in the Company’s situation, the Ordinary Shares have traded at a persistent and material discount to NAV per Ordinary Share.

Continuation Votes can be structured in different ways. In the Company’s case, there is a requirement for the Board to convene a general meeting of the Company between the tenth and the eleventh anniversary of Admission, meaning that the meeting must take place by no later than 13 August 2023. The Articles provide that (i) the Board must table a proposal for Shareholders to vote on a resolution (the “**Wind-up Resolution**”) for a voluntary winding-up of the Company and liquidation of the Company’s assets; and (ii) any single Shareholder who votes in favour of the Wind-up Resolution is deemed to hold sufficient voting rights so as to ensure that the Wind-up Resolution is passed. This provision means that the Wind-up Resolution can be passed with the vote of one Shareholder, irrespective of the number of Ordinary Shares held by that one Shareholder. The effect is that, in the absence of any alternative proposal approved by Shareholders, it is highly likely that the Wind-up Resolution would be passed. If the Wind-up Resolution is not passed, then the process is to be repeated every five years, meaning the next date on which a Wind-up Resolution could be proposed, via the Continuation Vote process, would be on the fifteenth anniversary of Admission (and every fifth anniversary of Admission thereafter).

The Articles allow for the Board to be released from its obligations to propose a Wind-up Resolution if a special resolution of the Shareholders is passed prior to the eleventh anniversary of Admission. The Articles do not specify the terms of such a special resolution. Therefore, the Board and its advisers have given consideration to suitable proposals to be put to Shareholders to facilitate the passing of a special resolution to release the Board from the requirement to propose the Wind-up Resolution by 13 August 2023. These proposals and related matters formed part of the Shareholder Consultation.

4. Resolution 1 – Continuation Vote

Since the time of the December Announcement, the Board, and the Manager, together with Singer Capital Markets Limited, the Company's broker ("SCM"), have met and spoken with a range of Shareholders representing approximately 67% of the Company's Ordinary Share register. This percentage included the Company's largest Shareholders as well as some smaller holders who contacted the Company directly. Set out below are the key points discussed with Shareholders together with a summary of their feedback.

Market context

As outlined, the Company faces continuing headwinds relating to building safety and leasehold reform that are largely outside of its control, despite considerable effort by the Board, the Manager and the Company's advisers. This has led to falling capital values and weak sentiment in the residential ground rent sector in general. The Company has a clear strategy for managing the risks associated with these headwinds as they affect our portfolio. However, until market conditions and liquidity improve, the Board believes that the Company's portfolio may not be realisable on acceptable terms. Consequently, whilst progress is being made to improve liquidity of the Company's underlying assets by working to satisfy the current increasingly "deep dive" due diligence requirements of more discerning buyers in the residential ground rent market, there is no certainty that the Company's portfolio could be made "ready for sale" over the short to medium term to achieve an optimum pricing outcome. This work includes, for example, (1) obtaining PAS9980 reports to assess and then cost remedial measures, and (2) obtaining relevant information relating to assets in the non-managed estate (where a RMC is responsible for managing the building). As might be imagined, neither of these tasks are a quick or easy fix. In the former case, it is because of the lack of qualified and insured assessors prepared to manage the risks associated with this work. In the latter case, it is generally because, whilst it is in the interests of the leaseholders and residents to resolve these issues, there is reluctance due to the risks associated with determining what works should be done, how they are funded, and how much faith (as generally, individuals and committees are not professionally or appropriately qualified to make the decisions necessary) to put in the hands of their local advisers. We are communicating and supporting these RMCs where we can, and where it is reasonable to do so without adopting any liability associated with decision-making, which must be undertaken by the RMC.

Accordingly, the Board and the Manager proposed, in the Shareholder Consultation, that any extension to the life of the Company granted by the release of the need to propose a Wind-up Resolution by 13 August 2023 would be used to improve liquidity and work towards crystallising an optimum return for all Shareholders. Notwithstanding the prevailing Ordinary Share price discount to NAV, every Shareholder consulted was supportive of using an extended time period to deliver a liquidity event more reflective of NAV.

Consequences of the Wind-up Resolution

As noted, in the absence of an alternative special resolution, currently a single Shareholder voting in favour of the Wind-up Resolution will lead to the immediate winding up of the Company and consequent appointment of a liquidator over all of the Company's assets. If a Wind-up Resolution is passed, the Company would cease activities and all management powers would pass from the Board to the appointed liquidator with immediate effect, which would constitute an event of default under the Company's secured loan facility. Given general market uncertainty, and based on the views from the Company's advisers, the impact would likely be a forced and relatively urgent sale of the Company's portfolio (in whole or in parts) at depressed prices (regardless of the ground rent sector transaction market at the time), in order that the liquidator can distribute the proceeds of sale in the prescribed order before vacating office.

Alternative proposals to the Wind-up Resolution

Given the risks associated with the Wind-up Resolution, the Shareholder Consultation proposed the following two alternative options:

- (1) Postponing the Company's obligation to hold a vote on the Wind-up Resolution from the current deadline of 13 August 2023 to 31 December 2024¹ ("**Option 1**"); or
- (2) Removing from the Articles the Company's obligation to hold a vote on the Wind-up Resolution (and in particular the ability of a single Shareholder voting in favour of the Wind-Up Resolution enabling the Wind-Up Resolution to pass), and replacing such obligation with an obligation to hold a Continuation Vote before 31 December 2024 which in order to pass requires either (i) a simple majority of votes cast; or alternatively (ii) a majority of not less than 75% of votes cast. If this Continuation Vote is not passed, then the Board would be required to present alternative proposals to Shareholders within an expedited timeframe ("**Option 2**").

All Shareholders consulted agreed that the likely negative consequences of the Wind-up Resolution being passed meant that an alternative was required. Of the two alternatives proposed, all but one Shareholder consulted favoured Option 2 with an approval threshold for the Continuation Vote of a simple majority of votes cast. The Board proposes that the Articles be amended in line with Option 2 (i) to provide that this Continuation Vote be held on or before 31 December 2024, and at three-year intervals thereafter, with the Continuation Vote acting as a milestone for the Board to provide Shareholders with an update on progress in implementing the Company's strategy relating to the realisation of assets. This proposal is set out in Resolution 1 in Part 3.

5. Resolution 2 - Changes to the Investment Policy

Given the impact of the options described on the strategy of the Company, the Shareholder Consultation also included proposals to amend to the Company's extant investment policy (the "**Investment Policy**"), which is currently:

"The Company has been established to provide secure long-term performance through investment in long dated UK ground rents, which have historically had little correlation to traditional property asset classes and have seen their value remain consistent regardless of the underlying state of the economy.

The Company will give investors the opportunity to invest, through the Company, in a portfolio of ground rents. The Company will seek to

¹ Note that this was changed from 2025 to 2024 for the purposes of the Shareholder Consultation

acquire a portfolio of assets with the potential for income generation from the collection of ground rents. These investments also have the potential for capital growth, linked to contractual increases in ground rents over the long-term.

The Company will seek to generate consistent income returns for shareholders by investing in a diversified portfolio of ground rents including freeholds and head leases of residential, retail, and commercial properties located in the United Kingdom.

The Group intends that no single ground rent property should represent more than 25% of the gross asset value of the Group at the time of investment. The Company has the ability to gear up to 25% loan to gross asset value."

Alongside the alternative options to the Wind-up Resolution, the Board, with the full support of the Manager, is proposing amendments to the Company's Investment Policy to enable a realisation of assets in a controlled, orderly, and timely manner, with the objective of achieving a balance between periodically returning cash to Shareholders and optimising the realisation value of the Company's investments. All but one Shareholder consulted was supportive of this change. The Board believes that an orderly realisation of the Company's assets will return better value to Shareholders than putting the Company into a formal winding up process, or any other alternative proposal. The Company's new Investment Policy (the "**New Investment Policy**") is now proposed as:

"The assets of the Company will be realised in a controlled, orderly and timely manner, with the objective of achieving a balance between (i) periodically returning cash to shareholders at such times and from time to time and in such manner as the Board (in its absolute discretion) may determine; and (ii) optimising the net realisation value of the Company's investments.

The strategy for realising individual investments will be flexible and may need to be altered to reflect changes in circumstances of a particular investment or in the prevailing market conditions. All material disposals of assets to be made by the Company will be approved by the Board.

Whilst implementing this realisation strategy, the Company will aim to deliver best-in-class residential asset management including fairness, transparency, and affordability for leaseholders. The net proceeds of portfolio realisations will be returned to shareholders at such times and from time to time and in such manner as the Board (in its absolute discretion) may determine. The Board will take into consideration the Company's working capital requirements (including, but not limited to, debt servicing and repayments), the cost and tax efficiency of returns of capital and the requirements of applicable law.

The Company may not make new investments, except where required to preserve and/or enhance the disposal value of its existing assets.

To the extent that the Company has not disposed of all of its assets by the time of the next shareholder vote to consider the Company's future to be held on or before 31 December 2024, in accordance with the revised articles of association of the Company, shareholders will be provided with an opportunity to review the future of the Company. To that end, an ordinary resolution will be proposed on or before 31 December 2024 that the Company will continue as then presently constituted.

Any cash received by the Company as part of the realisation process but prior to its distribution to shareholders will be held by the Company as cash on deposit and/or as cash equivalents."

Resolution 2 invites Shareholders to approve the proposed change to the Company's existing Investment Policy by adopting the New Investment Policy. If this Resolution is passed (it being noted that the passing of this Resolution is also conditional on Resolution 1 having passed), the Company's existing Investment Policy will be replaced and the Company will adopt and adhere to the New Investment Policy set out above.

6. Resolution 3 – Board fees

Due to the volume of work associated with the headwinds and legacy issues facing the Company since the appointment of the Manager in 2019, and the appointment of a new, four-person, Board of directors, from 2019 onwards, Shareholders were also consulted on increasing the fees payable to the Board and the Manager. In recognition of these factors, all Shareholders consulted acknowledged the increased volume of work required from the Board and were therefore supportive of increasing the aggregate Board fee cap from £150,000 to £200,000 per annum with effect from 1 October 2022. As a result of this strong support, Resolution 3 includes the proposed change to increase the aggregate Board fee cap to £200,000 per annum.

7. Other matters on which Shareholders were consulted

Manager fees

Shareholders acknowledged the increased workload for the Manager due to the issues facing the Company. The Alternative Investment Fund Management Agreement ("**AIFM Agreement**") between the Company and the Manager includes the ability for the Manager to charge the Company additional fees for a range of projects that are out of scope. Whilst a majority of Shareholders consulted supported the principle of the Manager being paid additional management fees in either cash or Ordinary Shares, and the potential for a fee linked to the successful realisation of the Company's assets, there was no consensus between Shareholders on the precise terms. In light of this feedback, and Shareholder approval not being required, the Board will agree fees separately with the Manager, having regard to the terms of the existing AIFM Agreement, the Manager's performance in delivering the Company's strategy, and ensuring alignment with the interests of Shareholders.

Dividend policy

Shareholders were also consulted on issues that could impact the longer term sustainability of the Company's dividend. The Board consulted with Shareholders about their preferences in relation to the level of future dividends. Further to this, the Board is proposing that the Company continues to pay dividends, but only when sustainable and in order to comply with the distribution requirements relating to the Company's UK REIT status, and in line with all other relevant laws and regulations. This was the approach adopted for the quarterly dividend relating to the quarter to 31 December 2022, as announced by the Company on 2 March 2023. Further detail on the outlook for future dividends will be included within the Accounts. A change to the dividend policy does not therefore form part of these EGM proposals, however it will be addressed and put to Shareholders in the forthcoming Shareholder meeting relating to the approval of the Accounts.

Current debt and potential refinancing

Finally, Shareholders were consulted on the likely requirement to extend the Company's external loan with Santander UK plc ("**Santander**") which matures in January 2025. In conjunction with supporting Resolutions 1 and 2 as described, all Shareholders consulted were informed about the Board's intention to secure additional flexibility by extending the loan. This is currently under discussion with Santander.

8. Action to be taken in respect of the EGM

Shareholders will receive a hard copy Form of Proxy for the EGM. The completed Form of Proxy must be returned to Equiniti, at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA in accordance with the instructions printed on it no later than 12:00pm (BST) on 20 April 2023 (or, in the case of an adjournment, not later than 48 hours (excluding any part of such 48 hour period falling on a day that is not a Business Day) before the time fixed for the holding of the adjourned meeting).

In addition, Shareholders will also be able to vote electronically by visiting the website www.sharevote.co.uk and following the on-screen instructions, by no later than 12:00pm (BST) on 20 April 2023 (or, in the case of an adjournment, not later than 48 hours (excluding any part of such 48 hour period falling on a day that is not a Business Day) before the time fixed for the holding of the adjourned meeting). In order to vote using the website, Shareholders will require their voting ID, task ID and Shareholder Reference Number. This information can be found under the Shareholder's name on the Form of Proxy.

Alternatively, Shareholders who have already registered with Equiniti's online portfolio service, Shareview, can appoint their proxy electronically by logging on to their portfolio at www.shareview.co.uk using their user ID and password. Once logged in, click "view" on the "My Investments" page. Click on the link to vote and follow the on-screen instructions. Please note that to be valid, proxy instructions must be received by Equiniti by no later than 12:00pm (BST) on 20 April 2023 (or, in the case of an adjournment, not later than 48 hours (excluding any part of such 48 hour period falling on a day that is not a Business Day) before the time fixed for the holding of the adjourned meeting).

If Shareholders have any questions in respect of the EGM, please contact Equiniti on +44 (0)800 032 0641. Please use the country code when calling from outside the UK. The helpline is open between 8.30 a.m. to 5.30 p.m., Monday to Friday excluding public holidays in England and Wales. Calls from within the UK are charged at the standard geographic rate and will vary by provider. Calls from outside the UK will be charged at the applicable international rate. The helpline cannot provide advice nor give any financial, legal or tax advice.

Shareholders who are members of CREST may alternatively be able to use the CREST electronic proxy appointment service.

Completion and return of a Form of Proxy (or the electronic appointment of a Proxy) will not preclude a Shareholder from attending and voting at the EGM should they so wish.

The Board strongly encourages all Shareholders to vote on the Resolutions by submitting proxy votes in advance of the EGM and appointing the Chair of the EGM as a Proxy.

9. Recommendation

The Board considers that Resolution 1 (in relation to the amendment to the Articles), and Resolution 2 (in relation to the adoption of the New Investment Policy), are each in the best interests of the Company and its Shareholders as a whole. Accordingly, the Board unanimously recommends that Shareholders vote in favour of these two resolutions at the EGM, as all of the Directors who own Ordinary Shares intend to do so in respect of their holdings.

In respect of Resolution 3 (the proposed increase to the aggregate Board fees), the Board is not recommending a vote for or against but has taken the decision to propose this Resolution in light of the strong support received from the Shareholder Consultation.

Yours faithfully,

Barry Gilbertson

Independent Non-Executive Chair

For and on behalf of

Ground Rents Income Fund plc

For further information:

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Matthew Riley

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